



HORIZONS

P O L I C Y R E S E A R C H I N I T I A T I V E

Population Aging: From Problem to Opportunity

The impact of population aging has been at the centre of policy debates since the mid-1990s. With an expected reduction in the size of the workforce, can society afford the added pensions and health-care costs associated with the retirement of the baby-boom generation? This was the main question behind the analytical work carried in the early phases of the Policy Research Initiative (PRI)'s horizontal work on population aging in Canada.

Recently, however, there has been a growing sense that the demographic trends are providing not only potential problems, but also unique opportunities. To use a popular expression, we can speak of potential convergence of policy objectives.

As announced in the previous issue of *Horizons*, the PRI has recently launched several new horizontal projects, one of which is entitled Population Aging and Life-Course Flexibility. While previous horizontal work in the area has focused on the fiscal impact of population aging, the current effort takes a totally different approach. Its focus is on exploring how greater life-course flexibility might address the potential labour shortages associated with the coming retirement of the baby-boom generation and, at the same time, provide people with more choice as to how they allocate work, learning, caregiving, leisure, and other activities of life, over a lifetime.

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HORIZONS

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The Policy Research Initiative (PRI) publishes *Horizons* as a liaison bulletin for the federal government policy research community. The primary objective of the PRI is to deepen, collect and integrate research work on crosscutting issues that are highly relevant to the Government of Canada's medium-term policy agenda. *Horizons* highlights the work of policy researchers from across federal departments, and from external experts, on issues that relate closely to PRI horizontal research projects and activities. For more information on the Initiative or to consult previous issues of *Horizons*, please visit policyresearch.gc.ca.

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INTRODUCTION (CONTINUED)

This issue of *Horizons* features several contributions touching on the consequences of an aging population. An introductory piece by Peter Hicks, who is co-ordinating the PRI research work in this area, describes how recent gains in healthy lifetime years provide a large pool of underused time that could be used more productively and creatively. With the proper adjustments in government policies, win-win outcomes are possible, with gains emerging both with regard to output and in terms of the flexibility Canadians can enjoy with respect to the organization of their learning, working, caregiving, and leisure activities over the course of a life.

Building on his experience with the Organization for Economic Co-operation and Development, Peter Hicks also contributes a description of the quite startling shift in international thinking on the policy implications of aging. He provides further context for the Canadian policy debate, and some interesting insights on policy thinking at the international and national levels.

An excerpt from David Cheal's introduction to *Aging and Demographic Change in Canadian Context*, the latest publication in the PRI'S Trends Project, describes some earlier PRI work that set the stage for the current project. The article reminds us that many concerns around population aging can be exaggerated, and some "conventional wisdoms" need to be challenged. One example of exaggerated concern is the belief that a growing volume of older people with heavy health-care needs will create a huge and unsupportable demand for costly medical services. Research done at Health Canada, and reported here in an article by Sarah Hogan and Jeremy Lise, shows that even though people are now living longer, longevity is not a key driver of health-care costs. The article contains several other surprising results regarding the effect of aging on health-care sustainability and on retirement.

Good statistical and analytical tools are absolutely essential to the conduct of quality policy research. Geoff Rowe from Statistics Canada describes a powerful analytic tool, LifePath microsimulation modelling, which appears destined to revolutionize policy research dealing with life-course decisions and transitions from one life stage to another. This model is a central piece of the PRI project on population aging and flexibility of the life course. In a shorter note, Christian Dea, Maxime Fougère, and Bruno Rainville at Human Resources Development Canada describe a strategy for developing new statistical information to support population-aging policies.

The reader will also find other PRI projects well represented in the current issue. André Downs, the PRI lead on the North American Linkages (NAL) project, has contributed a piece describing the refocused NAL research agenda that was discussed with participating departments in various meetings in April and May. Another article outlines preliminary ideas on the content of a strategic framework that could guide the research work conducted under the New Approaches for Addressing Poverty and Exclusion project. Recent work on sustainable development is also well represented under the Research Briefs and Eyewitness Reports headings.

Jean-Pierre Voyer
Executive Director

New Policy Research on Population Aging and Life-Course Flexibility

Peter Hicks,
Policy Research Initiative

Tomorrow's generation of older people will be skilled and potentially productive in an economy based on knowledge and services. The growth of healthy life expectancy raises the possibility of increasing both time spent in work and time spent in leisure, with gains on both economic and social fronts.

Peter Hicks, Senior Advisor at the Policy Research Initiative, is the project lead for two of the PRI's research projects: Population Aging and Life-Course Flexibility, and New Approaches for Addressing Poverty and Exclusion.

For decades now, the proportion of the total Canadian population that is employed has been growing. That increase, along with productivity growth, has contributed to our increasing levels of material well-being. In five to ten years, the proportion will change when the baby-boom generation starts retiring in earnest. As Figure 1 shows, the proportion of the population employed is then likely to flatten out or fall, depending on assumptions made about retirement ages. This change will reduce the rate of growth in our material living standards, and will increase the amount of money workers will need to set aside in the form of taxes and savings to cover the costs of a huge growth of time spent in retirement.

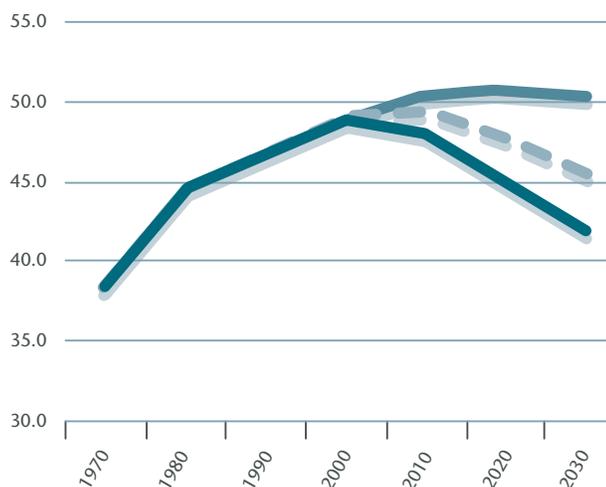
The retirement of the baby-boom generation also creates concern about skill shortages and the loss of experienced people from the labour force. Some sectors, such as education and health

care, appear particularly vulnerable to workforce losses as a result of the age structure and retirement patterns of their employees.

If left unchanged, social policies are likely to reinforce the negative effects of that exodus from the labour market, thus reducing the growth of material well-being, adding to labour shortages, and placing even greater pressures on the time available for mid-career learning, child care and elder care. Current social policies have, on balance, favoured more time in schooling, more time in retirement, and less time in work. They have also helped squeeze work into the middle years of life.

There is nothing inevitable about a fall in the employment-to-population ratio, or in the ratio of producers to consumers. The Organisation for Economic Co-operation and Development (OECD) scenarios shown in Figure 1 indicate a wide range of uncertainty about the future.

FIGURE 1:
Percent of the Population Employed, with Three Plausible Scenarios to 2030, Canada

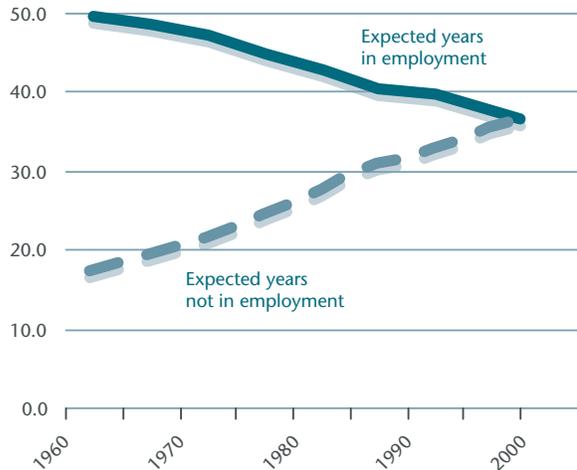


The bottom scenario reflects a continuation of long-standing trends to early retirement. The top scenario is based on a reversal of these trends, while the middle scenario reflects a continuation of current retirement ages.

Source: OECD, *Reforms for an Ageing Society*, 2000.

FIGURE 2:

Expected Lifetime Years In and Out of Employment, Males



Source: OECD, *Reforms for an Ageing Society*, 2000.

A Unique Opportunity

Population aging issues have attracted much public attention. So has another, seemingly unrelated set of issues surrounding the work–life balance. Issues of flexible working arrangements, four-day work weeks,

time crunches, time for lifelong learning, parental leave, volunteering, and caregiving for frail elderly people are never far from current policy agendas.

Working life flexibility, potential labour shortages and a potential fall in the ratio of producers to consumers

are all almost certain to remain high priorities on medium-term policy agendas. Happily, there are signs of a unique opportunity on the medium-term horizon to make gains on both economic and social fronts if these issues are tackled together, rather than separately. The agendas are not as far apart as they first appear. They are both ultimately about the way work is allocated with other activities of life, over the course of life — and about how market forces, institutional arrangements, and policies are shaping that allocation.

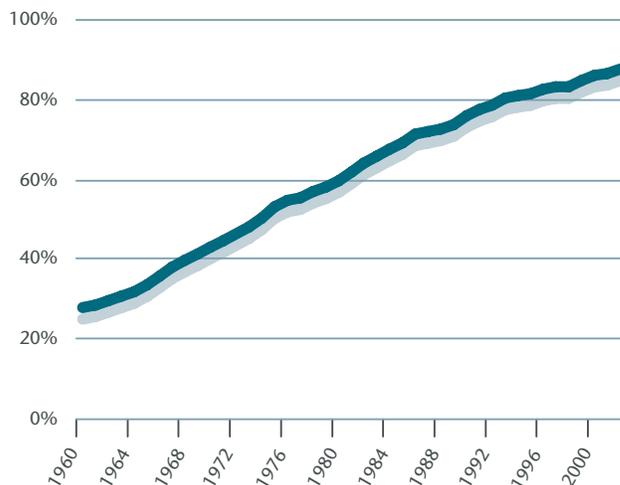
Win-win gains are possible by tapping into a huge pool of underused time. There has been a dramatic growth in recent decades in the time spent in leisure among older people, where it is mainly passive and often unwanted.¹ People have been retiring earlier and, once retired, are living much longer and healthier lives.

Figure 2 shows that, as recently as 1960, men might expect to work for about 50 years and not be at work (mainly going to school, but also a relatively short period of retirement) for another 18 years, for a total average life expectancy of 68 years. That has changed dramatically in recent decades. Today, men can expect to live until 76 with fully half of their lives spent in activities other than work, with large growth in time spent in school and, especially, retirement.

The comparable chart for women has little meaning since lifetime years for women are dominated by the remarkable growth in female participation in the labour market over the past 40 years, as seen in Figure 3, which shows the convergence of women’s

FIGURE 3:

Female Employment as a Percentage of Male Employment, Ages 25 to 64, Canada



Source: Policy Research Initiative, 2003.

employment patterns with those of men. The difference in ages at which men and women retire is small and, in the future, we can anticipate a shrinkage of the lifetime years women spend in employment, similar to that already seen for men.

High unemployment and the lack of good jobs for older workers have made it difficult to tap this underused resource of time in the older years. However, that situation will change as a result of anticipated labour shortages associated with the retirement of the baby-boom generation in about five to ten years. Tomorrow's generation of older people will be skilled and potentially productive in an economy based on knowledge and services. That is, the growth of healthy life expectancy raises the possibility of increasing both time spent in work and time spent in leisure, with gains on both economic and social fronts.

At the end of the day, it is long-standing and entrenched social norms (originally rising out of public policies) that have made us think of age 65 (and often much younger) as the “normal” time to retire. This thinking has more to do with our labour laws and pension policies, than with our individual capacities or skills.

That which policy creates, policy can ultimately undo. However, the rigidities created by policy have become deeply entrenched in our culture, and it will not be easy to find quick solutions. Careful policy research will be needed to understand the far-reaching social and economic effects of changes in the distribution of time spent at work and other activities of life over the course of life.

The Martian Researcher

If the first Martian fact-finding expedition to Earth were to land in Canada, the social science researcher on the investigative team might well be intrigued by how we order the course of our lives. She would note that we spend about a quarter of life in a “classroom” stage, followed by a “work” stage that lasts a little less than half of life, followed by a lengthy and rapidly growing “retired” stage. She would likely find the function of the work stage quite straightforward. It is used to produce the goods and services consumed by the whole population. The function of the classroom stage — acquiring the skills needed in later stages — would also be reasonably clear, although she might wonder why formal learning should be so heavily concentrated at this one stage of life and, for many, for such a long period of early adult life.

The real difficulty, however, would come in deducing the function of the retired stage. A first examination might suggest that its function had something to do with consumption, with seasonal migration to warmer climates for some, and (based on the predominantly passive activity patterns in this stage) with some need to foster social isolation, de-skilling and bad health. Closer examination would show however, that health and skills remain surprisingly high for long durations during the retired stage, although those skills are not significantly used.

The Martian researcher might note that, during the work stage, Canadians complain strongly about having too much to do and, especially, not enough time for activities other than work. During most of the ever-expanding retired stage, they complain about not enough to do. It would not be immediately clear why Canadians did not solve both problems simultaneously by the seemingly obvious device of reallocating work more evenly over life. There seems to be nothing in human biology or in the nature of economic activity that would dictate such rigid life-stage patterns.

- Life-course patterns, in fact, vary widely among different groups in a society. Patterns for women, for example, are more complex than the predominantly male patterns observed above, although these are rapidly converging with those for men.
- Among countries with similar levels of economic well-being, there are large differences in the relative lengths of the work and retired stages, and in the allocations of time between work and other activities of life during the work stage.

The PRI Project

Over the coming months, several federal departments² will be working under the Policy Research Initiative umbrella to acquire a better understanding of these potentially complex effects, the kinds of policy changes that may be required, and the experience of other countries in addressing similar challenges. The project will be of about 18 months duration, and has three components.

First, the workplan includes a detailed quantitative examination of a range of scenarios where work and other activities of life are distributed in different ways over the course of life. This examination includes scenarios similar to current arrangements, and others that represent more desirable alternatives. A combination of different modelling techniques (both macroeconomic modelling and the LifePath micro-simulation modelling³) is being used to examine a range of economic, fiscal, labour market, and social consequences of these scenarios. The analysis will also examine the different effects of population aging on different economic sectors.

A second element of the workplan is an assessment of how market forces and existing policies are likely to lead us toward different life-course patterns. Individuals and labour markets are always adjusting to changes such as the age structure of the workforce, and research must assess where policy initiatives can help — or impede — this natural process of adjustment.

The third element is an examination of how particular policy instruments

might complement market forces in moving in desirable directions. This practical policy examination will have a wide scope, encompassing, among others, pension and other transfer policies, immigration policy, labour market, and learning policies.

There are many uncertainties. It is always risky to project the future, even using a variety of scenarios. It is difficult to know whether natural processes of adjustment will be sufficient to meet our goals without major policy actions. Nevertheless, the issues will not go away: the baby-boom generation will be entering the retirement age period in the near future. And the potential payoffs from successful policy action are very large. The time is ripe to see how concerted policy research can reduce the level of uncertainty and help make an inevitable medium-term policy discussion as evidence-based as possible.

Notes

- 1 According to the 1996 General Social Survey, older people average eight hours a day in leisure activities. Five hours are spent passively (mainly watching television), two are spent in socializing, and only one in active leisure. Retired people are generally satisfied with life, but OECD analysis (*Ageing and Income: Financial Resources and Retirement in Nine OECD Countries, 2001*) suggests that people would still prefer to continue working if appropriate jobs were available.
- 2 Human Resources Development Canada, the Department of Finance Canada, Health Canada, and Statistics Canada were early participants.
- 3 For a discussion of LifePaths micro-simulation modelling, see Rowe, "Fragments of Lives: Enabling New Policy Directions through Integrated Life-Course Data," in this issue of *Horizons*.

Age Distinctions in Law and Intergenerational Relationships

Age has long been used as a distinguishing characteristic in Canadian law. Presently, the Law Commission of Canada is preparing a discussion paper on age distinctions found in law, with many benefits awarded and obligations or restrictions imposed on the basis of age. Examples include access to certain income support programs, eligibility to vote, mandatory retirement, and access to employment.

The Law Commission's discussion paper will evaluate the impact law has on the relationships between older adults and children and youth in Canada. Do laws and practices reflect the realities and needs of these age groups? Have they evolved to reflect adequately a changing society?

Overall, the Law Commission seeks a methodological approach that will examine whether distinctions based on age are relevant to the objectives of law and social policy, or whether other criteria are more relevant. At the same time, the approach will examine how best to promote intergenerational relationships, respecting differences, in pursuit of equality and dignity for all.

The anticipated release date for the discussion paper is the autumn of 2003. For further information, contact Lorraine Pelot, Senior Research Officer, Law Commission of Canada at (613) 946-8975, lpelot@lcc.gc.ca.

Fragments of Lives: Enabling New Policy Directions through Integrated Life- Course Data

**Geoff Rowe,
Statistics Canada**

*Canada is a world leader
in developing new tools for
policy planners, as illustrated
by the Statistics Canada
LifePaths model.*

Geoff Rowe is Senior Advisor,
Microsimulation, in the Socio-
Economic Analysis and Modeling
Division at Statistics Canada.

We are all different. We have invented ourselves through the choices we have made over our lives. We know our choices in education and career, and our personal life will have implications for the future choices available to us. The concept of a life course refers to the way in which the countless aspects of our lives are interwoven and shaped by cultural and institutional influences.

Traditional public policy, however, pays little attention to the heterogeneity of individual life courses and, indeed, is often intentionally blind to it. The data needed to administer most federal taxes and transfers can be obtained, for example, through reasonably simple forms that record annual income or provide a record of employment. The effects of such traditional policies can be measured by taking reasonably simple cross-sectional snapshots of the work status and income of the whole population at different points in time.

That perspective is beginning to change. The policy process is increasingly focused on helping people who are making difficult transitions in life, such as from welfare to work. Some policy analysts argue that this activity often requires holistic interventions integrating many once-separate service and transfer policies. Social investment themes are becoming more important in the policy agendas of many Organisation for Economic Co-operation and Development (OECD) countries, often couched in terms of specific future returns from today's investment in human capital. The life-course flexibility focus that is the theme of this issue of *Horizons* asks how policy shapes people's decisions on the allocation of work and other activities

over the full life course. If we are to have a serious answer to this question, we cannot ignore the heterogeneity of people's lives.

In other words, there is growing appreciation in public policy circles of the need to take a more integrated view of individuals. In addition to an awareness of interactions with major government programs, such as schooling, health care, and income security and taxation, this view would include the family context and time spent both in leisure and work, unpaid as well as paid. We increasingly care about the effect of policy interventions on the subsequent lives of people as well as on their immediate, point-in-time impacts. We increasingly care about how policies interact.

For example, our higher education policies have encouraged people to stay in school much longer. This approach has, on average, led to positive labour market outcomes, as discussed below. But it may also have led to the postponement of family formation, possibly compressing the time available for family building. Analysts are beginning to ask how these human capital investment policies work in conjunction with other policies that have had the effect of encouraging earlier retirement, that is, shortening the period in which the benefits of these investments in longer schooling can be realized. In turn, these particular questions pose a challenge regarding the coherence of the whole system of lifetime time allocation we have created for ourselves.

The life-course perspective, and its underlying policy questions, will have profound effects on our research and statistical infrastructure. There are

Heterogeneity – an Example Using Traditional Statistical Tools

When we examine census or survey data, we remove the heterogeneity in the underlying data through the use of broad averages. Consider some selected characteristics of women that might be chosen to stand in for a major life-course event or choice: the number of children ever born, migration status, education level attained, marital status, and disability status. After cross-classifying these characteristics for 45-year-old women using 1991 Census data, we found 8,021 distinct categories each representing at least one woman. The single category containing the largest proportion represented only about three percent of the nearly 175,000 women. About half of the women were in the top 215 categories, and the remaining half were in 7,806 categories (each representing about 100 or fewer people). That picture results from looking at only a handful of variables, at one point in life. What is needed is an entirely new framework for analyzing life course data that throws light on common patterns of life course interactions without disregarding the genuine diversity of individual life-course outcomes.

major practical measurement problems, relating essentially to behavioural dynamics that, until they are overcome, constrain capacity to address both the heterogeneities and the full life-course perspective underlying new policy expectations. Traditional statistical instruments, such as censuses and cross-sectional surveys, form the base of our statistical system. A life course perspective, and explicit measures of how people change over time, are essential. However, major extensions of data collection in these directions raise important privacy concerns and risk creating unreasonable burdens on survey respondents.

There has been progress in developing the needed research infrastructure. Longitudinal data are increasingly available. In addition, a new research tool has been developed: life path microsimulation modelling. It repre-

sents a major step in supporting the kinds of policy analysis essential to the development of life-course, social investment policies.

Canada is a world leader in developing new tools for policy planners, as illustrated by the Statistics Canada LifePaths model. It bypasses the problems of privacy and intrusion by creating a virtual nation of *synthetic* Canadians. The life-path analyst does not look at data about real people, but rather at data about an artificial population whose characteristics mirror those of real Canadians. The model reconstructs the life courses of those synthetic individuals by combining the many fragments of real lives that are captured by existing surveys and administrative records — using explanatory formulas driven by the data themselves. This development represents an important step in

extending the scope of evidence-based policy-making. It is a radical addition to the analytic tool kit, one that Canada's policy research community is now starting to appreciate.

Integrating Life-Course Data Using LifePaths

LifePaths is a microsimulation model of individuals and families.¹ Using information assembled from a variety of data sources, LifePaths creates “simulated” individuals (one at a time) from birth to death. The simulation of basic individual and family choices generates many of the events that, together, constitute an individual's life course. Among the events taken into account are place and year of birth, immigration status, inter-provincial migration, marital formation and dissolution (including common-law unions, separations, and divorces), movements through the education system, movements into and out of employment and job changes, the birth and presence of children at home and, finally, death. Altogether, the simulated individuals are broadly representative of the recent history of Canada's population.

Because no one source contains all the required information, LifePaths draws on multiple data sources. In this respect it is like any empirical socio-economic model. The information is embedded in LifePaths in the form of data summaries. Based on exploratory analyses that suggest important explanatory factors, these summaries take account of life-course interactions. Thus, LifePaths serves as a repository for a diversity of empirical results, and is the means by which these results can be integrated and their joint implications drawn out.

Insights into Life Course Diversity: Some Early Examples

Is There an Economic Payoff from Post-Secondary Education?

An example of information drawn together from different sources is the combination of patterns of post-secondary educational progression for detailed fields of study, observed from university and college records, with census data on employment and self-employment for corresponding fields of study. LifePaths incorporates summaries of the distributions of wage rates for each field of study, which makes it possible to draw out implications of those distributions for individuals. A recent study explored those implications.² It compared simulated, but realistic, lifetime earnings of post-secondary graduates with their simulated lifetime earnings had they entered the labour market directly after secondary school. The comparison of earnings was expressed as a rate of return on their investment in post-secondary education.

Substantial differences were found in the rates of return with much greater variability for community college graduates than for B.A. graduates. For example, 20 percent of B.A. graduates had rates of return below zero percent, while at the other end of the distribution, 20 percent of B.A. graduates had rates of return of 30 percent or more. Among community college graduates, a corresponding 30 percent had rates of return below zero percent and 30 percent had rates of return of at least 40 percent. There was a clear indication of a financial benefit, on average, from post-secondary education. But the ranges of rates of return

were wide, indicating the investment was far from risk free, with a significant number of graduates having negative rates of return to their investment in post-secondary studies.

Are Retirements Planned?

Canada's monthly Labour Force Survey (LFS) provides a unique historical archive. Although the survey was designed to provide monthly cross-sections, these data can also be used as a longitudinal data source, (since each LFS respondent is interviewed for six months in a row). Such longitudinal data — currently consisting of 35 million person-months of individual and family level data — is the basis for the LifePaths' model of a quarter century of monthly employment dynamics. In addition, these longitudinal Labour Force Survey data give us a unique view of long-term employment career development in Canada.

One study has shown that retirement — as a self-reported event — is actually relatively infrequent.³ Only about 51 percent of males and 30 percent of females — for selected years of birth — had ever “retired” by age 65. Seen another way, among males only about 16 percent of all the job separations occurring from age 50 to 65 were reported as retirements, and for females only 12 percent were retirements. Thus, in many cases, older workers experienced volatile labour market events, and the single job separation that ultimately ended their working careers must have been a layoff, an illness or disability, or a family-related event, rather than a voluntary withdrawal from work.

How Long Do We Work?

Combining time use data with the LifePaths modelling approach provides intriguing new perspectives on work-

Key Data Sources

To date, some of the key data sources used in LifePaths have included:

- Census micro-data: six censuses
- Annual demographic and vital statistics
- Family History Surveys: Four cycles of the General Social Surveys
- School Leavers Surveys (secondary school students)
- Administrative micro-data on post-secondary students
- National Graduate Surveys
- Labour Force Survey: 300 surveys
- Survey of Labour and Income Dynamics
- Time Use Surveys

These data sources are some of the most significant available in Canada. But, on their own, each comprises data on no more than a fragment of any individual's life course. However, because they complement each other — each one providing some information the others do not — once integrated, their sum is greater than their parts.

ing lives. One study examined the length of working lives, comparing working life definitions with different degrees of granularity: calendar years with any work, effective years actually employed, and effective years physically at the workplace.⁴ The “effective years actually employed” definition is sensitive to variations in weeks

of work within a calendar year as modelled in LifePaths. The “effective years physically at the workplace” definition also takes account of daily variations in hours of work as simulated in LifePaths Time Use module.

Inevitably, the coarsest definition of the working life appears to smooth away differences among individuals. The highest resolution measurement of working lives (based on annual and weekly and daily time use patterns) shows considerable variation among individuals in effective years of market work — with greater variation among women than among men. Women’s working careers are also shorter, measured in this more detailed way. Corresponding measures of effective years of leisure are less variable than effective years of market work. Evidently, labour–leisure choices have different meanings, and show different patterns, when examined on different time scales.

Is the Social Policy Fair Across Generations?

LifePaths has been deliberately designed to be extensible. Part of the original conception was that the basic model could be a general-purpose platform on which special-purpose models would be overlaid. An example of such an extension was the Generational Accounting version of LifePaths.⁵ It was designed to help evaluate the intergenerational equity of Canada’s income security and taxation. The study used stylized modules representing the evolution of Canada’s income security and taxation system to com-

pare succeeding generations (ranging, by decade, from those born in the 1890s to those born in the 1990s) in terms of simulated lifetime “transfers received” minus “taxes paid.”

The most salient finding was that within generations, the variability among individual “transfers minus taxes” swamped the variability between generations. In fact, 65 to 75 percent of the variability among individuals remained unaccounted for, even after adjusting for differences between the sexes and between career

We increasingly care about the effect of policy interventions on the subsequent lives of people as well as on their immediate, point-in-time impacts.

earnings groups, as well as between generations. Thus, the idea that one generation was making major net transfers to another via Canada’s tax/transfer system was simply not supported by the analysis, once the tremendous variety in individual outcomes is taken into account.

Moving Forward

A new tool, such as LifePaths, offers a wonderful opportunity for policy-making, but it poses many adjustment challenges as well.

At a very basic level, a life-course perspective is more complex than cross-sectional snapshots of the population, especially when many of the policy-relevant heterogeneities are explicitly considered. As a result, new techniques for presenting the findings in

understandable ways are needed. We have quickly found familiar packages of analytic measures, charts, and graphs conventionally used to present highly summarized point-in-time comparisons of data from traditional surveys, simply do not work. An extended period of experimentation and learning by the producers and the users of research will be needed to find new presentation techniques.

New ways of carrying out research are also needed. We often think of models and analytic tools as black boxes. The

policy analyst provides specification to the modeller, who provides some reasonably understandable results. Many existing models, often macro-economic, are poor at longer-term prediction, typically, relying on rather simple assumptions about economic behaviour and assuming, unrealistically, that everything other than the shock being studied will remain unchanged into the distant future.⁶ While the results may have limited use apart from the very specific hypothesis being tested, they are at least understandable. The opposite is likely to be true with LifePaths. The huge amount of data incorporated and the many empirically based statistical formulas used to describe the behavioural dynamics of individuals are more likely to result in projections that will

be more accurate, but often harder to understand, unless the analyst and the modeller work in close harmony. This learning process will be challenging for both of these specialists.

Finally, the extension of LifePaths analysis to new aspects of the life course will require the addition of new modules and the incorporation of new data sets. There are, for example, obvious gaps that need to be filled to allow a fuller modelling of the retirement decision, particularly savings — including private pensions and home ownership. Fortunately, LifePaths was designed to facilitate the introduction of new modules, although the process is far from automatic. Each new module requires us to think through how the fragments of our lives fit together.

In many cases, new modules may become a permanent addition to LifePath's functionality. Similarly, LifePaths will continue to grow along with the accumulating archive of data on which it is based: each additional Census, each additional year of Labour Force Survey data and each additional family history or time use survey. In that way, LifePaths will grow and adapt to meet the needs of the policy development community.

Notes

- 1 The structure and content of the LifePaths model is described in greater detail on the Statistics Canada Web site <<http://www.statcan.ca/english/spsd/LifePaths.htm>>. Accessed May 7, 2003.
- 2 Boothby, Daniel and Geoff Rowe (2002) *Rate of Return to Education: A Distributional Analysis Using the LifePaths Model*, Human Resources Development Canada, Applied Research Branch Working Paper Series, W-02-8E. The paper can be downloaded from <www.hrdc-drhc.gc.ca/sp-ps/arb-dgra/publications/research/2002docs/w-02-8/w-02-8_E_abs.shtml>. Accessed May 7, 2003.
- 3 Rowe, Geoff and Huan Nguyen (2002) "Older Workers and the Labour Market," *Perspectives on Labour and Income*, 3(12), Catalogue #75-001-XIE, Statistics Canada.
- 4 Wolfson, Michael and Geoff Rowe (2001) "Perspectives on Working Time over the Life Cycle," in *Working Time in Comparative Perspective Volume II: Life-Cycle Working Time and Nonstandard Work*, edited by Susan Houseman and Alice Nakamura, Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research.
- 5 Wolfson, M.C., G. Rowe, X. Lin and S.F. Gribble (1998) "Historical Generational Accounting with Heterogeneous Populations," in *Government Finances and Generational Equity*, edited by M. Corak, Ottawa: Statistics Canada, pp.107–125.
- 6 See also the article by Peter Hicks, "The Policy Implications of Aging: A Transformation of National and International Thinking," in this issue of *Horizons*.

Economics and Social Cohesion

In the practical reality of everyday living, there are abundant illustrations of the benefits of co-operating for a common goal. That co-operation can be called team behaviour and, in recent years, a growing literature has argued that such behaviour pays off for societies. The collection of essays in this book focuses on the economic implications of social cohesion. If societies with more social cohesion are able to produce more, that additional output will make it easier to resolve distributional conflicts, leading, in turn, to more co-operation, more output, more cohesion. By tracing the connections between social cohesion and specific outcomes, the collection contributes to our understanding of the interaction between economic processes and their social framework. And, although the authors recognize the complex implications of social cohesion and the possibility of ambiguous effects on economic development, the general conclusion is that social cohesion has significant economic implications, and there are significant potential gains to some types of cohesion and the collective action they enable.

Lars Osberg (Ed.), *The Economic Implications of Social Cohesion* (Toronto: University of Toronto Press, 2003).

The Policy Implications of Aging: A Transformation of National and International Thinking

Peter Hicks,
Policy Research Initiative

Peter Hicks, Senior Advisor at the Policy Research Initiative, is the project lead for two of the PRI's research projects: Population Aging and Life-Course Flexibility, and New Approaches for Addressing Poverty and Exclusion.

As recently as a decade ago, the conventional wisdom in most countries was that population aging was a threat — a looming crisis for policy, certainly not an opportunity for win-win solutions. Lately, a new perspective has developed. This perspective suggests that the coming retirement of the baby-boom generation, if accompanied by good social policies, may provide an opportunity to make major social and economic gains.

This article explores the reasons for such an extraordinarily rapid evolution in international policy thinking. It concludes with some observations on the relationship between policy analysis at the national and international levels, and on the hazards of projecting far into the future.

Population aging is a new phenomenon in world history. Its determinants — long-standing increases in life expectancy and the more recent declines in fertility — certainly do not seem threatening. Increased life expectancy is a fundamental social goal, especially positive since many of the additional years of life are being spent in good health. The implications of falling fertility are more ambiguous, but certainly seem benign when compared with the deep concerns about world overpopulation of only a few decades ago. The key question, therefore, is not why we now see aging as good news, but why it was seen as bad news a decade ago.

Adjusting the Normative Framework to an Older Population

Statements by international bodies, based on extensive consultations, provide a good guide to international

trends in policy thinking. The first important population aging statement — a 1982 action plan resulting from a United Nations World Assembly on Aging — covered a wide range of issues, but did not signal any looming crisis. Nor did various UN follow-up events and pronouncements, including another World Assembly on Aging in 2002 in Madrid.

The UN process extends and adjusts the overall international framework of rights, humanitarianism, and development to the new realities of population aging. A growing number of older people face difficulties that were simply not foreseen, in areas related to health, housing, the family, social welfare, income security and employment, education, research, and training. The solutions are not special rights for older people, which would have the effect of ghettoizing them. Indeed, aging should be treated as a life-course, society-wide issue as much as an older persons issue. In the early 1990s, the UN slogan focused on older individuals — “to add life to the years that have been added to life.” However, by the end of the 1990s a new slogan focused on society as a whole — “a society for all ages.”

Polarizing Views in the 1990s

The UN aging issues were seldom near the centre of national policy agendas, especially in developed countries, where the situation of older people was relatively good in relation to the UN norms. By the mid-1990s, however, one aging issue had jumped to centre stage. Throughout the 1980s, there had been a growing realization in many countries that the financing of their public pay-as-you-go pensions had not fully taken account of the consequences of the retirement of the

baby-boom generation. The World Bank's 1994 publication, *Averting the Old Age Crisis*, helped crystallize that concern. That report made the case that pension arrangements in the developing and developed world needed radical reform if they were to cope with population aging. A specific pension model with a large role for private, advance-funded pensions was advocated.

While *Averting the Old Age Crisis* was more nuanced than often perceived, its analysis and proposals became cen-

A variety of reforms will be needed to ensure that more job opportunities are available for older workers, and that they are equipped with the necessary skills and competencies to take them.

tral elements in a polarized debate. Some saw it as a badly needed wake-up call in light of public pension promises that were clearly unsustainable given existing pension designs. Others saw it as fear mongering that placed far too much faith on financial markets, and too little on the capacity of governments to adjust public pension policies. Still others stressed that, at the macro-economic level, the aging "crisis" was exaggerated: provided that productivity continued to grow at historic levels, material living standards would also grow despite aging, although at a reduced level.

The International Labour Organization (ILO) was on the other side of the debate from the World Bank. It started from the premise that old-age provision is a collective social duty and that, with reform, there were fundamental merits in continuing a larger

role for public pay-as-you-go pensions. The ILO, too, advocated a specific model that contained a large role for public earnings-related pensions similar to the Canada/Quebec Pension Plan (CPP/QPP).

Toward the end of the '90s, the positions of the World Bank and the ILO came closer together, with increasing emphasis on pragmatic approaches in line with national needs. (This principle had always been applied in practice in any event.) Emphasis was increasingly placed on the importance

of having a multi-tiered approach, rather than on the particular design of those tiers. Other international organizations, such as the International Monetary Fund and the Organization for Economic Co-operation and Development (OECD), also stressed the importance of multiple sources of retirement income.

In the real world, new pension forms were emerging that could not be easily fit into either the World Bank or ILO models or, indeed, into any model that assumed a continuation of traditional pension tiers. These included the Swedish and Italian systems, with defined-contribution features in their pay-as-you-go public pensions, and the Canadian approach of expanding an advance-funded reserve within the basically pay-as-you-go CPP/QPP.

Broadening the Aging Policy Agenda

The focus on pension finance in the mid-1990s was understandable. Deep changes were needed. By 2000, however, new issues were attracting attention. For example, in a series of documents published around the turn of the millennium, the OECD organized policy thinking on aging issues under seven principles. These principles mirror quite closely recent policy thinking in Canada.

- 1 *Public pension systems, taxation systems and social transfer programs should be reformed to remove financial incentives to early retirement, and financial disincentives to later retirement.*

This first principle broadens the policy emphasis from financing pensions to the more fundamental macro-economic question of living standards. The material living standards of tomorrow's working and retired people will depend on the goods and services produced by those who will be working at the time. Changes in retirement income financing might alter the relative living standards of workers compared with retirees, but only later retirement could have a large effect in increasing living standards for both.

- 2 *A variety of reforms will be needed to ensure that more job opportunities are available for older workers, and that they are equipped with the necessary skills and competencies to take them.*

Reforms would help ensure the anticipated labour shortages associated with retirement of the baby-boom generation would, in fact, result in more jobs

for older workers. The policies in question are mainly those addressed to life-long learning and a “workforce for all ages,” rather than those addressed to older workers alone.

3 *Fiscal consolidation should be pursued, and public debt burdens should be reduced. This process could involve phased reductions in public pension benefits, as well as anticipatory hikes in contribution rates.*

The focus broadens from pension financing alone to fiscal consolidation generally. By this time, fiscal consolidation was well under way in Canada, and the second of the suggested avenues of pension reform — anticipatory increases in the CPP/QPP contribution rates to build up a larger reserve — had been adopted.

4 *Retirement income should be provided by a mix of tax-and-transfer systems, funded systems, private savings, and earnings. The objective is risk diversification, a better balance of burden-sharing between generations, and to give individuals more flexibility over their retirement decision.*

The OECD insisted on the importance of a balanced approach, but argued against the notion of an ideal model. Many designs were compatible with the concept of risk diversification and, often, the “ideal” approach is to build on what is already in place and working.

5 *In health and long-term care, there should be a greater focus on cost-effectiveness. Medical expenditure and research should be increasingly directed to ways of reducing physical dependence, and explicit policies for providing care to frail older people should be developed.*

As pension reform was being introduced, attention in many countries shifted to the implications of aging for health and long-term care. Again, the OECD insists the key issues are not financing per se, but the effectiveness and adequacy of the care provided.

6 *The development of advance-funded pension systems should go hand-in-hand with that of a strengthening of the financial market infrastructure, including the establishment of a modern and effective regulatory framework.*

The OECD saw that, in many countries (Canada being a positive exception), advance-funded pensions were playing too peripheral a role. With

Good management of the risks of an uncertain future lies, not so much in our projection capacity, but in our capacity to design a set of flexible policy instruments that can adapt to future pressures as they emerge ...

hindsight, we can see the great wisdom in linking an extension of private pensions to a strengthening of financial markets.

7 *Strategic frameworks should be put in place at the national level now in order to harmonize these aging reforms over time, and to ensure adequate attention to implementation and the build-up of public understanding and support.*

Much of the adjustment process regarding aging populations will take place automatically as a result of market forces, but many smaller reforms will likely be needed to help counter a deeply embedded culture of early retirement. The approach to these

reforms requires a strategic plan to ensure that separate activities in many policy areas will reinforce each other.

The Link between National and International Policy Agendas

Did the international aging “crisis” debate distort the policy debate in Canada? What role have international bodies played in the more recent evolution of policy thinking in Canada? Has the Canadian experience helped shape the evolution of international thinking?

The fiscal effects of aging on public pensions in Canada were not as large as in many other countries, but

Canada still had a (comparatively subdued) aging crisis debate in the 1990s. It was partially home-grown and partially imported. There has been a long-standing tradition in Canada of doubting the financial sustainability of public pensions. Some of this attitude can be likened to urban myth, abetted on occasion by commentary from the financial industry. It was also encouraged by potentially misleading terminology, such as attributing unfunded liabilities to pensions that were never meant to be financed through advance-funding techniques. However, some of the doubt reflects genuine concern — not so much about a sustainable balance between pension contributions and benefits — but about the significant real cost, both public

and private, of supporting a much larger number of retirees, about sharing that cost across generations, and about the consequent need to make real changes in retirement ages and health care effectiveness.

Countries can and do learn from the experiences of others. A case can be made that, at least in Canada, the international aging crisis debate of the 1990s, with its capacity to generate great sound bites, may have encouraged a certain amount of myth making, while the more recent — complex and duller — statements and analysis from international bodies may have enriched more serious national analysis.

The seven OECD principles, for example, were based on lessons from national experiences, most certainly including that of Canada. In conducting their background analysis, OECD staff members — a number of whom were Canadians, including the present author — were well aware of the fact that, compared with others, the Canadian retirement income system had been highly successful in reducing poverty in old age, and at relatively small public cost. They understood the complexity — and flexibility — of the Canadian retirement income system, which is built around a much larger number of components (pension and other elements), than in most countries. Canadian reforms, such as building a larger funded reserve within a basic pay-as-you-go scheme, were seen as pragmatic approaches that were adopted without controversy.

Learning has been a two-way street. Canadian analysts and policy-makers have also learned much from the

Further Reading on the International Perspective on Aging

The World Bank and ILO positions can be found in:

- World Bank (1994) *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, ISBN 0-19-520996-6.
- Gillion, C. et al. (Eds) (2000) *Social Security Pensions — Development and Reform*, Geneva: ILO, ISBN 92-2-110859-7.
- The UN documents and events are well described on their Web site <<http://www.un.org/esa/socdev/ageing/index.html>>. Accessed May 7, 2003.

A more detailed review of the positions of international bodies can be found in: Queisser, M. (2000) "Pension Reform and International Organizations: From Conflict to Convergence," *International Social Security Review*, 53.

The OECD principles were first set out in *Maintaining Prosperity in an Aging Society*, (OECD, 1998). A particularly important document, *Reforms for an Ageing Society*, (OECD, 2001) reviewed national progress in light of these principles. The principles were also applied in an in-depth study that included Canada: *Ageing and Income: Financial Resources and Retirement in Nine OECD Countries* (OECD, 2001). More detailed OECD studies have also examined the fiscal implications of aging, private pensions, and the labour market implications of aging. In January 2003, for example, the OECD *Observer* published an article entitled "Retiring later makes sense."

experiences of other countries, through participation in the regular meetings, conferences, and peer review processes of international organizations, and through the use of data and research compiled by those bodies.

An Aging Crisis or a Policy Projections Crisis?

The so-called aging crisis of the 1990s tells us much about the role of projections in policy-making. The social, economic, technological, and environmental pressures that drive policies cannot be predicted with any certainty for more than a handful of years into

the future. The coming retirement of the baby-boom generation seemed to be an exception in this sea of uncertainty. Policy analysts have known about the growth in old age dependency ratios for decades. The longer-term effects of demography could be assessed, it was believed, provided the assumption is made that everything else remained equal or unchanged, including existing policies.

It is interesting to identify the elements in the 1990s that had to remain equal in making these projections. We were nearing what now appears to have been the bottom of a long trend

in the direction of earlier retirements. Financial market prospects looked healthy. Labour market prospects looked poor, especially for older workers. Fiscal positions were poor, and pension reform had not yet taken hold. Holding all these factors unchanged for 20 or more years into the future, and looking only at the effects of the increasing dependency ratios, showed disastrous results for many public pensions. The more sophisticated the model, the worse things seemed to look, as was the case with models that attempted to examine the balance of costs and benefits on different generations.

As we now know, other things did not, in fact, stay equal. They never do. Fiscal positions improved very considerably in Canada. Financial market problems took the steam out of many pension privatization agendas. We are now anticipating labour shortages, not surpluses. We found that effective retirement ages could change upward as well as downward. Even relatively small changes could have large economic effects. Public pensions were reformed in most developed countries, often radically. In consequence, as we get nearer to the date of the actual retirement of the baby-boom generation, our inevitable “other things equal” assumptions have become more optimistic.

The lesson, however, is not that we should refuse to project into the future. Pension reform was needed in the 1990s. Given a natural tendency to procrastinate in introducing difficult reforms, the earlier projections may have, arguably, provided a useful

scare that prodded us to action, although the fable of the boy who cried wolf also comes to mind.

The lessons are, rather, that we should be modest in our expectations about projecting far into the future. Good management of the risks of an uncertain future lies, not so much in our projection capacity, but in our capacity to design a set of flexible policy instruments that can adapt to future pressures as they emerge, often by changing the weight of various instruments within the overall policy mix. History suggests that even pension promises, while cast in long-run terms, in fact change frequently over the years as they are adjusted to current circumstances.

Projections can be a useful supporting tool, provided we have an operational way of taking into account two important factors.

- The variables we cannot project are invariably more important than those that we can.
- Even demography (as noted in the Further Reading sidebar on the previous page) cannot be projected at all reliably (e.g., we have consistently underestimated gains in life expectancy).

In consequence, in making projections, we should use a wide range of methodologies. We should emphasize sensitivity analysis, and we should assume a range of alternate futures where other things are not held equal.¹

We are now much nearer to the retirement of the baby boomers, and projections are becoming a little less risky.

However, it is still five to ten years before we will see large effects, and much can change during that period. The interdepartmental research on population aging and life-course flexibility described elsewhere in this issue of *Horizons* will attempt to learn from history.² It will examine many alternative assumptions about the future. Plans call for the employment of an unprecedented range of modelling techniques.

Notes

- 1 For more on the extreme risks of long-term projections, a fascinating table was highlighted in the background paper used to support consultations on possible Canada Pension Plan (CPP) reforms in the mid-1990s. It compared the currently projected costs of the CPP in 2030 to those made when the CPP was introduced. The differences in projected costs was staggeringly large — with the currently projected costs being, almost unbelievably, given that program designs had not changed greatly, three times the size of those originally forecast. Some of the difference was the result of subsequent extensions of benefits, but changed assumptions about the seemingly stable demography had huge effects as well, as did assumptions about the economy. Our projection techniques have improved since then, but not by much. See Finance Canada (1996) *An Information Paper for Consultations on the Canada Pension Plan*, released by the federal, provincial and territorial governments.
- 2 See the other article by Peter Hicks in this issue of *Horizons*, “New Policy Research on Population Aging and Life-Course Flexibility.”

Life Expectancy, Health Expectancy, and the Life Cycle

Sarah Hogan
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Health Canada

Health Canada's Applied Research and Analysis Directorate has undertaken a comprehensive examination of the implications of aging for the Canadian health care system. The analysis uses sophisticated modelling techniques that explore difficult issues that have perplexed health economists around the world. One issue is disentangling the population aging effects of the long-run trend toward increased life expectancy from the effects of a demographic "shock" such as the one-time, but very long-lasting effects of the aging of the current Canadian baby-boom generation. Another is referred to as the compression of morbidity debate — the extent to which longer lifespans are the result of more time spent in good health or more time in bad health. Does poor health, with its associated health-care costs, increase as the population ages? Or are the periods of poorest health more or less fixed, with main costs associated with the period before death, and occurring later in life as mortality rates continue to fall?

The overall analysis reduces some of these fears. It found that the aging due to greater longevity, which has been the driver of population aging that has occurred *to date*, does not appear to put pressure on health care costs. It does show that the aging that will start to occur as a result of the baby-boom bulge will add to cost pressures, but these effects are smaller than the pressures arising from other drivers of health-care costs, such as increases in utilization or new treatments. It also argues that the health cost pressures from the demographic bulge need to be seen as analogous to the pressures on Canada's public pension system (i.e., as a fiscal policy issue, not as a health care provision issue).

The following extract from a paper by Hogan and Lise is part of the overall Health Canada series.¹ It explores questions about health and retirement, a particularly important aspect of the broader population aging and life-course flexibility discussion that is a theme of this issue of *Horizons*. It looks at an issue sometimes couched in terms of whether, if we are now living so much longer, we should be *working longer* rather than *retiring earlier*. Readers should understand that Hogan and Lise were not looking at retirement from a broad perspective of what is desirable or socially optimal, as that is not really a health issue. Rather, the analysis uses the demarcation between working and retirement years to illustrate some key points about health and health care sustainability, and potential dependency ratios. Further, their conclusions are primarily about the permanent effects of the aging that results from longer life expectancy.

Many readers are likely to find their conclusions surprisingly optimistic. The results show the one thing that is often forgotten when life expectancy at birth rises: older people are living longer, and younger people are living long enough to become older people. This outcome means higher life expectancy adds to both the working-age population and to the older population. As a result, the fact that each successive cohort is living longer means dependency ratios do not change as much as commonly presumed. That fact notwithstanding, improved health will allow us to retire much later, if that is what we wish to happen.

At the time the source paper for this article was written, Sarah Hogan and Jeremy Lise worked in the Applied Research and Analysis Directorate of Health Canada.

First, we ask what effect future gains in life expectancy will have on the retirement portion of life for successive cohorts. Second, what retirement age would be needed for those cohorts to fund their lifetime health expenditures, with and without compression of expenditures? Finally, we look at the prevalence of chronic conditions to address how trends in health status might allow for changes in retirement age.

Implied Retirement Ages of Successive Birth Cohorts

By using an easy-to-understand measure — the average number of extra years in the workforce required by successive generations — we can obtain an intuitive interpretation of the impact increasing life expectancy has on successive cohorts. This approach is intended to answer the following question: If we hold the *fraction* of life working constant, how many extra *years* would successive cohorts expect

to spend working? To answer the question, we find the implied age of retirement for each cohort that would maintain a constant non-working share of life over time. This finding tells us the retirement age required for each cohort, such that each one has the same ability as previous birth cohorts to fund consumption over the lifetimes of its members.

The resulting calculations show that over the past 20 years the average age of men retiring in a given year has fallen by 2.5, from 65.5 in 1976 to 62.2 in 1997. Using a low life expectancy projection, the average retirement age would only need to increase by approximately six months between 1989 and 2040 to maintain a constant non-working share of life, while the gain in life expectancy is 11 years over this 50-year period. The reason the retirement age can remain almost constant over the 50-year period is that, in addition to a larger fraction of the birth cohort surviving

after age 63, more of them also survive through their working years. These two effects cancel each other out when constructing the non-working share of life. In other words, a larger fraction of successive birth cohorts survives to old age, but a large fraction also lives through the working years to save for consumption in old age.

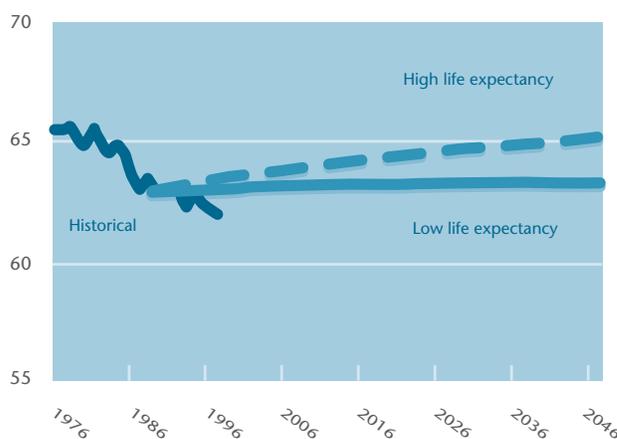
Using a high life expectancy projection, average retirement ages would need to increase to 65. This figure is slightly below the 1976 average. Under this scenario, the cohort retiring in 2046 can expect to live 17 years longer than the cohort that retired in 1989.

Adjusting for the Age Gradient of Health Expenditures

The non-working share of life used above assumes that expenditures are the same in each year of life. This assumption does not apply in the case of health expenditure, which tends to be highest in the last years of life. By weighting each year of life by the average health expenditure for that age, we obtain a lifetime expenditure profile that increases with age to match the health expenditure profile.

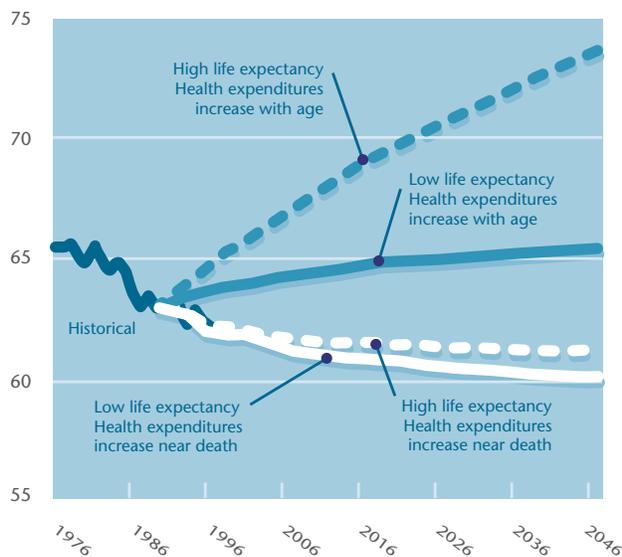
In weighting each year of life by health expenditures in our projections, we need to make an assumption about how the relationship between age and expenditure will evolve. Other papers in the Health Canada series show that health expenditures historically display a strong age gradient, increasing rapidly after age 65. There are two possible reasons: either health-care expenditures are directly related to age, or they are unrelated to age, but increase as individuals approach the end of their life. Whether health costs increase with age or with proximity

Retirement ages required to maintain a constant non-working share of life



Source: OECD, Reforms for an Ageing Society, 2000.

Retirement ages required to maintain a constant non-working share of life



Source: OECD, *Reforms for an Ageing Society*, 2000.

to the end of life makes a substantial difference to the lifetime health-care costs for successive cohorts who are living longer on average.

Beginning with the assumption that health expenditures have a fixed relation to age, and using the low life expectancy projections, a minor increase in the retirement age is required, rising from 63 in 1989 to slightly above 65 in 2046. The required retirement age increases to almost 74 if the high life expectancy projection is used. This figure is significantly beyond the retirement age observed in the past 25 years.

As other parts of the research indicate, however, health expenditures are probably related more to proximity to death than they are to age. In this case, as people live longer, the expensive health-care years are pushed out to older ages. With such compression of expenditures, the implied retire-

ment ages change completely. In this case the average retirement age can fall rather than increase. This outcome results from the fact that the compression of the expenditures completely offsets additional years of old age, while a higher survival rate through the working years means a lower average retirement age can be obtained while maintaining the same average number of years in the workforce. Interestingly, the recent falls in actual retirement ages in Canada follow closely the trend suggested by the projections that assume compression of expenditure.

Only in the case where very optimistic assumptions regarding increasing life expectancy are combined with very pessimistic assumptions about health-care costs do we get the result that the aging caused by greater longevity presents a problem. This combination of assumptions seems

unlikely, as we expect that at least part of the reason people are living longer is improved health. It is doubtful that all gains in life expectancy are the result of expensive interventions that prolong the lives of the elderly in an unhealthy state.

It is also worth emphasizing that the retirement-age calculations presented here are based only on health-care costs, and so ignore other expenditures by the retirement age population on such things as food, clothing, and education, which do not have the same tendency to rise with age. Overall, if over the next 50 years either life expectancy increases in line with our low projections, or health-care expenditures are linked to the last few years of a person's life, retirement ages would not need to increase above their 1976 average.

Would Health Status Allow for a Longer Working Life?

The analysis of the previous section indicates that increasing life expectancy is likely to require some increase in the average age of retirement to maintain the historical non-working share of life. Although the magnitude of the required increases is much smaller than one might think, except under very extreme assumptions, we must still ask whether such a change would be feasible. One aspect of feasibility concerns health status: clearly, if Canadians are not healthy enough to work longer, a required increase in the average age of retirement would be difficult. On the other hand, if Canadians can expect to live in good health beyond the current age of retirement (assumed to be 63 years, as explained in the previous section) — particularly with regard to being

free of debilitating conditions — there may be significant scope to lengthen the working life of Canadians.

To address this question, we look at the prevalence of activity limitation among Canadians, focusing on health-adjusted life expectancy (adjusted for activity limitation in this case)

The increase in health-adjusted life expectancy has been proportionately greater than the increase in life expectancy over the same period, resulting in 63-year-old Canadians enjoying longer lives as well as a greater fraction of their remaining life spent without activity limitation.

for 63 year olds. In other work in the overall Health Canada study, we looked at the prevalence of activity limitation at home, and saw that although activity limitation becomes more common with age, the prevalence of activity limitation fell between 1994–95 and 1998–99 among both males and females.

Based on the 1998–99 National Population Health Survey (the most recent available data on activity limitation), the average 63-year-old Canadian male can expect to be free of activity limitation to over 75 years of age, whereas the average female of the same age can expect to be free of activity limitation until the age of 78. Given that the current average retirement age is about 63, these results suggest that there

may be scope to lengthen working life significantly, if this is considered desirable, by somehow encouraging many Canadians who would opt for earlier retirement to remain in the workforce a little longer. This is particularly so given the trend in the nature of work away from physically demanding jobs.

In addition to showing that the levels of activity limitation are quite low, the data contain an important trend. The prevalence of activity limitation decreased significantly between 1994–95 and 1998–99 for both males and females. To be more specific, the prevalence of activity limitation fell from 26.7 to 25.7 percent for males aged 63 and over and from 31.3 to 26.5 percent for females aged 63 and over. Consequently, 63-year-old Canadian males can, in 1998–99, expect to live half a year longer without activity limitation than would have been expected in 1994–95 whereas a 63-year-old female can expect to live almost two more years without activity limitation. This increase in health-adjusted life expectancy has been proportionately greater than the

increase in life expectancy over the same period, resulting in 63-year-old Canadians enjoying longer lives as well as a greater fraction of their remaining life spent without activity limitation.

Summary

We have seen that if over the next 50 years either life expectancy increases in line with our low projections or health-care expenditures are linked to the last few years of a person's life, retirement ages need not increase above their 1976 average to maintain a constant ratio of expected lifetime health expenditures to expected years in the workforce for successive cohorts. Additionally, if the gains observed between 1994–95 and 1998–99 in health-adjusted life expectancy at age 63 continue, there is scope to further lengthen working life without increasing the fraction of healthy life spent working.

Notes

- 1 A copy of *The Implication of Aging for the Canadian Health Care System*, which includes the paper by Hogan and Lise from which this article is extracted, can be acquired by contacting Josée Gratton, ARAD, Health Canada, at (613) 946-3167.

Readers should note that the opinions expressed in these articles, including interpretation of the data, are those of the authors, and are not to be taken as official statements of Health Canada.

Aging and Demographic Change in Canadian Context

Edited by David Cheal

University of Toronto Press
(English version),
Les Presses de l'Université
de Montréal
(French version)
2003.

Above all, a common theme is that older people should not be separated from other age groups and treated as a special target for policy reform.

David Cheal, Professor of Sociology, teaches at the University of Winnipeg.

Aging and Demographic Change in Canadian Context, the latest publication in the Trends Project Series of the Policy Research Initiative, cautions that exaggerated concerns about population aging can be harmful to rational policy making. The contributors in this book present several alternative perspectives, and question whether an aging society is as problematic as is commonly assumed. We present here edited excerpts from the introductory chapter, "Contextualizing Demographic Concerns," written by the editor of the book, David Cheal.

Demographic projections for Canada, and for other countries, are frequently the basis for rising concerns about negative futures of "aging societies."¹ These concerns are often intensely debated, and arguments and counter-arguments abound in and around the academic discipline of demography.

Concerns about negative consequences of population aging fall into six main groups.

- The escalating costs of providing public pensions to a growing population of older people will place a heavy financial burden on people of working age.
- A growing volume of older people with heavy health care needs will create a huge and unsupportable demand for costly medical services.
- If current trends continue, personal assistance with daily activities may not be available in the future to all elderly people who need it.
- Reduced labour force participation, and an older workforce, may hinder current efforts to increase the economic output of Canada's population.
- More economic and social responsibilities for supporting both children and older people are falling on a narrower section of the population, defined as the "sandwich generation."

- If more resources are shifted toward older people, existing intergenerational inequities may worsen, possibly contributing to a breakdown in social cohesion.

In Quebec, concern about these issues is accompanied by the additional concern about the linguistic future of that province. Some people are afraid current demographic trends may lead to the decline of French as a vital working language.² Together, all these concerns about possible future consequences of demographic aging constitute a challenging view of the issues to be addressed by policy makers and social researchers.³

Before allowing ourselves to be stampeded into an alarmist stance, however, it might be useful to pause and consider some alternative points of view. Exaggerated concerns about population aging or, in other words, demographic fears, can be harmful to rational policy making.

For example, claims that aging may cause intergenerational inequities need careful scrutiny. Terms such as "intergenerational relations," "intergenerational ties," or "intergenerational transfers" refer to specific connections between the members of different generations and their interactions. This conceptualization tends to overlook the multiple connections between generations, some direct and some indirect, that can be interwoven in

complex ways. To take just one example, older generations have borne a share of the cost of recent debt reduction policies through tax increases and reduced medical services. However, since some of them are close to the end of their lifespans, they are unlikely to reap many of the subsequent benefits of this “fiscal dividend.” Younger generations, on the other hand, presumably will have a longer period in which to enjoy some of the fruits of deficit and debt reduction.⁴

The question of the supply of family caregivers is another example of an issue that turns out to be more complex than might be supposed. Although fertility rates have been falling in Canada, there will not be more elderly Canadians without children in the next two decades. Women who enter into old age at the beginning of the 21st century are, in fact, less likely to be childless than women in preceding cohorts. That is, although the average completed family size has been shrinking, more women are now more likely to have had at least one child than was the case with women born at the beginning of the 20th century. It is therefore not necessarily the case that more women entering into old age now will lack family caregiving.⁵

As well, for elderly persons age 80 and over, three quarters have at least one living sibling and over half have two or more living siblings.⁶ Interestingly, there are more older people with a surviving sibling than with a surviving spouse. This shows the availability of siblings as a potential source of support to most older Canadians, including the very old. It is too often assumed that social support can be

provided only by a spouse or a child. Of course, these particular, intimate family members are usually the preferred source of help. However, if they are not available, for reasons either of death or geographic mobility, then available siblings may be called on to fill the breach.

The crucial point here is that in the context of family ties, and probably in other contexts too, there is often more than one option. If one particular option, such as children, becomes less viable, for example, because of

Policies need to be more clearly articulated with reference to the full range of current transactions between people in different age groups.

declining fertility rates, then in the short term, at least, siblings could provide a viable alternative for some older people to receive the support they need for daily living.

A final example of how complex issues can be oversimplified can be found in the too-ready assumption that work patterns and retirement ages will remain unchanged despite population aging. Such topics need to be examined in the context of the cultural meaning of old age. Possible labour shortages may well place pressure on older workers to work longer and to invest more in their human capital to maintain and increase their productivity. For that to happen, some older workers would have to change their attitudes toward continued education and retraining. As well, some employers would have to adopt a more positive approach to older employees than they do at present. More care-

fully targeted government programs are needed to address the particular needs of older workers who have been laid off and who are seeking re-employment, including outreach to employers.⁷ It is important to ask: Can attitudes about older workers change in the future, so greater emphasis is placed on their retention in the labour force rather than on their accelerated replacement?

Attitudes probably can change, if the need for them to do so is strong enough. In that case, we will need to

pay more attention to aspects of the workplace that either facilitate or hinder contributions made by older workers. This includes, in some cases, a business culture that tends to devalue the contributions of older workers, and makes few or no modifications to working practices in response to individual changes that occur as workers get older.⁸

Culture is malleable, and creative reconstructions of new meanings for old age are conceivable. Arguably, one of the most difficult questions for the future is how new meanings of old age that might emerge from a public discourse on aging will be connected to individuals' private expectations. An important issue here is age of retirement. Older workers developed their ideas about expected retirement age at an earlier stage in life, under different social and economic conditions than seem likely to prevail in the future.

Their expectations about the timing of retirement, and about the balance between work and leisure in old age, may not be easily altered.

Overall, the authors in this book want to remind policy makers about the internal diversity of older people as a population category, and about the complex factors that affect their lives and their relationships with others. Above all, a common theme of many of the chapters in this volume is that older people should not be separated from other age groups and treated as a special target for policy reform, because there are multiple interlinkages between age groups. These interlinkages exist both synchronically (i.e., between contemporaries of different age groups) and diachronically (i.e., over time, especially in the consequences of experiences early in the life course for the quality of life in old age).

The first general policy implication of this book is, therefore, that great care must be taken whenever older people are identified as a distinct population category having unique criteria for policy development. We have learned that “old age” is a slippery concept. The effective boundaries between “old age” and “middle age” are not always clear and, indeed, they may shift over time. For example, most statistical studies continue to use age 65 as a conventional boundary for marking the entry into old age, because at one time that was regarded as the normal age of retirement. However, the recent trend toward earlier retirement is making that yardstick increasingly irrelevant as an indicator of the transition from income earning to reliance on other financial resources.

The second general implication of this book is that policies need to be more clearly articulated with reference to the full range of current transactions between people in different age groups. Some of these transactions are organized in a formal way by public institutions, such as government taxation and income transfer programs. Other transactions are informal and are organized by local social norms, such as obligations of reciprocity, especially between family members.⁹ The overall well-being of Canadians is a result of the conjunction of both sets of transactions.

The third general policy implication is that new policies should be developed with the life course considered as a whole. This is already done to some extent, notably, in the area of financial provision for retirement. Policies on pensions and Registered Retirement Savings Plans are clearly based on the idea that certain features of old age must be considered as consequences of events at earlier stages in the life course. In other areas, such as medical policy and policies on social supports, the idea of policy making with the life course as the unit of analysis has been slower to take hold. Nevertheless, some important steps have been taken in this direction, notably the development of a “children’s agenda.” Although this policy initiative is framed in a questionable conceptualization of children as a distinct population category, it is nevertheless based on the assumption that what happens to someone in childhood influences what that person becomes in later life.

Notes

- 1 OECD (Organization for Economic Cooperation and Development) (1998) *Maintaining Prosperity in an Ageing Society*, Paris: OECD.
- 2 Termote, Marc and Jacques Ledent (1994) *L’avenir démographique du Québec et de ses régions*, Quebec: Le Conseil de la langue française. An issue that is specifically relevant to population aging concerns the potential effect of increased reliance on immigration on the linguistic and, therefore, social marginalization, of older Francophones living in Montréal.
- 3 See Cheal, David (2000) “Aging and Demographic Change,” *Canadian Public Policy*, 26(supp. 2): S109-S122; Gee, Ellen M. and Gloria M. Gutman (Eds) (2000) *The Overselling of Population Aging: Apocalyptic Demography, Intergenerational Challenges, and Social Policy*, Don Mills: Oxford University Press.
- 4 See McDaniel, Susan A. (2002) “Intergenerational Interlinkages: Public, Family, and Work,” in *Aging and Demographic Change in Canadian Context*, edited by David Cheal, Toronto: University of Toronto Press.
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- 7 See Underhill, Susan, Victor Marshall, and Sylvie Delencourt (1997) *Options 45+: HRCC Survey*, Toronto: Institute for Human Development, Life Course and Aging, University of Toronto; D’Amours, Martine, Frédéric Lesemann, Stéphane Crespo, and Julie Deausoleil (1999) *La sortie anticipée d’activité des travailleurs et travailleuses de 45 à 64 ans*, Montréal: Institut national de la recherche scientifique.
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The North American Linkages Project: Focusing the Research Agenda

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It is important to identify key Canadian interests and objectives, and then develop and implement an appropriate action plan before events evolve to the detriment of the Canadian economy.

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Introduction

In the recent decades of increasing North American economic integration, a key policy objective for Canada has been maximizing the benefits associated with our membership in the North American economic space, while simultaneously safeguarding the “Canadian way.”

On one hand, the strong export performance of Canada since the inception of the North American Free Trade Agreement (NAFTA), rising productivity, and improving standards of living are testimony to the benefits, for Canadians, of a more economically integrated North American space. At the same time, there are concerns about a concomitant loss of policy independence, especially regarding Canadian social policies and the preservation of a distinct Canadian identity.

The contemporary setting was transformed by the events of September 11, 2001, which brought security considerations to the forefront of the policy agenda, and emphasized the strategic importance for Canada of having secure access to the US market.

Focusing the Research Agenda

Some US priorities may not coincide with those of Canada. It is therefore important to identify key Canadian interests and objectives, and then develop and implement an appropriate action plan before events evolve to the detriment of the Canadian economy.

At the very least, policies must be designed to:

- reduce the “chilling” effect recent events have had on trade initiatives; and

- offset the negative perception that Canada may no longer be a secure gateway to US markets.

In essence, we must determine the contextual elements that may impede the economic and social benefits that derive from fluid trade flows and factor mobility. Potential obstacles to trade and investment include the following.

- Differences in regulatory frameworks (e.g., labelling, product approval, environmental standards, health and safety) limit potential trade and investment flows by forcing firms to adapt to different regulatory requirements, therefore increasing their costs.
- Security procedures add substantially to the time required to clear the border, thus introducing delays into the supply chain.
- Restrictions and constraints to labour mobility may impede trade in services, in turn reducing competition in the services sector, and giving rise to a suboptimal allocation of economic resources.
- Capacity-constrained transportation corridors add both time and costs to potential cross-border trade.
- Unilateral trade remedies, such as countervailing and anti-dumping duties, constrain existing trade flows and have a “chilling” effect on potential trade initiatives.

It should be recognized that the policy development process regarding Canada's participation in security and border matters is well under way. The federal government is addressing many of these concerns. In particular, the Smart Border Declaration (December 2001), and its accompanying 30-point action plan, as well as an

aggressive spending program on transportation infrastructure, will go a long way toward addressing security and transportation infrastructure concerns. Furthermore, the urgency surrounding security issues requires a fast-track policy development horizon, compared to the medium- to longer-term research horizon appropriate to the analysis of enhanced economic integration. Thus, the Policy Research Initiative's (PRI's) North American Linkages (NAL) Project research agenda will not examine specifically the potential policy responses to the existing security and transportation challenges.

Recommended policy initiatives for further economic integration in North America have been identified, and correspond to recommendations brought forth by, among others, the Minister for International Trade, the House of Commons Standing Committee for Foreign Affairs and International Trade, the C.D. Howe Institute, the Conference Board of Canada, and the Public Policy Forum. In addition, several US research institutes produced similar views and recommendations.

This convergence of views and recommendations is not surprising given the widespread recognition that secure economic access to the US market is of primary strategic importance for Canada. Given this convergence, and to provide evidence-based policy analysis in support of the medium-term policy development, the PRI proposes to focus its research efforts on four specific issues.

International Regulatory Co-operation

The absence of a level-playing field in the area of regulations, rules, and standards, will continue to prevent Canada from reaping the full benefits of further North American economic inte-

[I]t is useful to examine three possible broad paths toward greater integration as a way of focusing attention on the long-run choices with respect to integration that each nation confronts:

- *A “NAFTA-plus” arrangement, which would be limited to additional trade and investment measures that might lead to a full-fledged customs union with a common external tariff;*
- *“Deeper integration” would seek accords on other subjects where there are cross-border impacts, including migration, energy and water management, transportation and infrastructure, security arrangements, and foreign policy consultations; and*
- *A “supra-national institutions” option, which could involve modest arrangements to deal with specific issues or sectors, or be as ambitious as entailing EU-style inter-governmental executive and legislative functions.*

Hakim and Litan, The Brookings Institution, 2002.

gration. The federal government has already taken some steps in this regard with the Smart Regulation strategy, which aims to promote health and sustainability, contribute to innovation and economic growth, and reduce the administrative burden on business.

However, specific and targeted research is required to address the complex issue of North American regulatory co-operation in a strategic and co-ordinated fashion. In particular, research is required to assess key regulatory differences between Canada and the United States, their potential impact on Canada–United States trade

and factor flows, and the costs and benefits of eliminating these regulatory differences.

Further research is also required to examine the effectiveness of different international regulatory co-operation models. For this purpose, it will be important to examine the experience of other international economic arrangements, principally those of the EU. Throughout the decades following the Treaty of Rome, the EU has implemented a number of models of regulatory co-operation. In the coming years, it will continue to provide learning material as up to 10 new countries

We must look at how our regulatory approaches fit into the North American economic space. We made great strides in this respect in NAFTA, but NAFTA is 10 years old and we need to make further advances. Let's broaden and deepen regulatory cooperation between our countries by further cutting red tape and the regulatory hurdles to doing business with each other.

The Honourable Pierre Pettigrew, Minister for International Trade, October 2002.

Recommendation 30: *When evaluating measures to ease the burden that different regulatory systems can impose on companies undertaking business in North America and to avoid the drawbacks of regulatory harmonization, the Government of Canada, in consultation with the provinces, should seriously consider entering into agreements with its NAFTA partners to implement mutual recognition schemes for existing regulations. Under such arrangements, countries would recognize each other's regulatory standards as appropriate, thereby facilitating cross-border commerce.*

Standing Committee on Foreign Affairs and International Trade, 2002.

are expected to join its ranks, thus requiring an even broader range of harmonization. Examining Australia and New Zealand, as well as the relationship between the EU and non-member European countries, such as Switzerland, may also provide valuable data.

By assessing the potential for regulatory co-operation between Canada and the United States, and examining the different approaches available to Canada, this horizontal research initiative will ensure a strategic approach to the management of regulatory constraints that prevent Canada from maximizing North American trade and investment opportunities.

Elimination of Rules of Origin

At the same time as Canada is examining ways to build on existing relationships and arrangements, longer-term policy considerations include the examination of possible next steps toward North American integration. The prospects of deepening the North American economic and social space in a post-NAFTA arrangement, through movement toward a customs union and, eventually, toward a common market, or of widening its membership through the proposed Free Trade Area of the Americas, presents considerable challenges and opportunities.

Recommendation 31: *The Government of Canada should consider undertaking a two-track approach to North American economic integration. Identified barriers to more efficient conduct of cross-border business should be removed in an incremental manner in conjunction with Canada's NAFTA partners. While the Committee has taken no position on the merits of a North American customs union, we believe it would be useful for the Government concurrently to initiate a detailed review of the advantages and disadvantages of the concept in the North American context. The review could include an assessment of the use of the integrated North American steel industry, among others, as a prototype for a broader customs union of some kind.*

Standing Committee on Foreign Affairs and International Trade, 2002.

One key policy option requiring comprehensive analysis is eliminating the cumbersome rules of origin, which still exist as a result of national differences in tariff protection against non-NAFTA countries. This adjustment could occur by way of the establishment of a full-fledged customs union, or by way of the implementation of some of the steps that would be taken in the creation of a customs union.

Rules of origin may have several detrimental impacts on trade and economic efficiency. First, compliance costs add directly to the cost structure of businesses. Second, to meet domestic content requirements, rules of origin may force domestic producers to purchase source material from less efficient suppliers. Third, the effort to minimize the cost incidence of rules of origin provides an incentive to locate in the largest market.

The administrative cost burden of a system of rules of origin has been estimated at three to five percent of the delivered cost of the goods. The efficiency costs for NAFTA countries amount to two to three percent of the gross domestic product (GDP) (Harris, 2001). By harmonizing external trade barriers between Canada and the United States (and possibly Mexico), and eliminating the NAFTA system of rules of origin, there would be a significant reduction in administrative costs and efficiency losses faced by businesses. In addition, border procedures would be greatly simplified, and public resources could be reallocated to other priorities.

Hence, it is imperative that research efforts be directed at examining the costs and benefits of deepening North American integration by eliminating

rules of origin and, potentially, creating a customs union with the United States and possibly Mexico.

This second research initiative would require, *inter alia*, a detailed assessment of the differences between Canadian and US tariff and non-tariff barriers, of the sectoral and regional impacts of harmonizing trade barriers, of the degree to which a customs union will constrain Canada's policy options (particularly trade, but also economic and social policy), and of the potential impact of a customs union on the attractiveness of Canada for foreign investment.

Labour Mobility

Increased North American economic integration will require enhanced trade in services which, in turn, will necessitate enhanced labour mobility. As with regulatory co-operation and the elimination of rules of origin, freer labour mobility offers an opportunity to allocate resources more efficiently and to improve competitiveness.

Highly skilled labour is an essential component of a knowledge-based economy, and it often represents the most serious constraint to developing new products and markets. Current restrictions, either in the form of immigration or work visas, accreditation recognition, or other non-economic barriers, negatively affect labour mobility, and thereby present an impediment to growth on both sides of the border.

The research project on labour mobility is, to a large extent, the counterpart to that on the elimination of the rules of origin. While an examination of the potential benefits of the elimination of the rules of origin would be mainly concerned with merchandise

We should examine ways to make further improvements in technical areas, such as the NAFTA rules of origin. We have made some progress on liberalizing the NAFTA rules of origin for a number of products, making it easier to meet the NAFTA rules and qualify for NAFTA tariff preferences. We should accelerate work on this in an effort to further reduce transaction costs and make it easier for companies to do business and benefit from our integrated economies.

The Honourable Pierre Pettigrew, Minister for International Trade, October 2002.

trade flows, an assessment of the existing constraints affecting labour mobility would address issues related to trade in services. A review of existing standards, accreditation systems, and other norms that could benefit from harmonization is essential for the development of an approach to integration analogous to the one proposed for goods.

This research project is based largely on the joint research agenda of Industry Canada and Human Resources Development Canada. The objective of the PRI is to focus primarily on the North American dimension.

Trans-Border Economic Regions

The ongoing intensification of a north-south economic axis has resulted in a greater dependence on continental rather than domestic (east-west) patterns for trade and investment, as well as greater dependence on the performance of specific economic sectors or developments south of the border. This trend may be contributing to the emergence of distinctive economic regions characterized by specific economic, fiscal, and social pressures that have the potential to complement, and conflict with, directions pursued by the federal government.

Increasingly, the existence of trans-border economic regions is a subject

of policy development debate, and needs to be substantiated. Such supra-national regions, characterized by economic and sectoral specialization, and particular economic, social, and political networks, may require rethinking some current federal policies to address local dynamics, while endeavouring to retain a national perspective.

As a starting point, the project would first geographically identify these regions and determine their characteristics. Related research done on, and in, the United States would also be reviewed to assess the regional evolution of the US economy. Following the identification of these regions, the project would then evaluate the implications for federal policy.

Conclusion

This multi-faceted research agenda seeks to provide evidence-based analysis to policy-makers on the policy choices that lie ahead in the context of the deepening North American economic integration, in particular between Canada and the United States. It is crucial to examine the potential additional steps that should be taken to maximize the net benefits arising from North American integration, and to assess the potential risks attached to these policy initiatives.

[We must] seek to eliminate the border as a bottleneck in the movement of people between the two countries. With the increased importance of the service sector and the growth of the knowledge-based economy on both sides of the border, the free movement of people becomes an intrinsic component of free trade. The NAFTA eased restriction on cross-border movement for many professionals, but more needs to be done to improve overall labour mobility.

Conference Board of Canada, "Renewing the Relationship: Canada and the United States in the 21st Century," Briefing 2003.

Research efforts, such as these, will generate the ideas that ultimately affect public attitudes and government policies in the three countries. However, the research agenda presented in this document covers only a fraction of the policy questions and issues fac-

ing the Government of Canada regarding its relationship with its key trading partners and North American integration. As ideas for reforms and new policy proposals are put forward, other such research efforts will be required.

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Risky Business

Although fears that security concerns might impede Canada–United States trade were prominent after the terrorist attacks of September 11, 2001, there has been little systematic examination of the vulnerability of different Canadian exports to future security-related border disruptions.

This commentary assesses the vulnerability to security-related border disruptions of different Canadian exports and associated jobs and investments. Five criteria are used to assess this vulnerability: the physical characteristics of the exported goods, mode of transport, ease of substitution by US production, time sensitivity, and the importance of complementary movements of people to different exports.

The results suggest that border disruptions threaten key sectors of the Canadian economy — sectors that may account for as much as 45 percent of Canadian exports, 390,000 jobs, and \$3.7 billion of Canadian investment. If this assessment is correct, effective "thickening" of the border by extra security measures could deprive Canada of the advantages that trade liberalization has conferred.

From Danielle Goldfarb and William B.P. Robson, *Risky Business: U.S. Border Security and the Threat to Canadian Exports*, C.D. Howe Institute, Commentary No. 177, March 2003.

This commentary is available at <http://www.cdhowe.org/pdf/commentary_177.pdf>. Accessed May 8, 2003.

New Approaches to Poverty and Exclusion: A Strategic Framework

Jean-Pierre Voyer

There is growing understanding that exclusion is often the result of many individual, family, and social factors reinforcing each other in negative ways — suggesting the need for more co-ordinated, comprehensive approaches to finding solutions.

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The following article is an edited version of a presentation given by Jean-Pierre Voyer in Ottawa, on March 27, 2003, at a conference organized jointly by the Canadian Council on Social Development and Human Resources Development Canada. The theme of the conference was Building a Social Inclusion Research Agenda. The complete version of the speech can be found at <<http://www.ccsd.ca/events/inclusion/papers/voyer.pdf>>. Accessed May 7, 2003.

I will be presenting some ideas on the content of a strategic framework that could guide research to improve our policies to fight poverty and social exclusion. While my remarks are cast at a more general level, many of you will know that several federal government departments are collaborating under the Policy Research Initiative (PRI) umbrella on just such a policy research exercise. The project is called New Approaches to Addressing Poverty and Exclusion, and we are just getting started. It is fundamentally an internal fact-finding exercise at present, but one that could be of considerable importance to future directions in consultation and policy-making around poverty and exclusion.

Throughout the Organization for Economic Co-operation and Development (OECD) world, there has been much new thinking about policies that could address poverty and exclusion in a more effective manner.

- Increasingly, the problem has been formulated not only as the lack of income at a single point in time in a person's life, but rather in terms of a persistent lack of the income and other resources needed to enable people to participate in the mainstream economy and society. These newer perspectives have been greatly supported by the recent emergence of longitudinal data that are beginning to allow us to exam-

ine the dynamics of poverty and exclusion, its persistence over the course of life, and the role played by individual and household characteristics, and by employment.

- We have learned more about the effectiveness of policies that help people make the transition from unemployment into work. As well, there is now a much richer understanding of the work disincentives inherent in the structure of some transfer programs, such as Employment Insurance or social assistance. This knowledge has resulted in growing interest in “make-work-pay” policies.
- There is growing understanding that exclusion is often the result of many individual, family, and social factors reinforcing each other in negative ways — suggesting the need for more co-ordinated, comprehensive approaches to finding solutions. This understanding is reflected in more holistic interventions both at the level of the individual being assisted and in terms of a growing wish for broader frameworks of policy co-ordination.
- There is growing understanding of the extent of disadvantage, particularly its persistence. In Canada, for example, research by Human Resources Development Canada (HRDC) shows that persistent poverty is concentrated in five high at-risk groups. These are

people with work-limiting disabilities, recent immigrants, single mothers, unattached older people (until they reach pension age), and Aboriginal peoples.

- New strategic approaches to measuring and tackling exclusion are being developed in Europe, with the experience of the United Kingdom being particularly interesting. In some countries, again mainly in Europe, there has been a revival of interest in the concept of a basic income for all, either on an annual basis or a lifetime basis. Quebec has recently introduced a law that explicitly addresses poverty and exclusion. This is unique in Canada and rare in the rest of the world.
- Increasingly, issues are being seen in the context of basic human rights. Social policy needs to be seen through the eyes of the *Canadian Charter of Rights and Freedoms*, as well as from the perspective of the legislation that enables a particular policy. In areas of human rights, poverty, and exclusion, it is important that we reduce a perceived disconnect between Canada's voice in formulating international conventions and our internal policy development.

The implications of these new directions for practical policy-making are still far from clear, especially when they would be superimposed on an existing policy framework that, on balance, works reasonably well. A new way of looking at a problem does not necessarily mean existing policies need to be changed. The empirical findings from the newly emerging longitudinal data are often still quite tentative. No

consensus has yet emerged on the operational meaning of concepts, such as social exclusion. What we need above all is good research that will allow us to assess the potential of these newer directions for policy-making in Canada.

A Strategic Framework Is a Precondition for Good Policy Research

Coherent policy research needs to be based on an integrated intellectual framework. By a strategic framework, I refer to a document, or a series of documents, that will allow all parties in the system — researchers, policy designers, politicians, and people who represent the poor and excluded — to communicate with each other about future directions and to better harmonize their activities, where that makes sense. It would include a common terminology, lessons learned about policy designs and program effectiveness, general principles related to the scope and goals of future policies, and so on.

I examine five features of such a strategic framework, beginning with terminology.

Agreeing on the Terminology

The first task of a practical framework would be to provide a language that allows us to communicate with each other about what we are trying to achieve. If we are ambiguous in our description of where we want to go, we are unlikely to get there.

Policy development in this area has been plagued by too many concepts and too few words to go around. We have often been guilty of appropriat-

ing old words to new meanings when the old definition is still very much in active use. Take poverty as an example.

For most people, poverty has something to do with low incomes. The *Gage Canadian Dictionary* defines poverty as “the condition of not having enough income to maintain a standard of living regarded as normal in a community.” And that is also the concept behind our various policy-driven statistical measures of poverty such as Low Income Measures (LIMs) and Low Income Cut-Offs (LICOs). However, others use a much broader definition. The recent Quebec legislation defines poverty in terms of “deprivation of resources, means, choices and power to acquire and maintain economic self-sufficiency and favour active integration and participation in Quebec society.” This definition mirrors that in United Nations conventions and in recent thinking that takes a more multi-dimensional approach to poverty. This definition goes well beyond low incomes and encompasses what many people mean by social exclusion.

There is no right or wrong here. There are excellent grounds for using concepts in different contexts with different meanings, especially as we are all trying to escape the bonds of old ways of thinking in our search for better solutions. However, the result can be much confusion when policy experts use language in ways that are quite different from that used by the public.

Finding a common terminology will, I expect, result in the use of cumbersome adjectives and phrases such as “poverty based on relative income position,” or “multi-dimensional

poverty,” or “exclusion based on lack of resources,” or “exclusion based on lack of participation.” At this stage, however, consistency might be a better goal than elegance.

Surrounding each of the different concepts of poverty and exclusion are related concepts whose meaning needs to be pinned down in a consistent way. Equity, equality, cohesion, inclu-

Our present instruments are very crude for understanding the heterogeneity of the lives of people facing poverty and exclusion.

sion, universality, targeting, and dignity are examples. There is a similar need for a common terminology to describe policy instruments and measures. For example, the phrase “social investment” is useful when examining human resource development policies, whose purpose is to make a specific difference to people’s subsequent lives. Unfortunately, its meaning is greatly diluted when it is applied — as is so often the case today — as a synonym for social expenditure.

Sorting out the language is a tedious business, but it must be done if we are to make significant progress. I am not saying we need to stop all policy research until we agree on the language. We would wait forever I expect. However, it is a fundamentally important step, which should be undertaken earlier rather than later.

Rethinking Our Goals and Vision of a Better Future

A strategic framework would review the principles underlying the setting of medium- and long-term objectives. For example, what type of “safety net”

works best in a world focused primarily on human capital investment? Should we be moving in the direction of individual learning and educational accounts that would empower individuals to take greater responsibility for developing their own human capital? Or do we concentrate on developing learning infrastructure from early childhood development facilities to adult learning institutions? The

answers will reflect both practical “what works” considerations as well as more fundamental factors relating to the social contract: What is the responsibility of individuals and what belongs to the state? A strategic framework cannot answer such questions, but it can provide a language and a set of principles that should help us find answers.

The Size of the Policy Envelope

A strategic framework would describe principles that govern the scope of the policies that should be included: What is on the table and what is not? As we broaden our policy objectives, we increase the number of tools that must be taken into account and the number of players that need to be involved. This may seem self-evident, but we often fail to pay enough attention to the link between the levels at which policy objectives are cast and the scope of the policy-making process.

- If we limit ourselves to policies addressed to poverty, and if by poverty we mean low incomes at

a point in time, then the policy envelope consists of the traditional tax-transfer system: pensions, employment insurance, refundable tax credits, social assistance and the like. The decision-making bodies — and those who will be consulted and implicated in the decision-making process — will, to a considerable extent, be owned by people whose main preoccupation is with matters related to equity, exclusion, and low incomes.

- If we enlarge the concept of poverty to recognize a range of factors that exclude people from, say, the labour market, then we encompass not only the tax-transfer system but also a range of social and employment services. This is the policy scope that seems to be implicit in much current policy thinking, with its emphasis on poverty dynamics, on the multiple determinants of low incomes and joblessness, and on more holistic support in welfare-to-work or unemployment-to-work transitions. That is, the focus is still very much on the most disadvantaged people — and the policy constituency is quite similar to the income-at-a-point-in-time constituency, but with greater emphasis on prevention.
- If we take an even broader scope that encompasses the range of factors that prevent people from playing a full role in society, then the policy envelope widens to encompass the education, health care, and criminal justice systems. These systems provide the skills that will prevent exclusion from the labour market, or ease the health and

safety problems that could exclude us from a full life in society. The policy process associated with this envelope is, for the most part, owned by those whose main pre-occupation is with the education, skills, safety, and health of the whole population, not only the disadvantaged community. The associated research agenda would be quite different from the narrower poverty agenda, and quite different people would be involved in formulating that agenda.

- If we take the broadest view of social inclusion or cohesion, we would want to rethink our whole set of socio-economic and cultural goals, including changing the culture of workplaces and communities to make them more inclusive and respectful of diversity. Here, the envelope extends to the practices of employers and unions, of communities and civil society, and to the, often limited, government policies that affect those practices.

We therefore face a delicate balancing act in our policies directed to poverty and exclusion. We must aim high so we are addressing the real issues, but not so high that implementation becomes impossible.

Pressures on Policies and on Needed Policy Responses

A strategic framework would identify trends in poverty and exclusion and, especially, would help anticipate future needs. The HRDC analysis I referred to earlier points to a growing concentration in poverty of five at-risk groups, which provides a powerful signal of future pressures on policy — as do

trends associated with homelessness, the working poor, and child poverty.

We define poverty and exclusion relatively, in relation to the mainstream. The characteristics of those in this “mainstream” are likely to change rapidly and so, in consequence, will the characteristics of those excluded from that mainstream. For example, let us suppose a future norm where most families have two people employed,

The real effects of policy are as much driven by the mix of policy instruments as the design of any particular policy.

often in the knowledge and service industries. They have increasing flexibility to make work-life balance choices within the family, including choices with respect to child and elder care, time for lifelong learning and the timing of retirement. In such a world, people with low skills and unstable household living arrangements could fall even further behind.

A strategic framework would help identify policy development needs in response to these changed demands, including priorities for new experimentation. Earnings supplementation (along the lines of earned income tax credits in the United States and the United Kingdom, and make-work-pay experiments such as those carried out in Canada) and lifetime accounts are obvious examples of possible policy instruments that would almost certainly be highlighted in any strategic plan.

Take individual lifetime accounts, such as Registered Retirement Savings Plans (RRSPs) or individual educational

or learning accounts, as an example. Under which circumstances are they likely to be appropriate? Too often, today’s debate is driven by ideological concerns. Yet in reality, lifetime accounts do not respect ideology. They can be used to privatize pensions, or health care financing, or even employment insurance. Or they can be used in a collectivist manner to, for example, provide all citizens with endowments at birth or at gradu-

ation. Indeed, they can be simply a variant on schemes that would provide a basic income for all. In the pension area, Sweden has introduced an RRSP-like account on a mandatory basis within its public pay-as-you-go pension system.

The real effects of policy are as much driven by the mix of policy instruments as by the design of any particular policy. Today, the determination of the balance between tax and transfer instruments, between income support and services, between services and information, between universal and targeted programs, is largely the result of ad hoc, often budgetary, processes. A strategic framework would not, and should not, replace the practical reconciliation of diverse interests that are implicit in these ad hoc processes. However, it might be able to add some transparency to the process, and encourage more informed debate on the consequences of changing the weighting of various programs.

Measurement Tools and Policy Research Priorities

Finally, a strategic framework would also set out criteria for developing the statistics and research that would support policies cast at different levels of objectives.

One dimension would address the needed statistics, research tools, and priorities for analysis. It is important to understand how far we are from what is really needed. Our present instruments are very crude for understanding the heterogeneity of the lives of people facing poverty and exclusion. The kind of data referred to in Geoff Rowe's article in this issue of *Horizons* gives a glimpse of the kind of data that is really needed, but he is talking about the whole population. The demands on research are multiplied when we look at vulnerable populations.

However, it is also important to stress how far we have come. Recent technology has greatly increased our capacity to do effective research in this area and to collect good empirical evidence. More data has been collected for small population groups, such as Aboriginal peoples. Longitudinal data is becoming more available, as witnessed by the HRDC work on the five at-risk groups. There is much room for optimism if we get our intellectual frameworks right, and if we can line up institutional responsibilities for funding and conducting that research and data collection. A strategic framework can help in doing this.

Another dimension should be establishing priorities for experimentation, on a larger scale and for newer, and much less expensive, laboratory experiments in the social area. The Canadian Self-Sufficiency Project, which successfully experimented with earnings supplementation for single mothers, is well known worldwide. Why are we not applying it universally? Should we be experimenting with its application in the Aboriginal community and for people with work-related disabilities? A strategic framework could set out some general guidelines describing the conditions under which such initiatives are likely to be successful and would help identify the needed next steps in experimentation.

I conclude by underscoring the likely frustrations and futility of attempting to undertake big thinking on a statistical, research, and accountability agenda independent of a fleshed out version of the other elements of the strategic framework. Questions of which population groups are to be targeted — and with which objectives and which policy instruments — matter a great deal. Without agreement here, there will be much spinning of wheels. However, with goodwill among many partners working within an agreed framework, much can be accomplished.

Water Counts

At the beginning of the 21st century, the Earth, with its diverse and abundant life forms, including over six billion humans, is facing a serious water crisis. This crisis is one of water governance, essentially caused by the ways in which we mismanage water.

In truth, issues of attitude and behaviour problems lie at the heart of the crisis. We know most of what the problems are, and a good deal about where they are. We have adequate knowledge and expertise to deal with them. We are very much aware of excellent concepts, such as equity and sustainability. Yet, inertia at the leadership level, and a world population that is not fully aware of the scale of the problem, means we fail to take necessary corrective actions.

The World Water Development Report is a major initiative of the United Nations World Water Assessment Programme. It lays the foundations for regular, system-wide monitoring and reporting by the UN, together with development of standardized methodologies and data. The Report is organized into six main sections: a background, an evaluation of the world's water resources, an examination of the needs for, uses of, and demands on water, a scrutiny of water management, seven representative case studies highlighting different water scenarios, and conclusions and annexes.

For information on acquiring the World Water Development Report, see <<http://www.unesco.org/water/wwap/wwdr/>>. Accessed May 8, 2003.

Canada– United States Environmental Performance: Exploring Opportunities for Convergence

**Victoria Rowbotham,
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The concept of convergence with American levels of industrial performance may allow Canada to take advantage of the economic linkages to the American economy while preserving a uniquely Canadian approach in the design of how we get there.

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Over the past few years, there has been a marked increase in the level of Canada–United States economic integration, particularly within Canada’s major industrial sectors. This increase has been driven by the rules under the North American Free Trade Agreement (NAFTA) and the broader trend toward economic globalization. It has been reinforced by heightened border security concerns since the September 11, 2001 terrorist attacks, which have led to higher levels of security co-operation between Canada and the United States. The trend toward economic integration gives rise to challenges and opportunities with respect to meeting Canada’s environmental objectives. A major question for policy-makers is how we can reap the economic benefits of this integrated marketplace while preserving Canadian sovereignty over setting and meeting social and environmental goals.

In the autumn of 2002, Environment Canada launched a project to develop an analytical framework that could be used to explore the merits of convergence with American levels of environmental performance on a case-by-case basis. This framework is intended to provide a collaborative tool for governments, industry and other stakeholders to explore the merits of convergence in cases where it appears American environmental performance is better and where matching this higher level of performance could have strategic business benefits for Canada. The concept of convergence with American levels of industrial performance — as opposed to importing American requirements — may allow Canada to take advantage of the economic linkages to the Ameri-

can economy while preserving a uniquely Canadian approach in the design of how we get there.

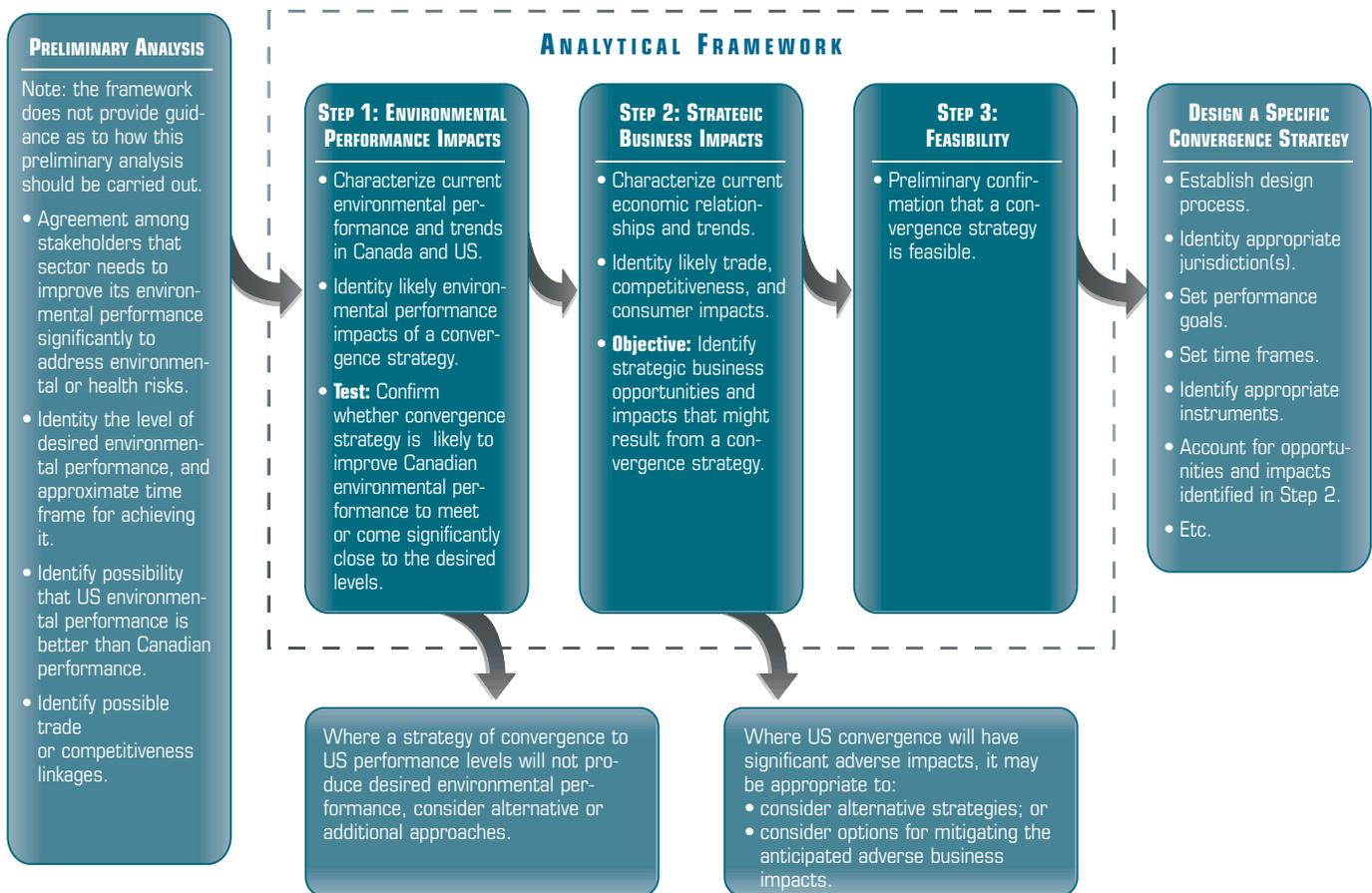
A main purpose of the framework is to avoid the protracted debates and unnecessary controversies that often characterize the development of sector-level plans to address environmental issues. It is not designed to assess or promote the concept of convergence in general. It is intended to be applied in a collaborative manner on a case-by-case basis in circumstances where a decision has been made that the environmental performance of a particular sector, product, or process should be improved. Where the environmental performance of corresponding American businesses, products, or processes is higher, a strategy of upward convergence is one possible approach to achieve this objective. The framework will enable affected governments, industry, environmental groups and other stakeholders to explore the merits of a convergence strategy in the particular situation.

The framework is neutral with respect to jurisdiction and instrument. If application of the framework to a particular case suggests convergence may provide an opportunity to attain desired environmental objectives in a manner that creates strategic business opportunities for Canadians, then a more formal process could be established to design a detailed strategy and select instruments. The nature of the case would determine which jurisdictions and stakeholders should be involved.

The framework was developed under the auspices of the federal government’s Policy Research Initiative (PRI). In addition to encouraging longer-

FIGURE 1:

Schematic of the Framework



term policy research, the PRI provides a federal research space where departments can stand back from the fray of policy and program development, and explore new ways of doing things. Environment Canada established a federal project team and an external advisory group to guide the development of the framework. The federal project team brought together colleagues from Environment Canada, Natural Resources Canada, Industry Canada, the Department of Foreign Affairs and International Trade, Transport Canada, Health Canada, and the Privy Council Office. The external advisory group included selected individuals from the environmental and

business communities who brought varied and valuable perspectives on convergence to the table.

What Is the Convergence Framework?

The framework is one in a sequence of steps that could be taken by governments and stakeholders to develop a convergence strategy. It provides a relatively simple analytical tool based on core questions and key factors relevant to examining the merits of convergence as a strategy for improving environmental performance in two areas: facilities in major industrial sectors and single products.

Figure 1 illustrates how the framework fits between a preliminary analysis and the subsequent, detailed design of a specific strategy.

Preliminary Analysis

Before applying the framework, it is important for governments and other stakeholders to undertake a preliminary analysis to satisfy themselves on the following.

- There is a shared recognition by government, industry, and other stakeholders that the sector in question should make a significant environmental improvement on one or

more clearly defined environmental issues to address an environmental or human health risk.

- Government has established clear expectations as to the level of the desired environmental performance improvement and the approximate time frame within which it should occur.
- There is some evidence that the environmental performance of the US sector is better than Canadian performance.
- There is some evidence that there may be strategic benefits to Canadian business associated with a convergence strategy.

The framework does not provide guidance as to how this preliminary analysis should be conducted. Governments rely on various processes and tools to determine a need to address an environmental or human health risk and to identify appropriate environmental targets or expectations for improvement by a particular industrial sector. These processes and tools rely on sound science and public input to identify and characterize risks to human health and the environment, and they provide the starting point for an exploration of various options to meet environmental and health objectives. Convergence with American levels of performance is one option that could be pursued if it appears American environmental performance is an improvement over the Canadian, the Canadian industry is committed to improving its performance, and it sees the potential for strategic business benefits in convergence as a way to get there. The framework provides a tool for governments and stakeholders to work together to explore the merits of the convergence option.

Three-Step Convergence Analytical Framework

The framework itself has three main steps. Step 1 seeks to confirm that a convergence strategy is likely to improve Canadian environmental performance to the desired levels established in the preliminary analysis (typically, the level of performance improvement expectations). This step starts with a characterization of the current baseline situation — describing current American and Canadian

A critical step will be the design of a clear and effective process that brings the appropriate jurisdictions, industry representatives, and other stakeholders to the table.

performance levels, accounting for regional variations, major differences across facilities within a sector, and likely future changes. It then assesses the likely changes in Canadian environmental performance from a strategy of matching American performance levels. The main question to be addressed in Step 1 is whether a convergence strategy is likely to improve Canadian environmental performance to the desired levels or significantly close to the desired levels.

Assuming that Step 1 confirms the environmental soundness of a convergence strategy, Step 2 then elucidates the potential competitiveness and trade impacts of such a strategy. Step 2 also starts with a characterization of the current baseline. This characterization provides the information needed to assess various possible effects on business. Such effects might include certainty and other regulatory benefits resulting from crafting a Canadian approach for achieving the American level of performance. Other effects might occur

in the areas of productivity, innovation, diffusion of new techniques and technologies, access to capital, as well as effects on reputation, trade and market access, and on consumers.

The key objective of Step 2 is to identify the possible strategic business opportunities and impacts that might result from a convergence strategy. When Step 2 reveals positive or neutral effects on business, the analysis will be straightforward and can move to the next step. When Step 2 indi-

cates convergence could have a significant adverse effect, it may be appropriate to step outside the framework and assess alternative strategies for achieving the environmental performance objective, and then compare them to the convergence option. Alternatively, there may be ways to mitigate such negative effects on business in the later stage of designing a specific convergence strategy.

Step 3 involves a basic assessment of the feasibility of a convergence strategy. The objective is to undertake a “reality check” to ensure there are no serious legal, administrative, and political impediments to moving ahead with the design of a specific convergence strategy.

Designing a Specific Convergence Strategy

Finally, as Figure 1 illustrates, if the framework suggests there is a good rationale for a convergence strategy, then governments and stakeholders will move into a more formal design

and implementation stage. The application of the framework will have identified the merits of convergence and provided a starting point for identifying elements of a specific convergence strategy (e.g., target performance levels, time period over which convergence should occur, key areas of flexibility for business, etc.).

A critical step will be the design of a clear and effective process that brings the appropriate jurisdictions, industry representatives, and other stakeholders to the table. The nature of this process, and the jurisdiction in which it is situated, will depend on the specific issue and case at hand. The objective is determining the “how” of matching American performance levels, including the identification of both specific instruments and the parties that would use them. The process of identification would give consideration to the full range of instruments that could be used to lever performance improvements in Canada.

Next Steps

Environment Canada is exploring opportunities for case studies using the convergence analytical framework. Discussions are underway with provincial and territorial governments, major industrial associations, and other stakeholders to identify promising case studies. Based on discussions so far, we are confident framework tools will help identify opportunities where convergence with US performance makes sense as a way to achieve our own environmental objectives. We hope that where application of the framework reveals environmental and business benefits, this will trigger initiatives and processes to develop and design convergence strategies.

August 19–20, 2003

Social Inclusion, Social Capital, and the New Policy Process

2003 Queen’s International Institute on Social Policy (QIISP)
(Kingston, Ontario)

The QIISP sponsors an annual summer institute that brings together senior officials and policy-makers to review recent research findings and discuss major directions in social policy. Organized by the Queen’s University School of Policy Studies, in partnership with the Policy Research Initiative, and Human Resources Development Canada, the primary objective of the QIISP is knowledge transfer. This year’s program includes sessions on social inclusion and policy choices, social capital and social programs in practice, and the changing social policy process.

September 15–19, 2003

Gaining from Migration: A Global Perspective on Opportunities for Economic and Social Prosperity

8th International Metropolis Conference
(Vienna, Austria)

This conference will focus on the opportunities created by a responsible and broadly welcoming approach to immigration for both receiving and sending societies. For more information, see <www.international.metropolis.net>. Accessed June 12, 2003.

November 24–25, 2003

The Opportunity and Challenge of Diversity: A Role for Social Capital?

(Montréal, Quebec)

This international conference brings together a number of different perspectives and disciplines in the analysis of the potential contribution of social capital with regard to managing diversity and facilitating immigrant integration. Organized by the Policy Research Initiative, in partnership with the Organization for Economic Co-operation and Development, and several federal departments, it is a gathering of policy-makers and leading experts who work in the areas of immigration and ethno-cultural diversity.

Strengthening Linkages between International Environment and Trade Regimes: Some Current Literature and Lessons Learned

Michael Moore,
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This article is a summary of a paper presented at the Environment and Trade Symposium held in Ottawa on February 20, 2003. The symposium was co-sponsored by the Policy Research Initiative and Environment Canada.

Although international trade and environment regimes are fundamentally interrelated, they remain distinct bodies of international law and governance. While many would agree it is preferable for these two regimes to interact constructively, there are divergent positions in the literature.

This article presents, in summary form, a review of some current literature that discusses international linkages between environment and trade regimes.¹ The point of departure for this review is the Policy Research Initiative publication, *Governing the Environment: Persistent Challenges, Uncertain Innovations*, edited by Edward Parson. He pointed out the “need for substantially increased institutional capacity to protect the environment at the international level, to counterbalance the present predominance of principles of free trade and investment” and the “need to construct networks to negotiate shared responsibilities, in order to reconcile inevitable areas of overlapping capacity and authority between levels of government, and between various state and non-state actors.”²

Current literature provides us with three different perspectives on the issue of linkages between the environment and trade regimes: the economics, socio-legal, and public policy perspectives.

The *economics perspective* outlines the debate between advocates who argue for the strict separation of environment and trade policies, and those

who argue that strategic linkages between environment and trade policies can result in efficiency gains. The argument for separation is based on appropriate governance, namely that the number of policy instruments should be closely matched to the number of policy targets (Bhagwati, 2000). Thus, there is a clear distinction between environment and trade linkages that are necessary (e.g., the *Convention on International Trade in Endangered Species of Wild Fauna and Flora*) and those that are not. In the latter case, it is argued, there are better ways of achieving environmental goals than tying them to the trade agenda.

In the real world, governments engage in strategic behaviour aimed at maximizing policy effectiveness. Drawing on the trade negotiations literature, Copeland has developed a simple economic model to illustrate how standard economic theory yields straightforward arguments to explain how efficiency gains can be derived from a co-ordinated approach to environment and trade linkages (Copeland, 2000). He uses the model to investigate the interaction between environment and trade policy, and concludes that if governments implement efficient first-best policies, and if they do not act strategically with one another, then the case for separating environment and trade has considerable merit. But, if either the assumption of efficient policy choice or the assumption of non-strategic behaviour is dropped, then the case for separating them is considerably weakened.

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Reviewing the literature, it appears even those who support regime separation agree that some environment–trade linkages are necessary, and even unavoidable. As such, a co-ordinated approach to environment and trade policies is likely, in some circumstances, to improve overall social welfare.

The *socio-legal perspective* argues there are valid claims for linking the environment and trade agendas. It concludes that we need to focus on closing the gap between states (and their domestic constituents) on fundamental social values and priorities to make progress on environment–trade debates and linkages (Shaffer, 2001). More creative and looser modalities for linkages are needed so conflicting concerns can be more easily accommodated.

To strengthen the linkages between environment and trade, other bases of legitimacy are needed that go beyond the traditional state consent approach (such as outcomes and procedures-based legitimacy), because state consent is weakening as a foundation for international environmental law (Bodansky, 1999). The next generation of environmental problems will require more expeditious and flexible lawmaking approaches that do not depend entirely on consensus among states. In addition, to the extent that international environmental law is beginning to have significant implications independent of government action, state consent may add little in the way of any legitimating effect.

The *public policy perspective* looks at environment–trade linkages as an issue of jurisdiction, particularly one of horizontal allocation of authority

among states. States allocate authority among themselves to maximize the achievement of their individual domestic interests. For example, environmental agreements can create welfare gains by transferring regulatory jurisdiction to an umbrella international organization, resulting in economies of scale (Trachtman, 2002).

Institutional approaches to regime linkages emphasize capacity building instead of authority. On one side is the suggestion that, in weighing the costs and benefits of various governance structures, central structures might be seen to generate an increase in policy coherence and institutional economies of scale. The counter-argument is that the current use of multilateral environmental agreements (MEAs) provides flexibility and capacity for specialization. Thus, a more streamlined version of the current system, which clusters certain MEAs by function, issue, region, or organizational body, may be preferable (UNU, 2002). These looser modalities may more easily support the resolution of conflicting concerns.

Another observation from the public policy perspective is that the institutional linkages of international trade and environment regimes are an outward manifestation of societal values expressed both in the marketplace and through non-market mechanisms. The literature indicates there is a need to better integrate these values. As well, efforts to strengthen international linkages between environment and trade institutions should be based, in part, on leveraging the advantages of the autonomous institutional arrangements of MEAs as an innovative feature of the international environment regime (Churchill and Ulfstein, 2000).

Lessons Learned

The literature provides a number of key messages about strengthening international linkages between environment and trade regimes.

1 Legitimacy

Implementation of stronger linkages between regimes may constrain the authority of individual governments. It is necessary to ensure that linkages are accorded appropriate levels of legitimacy which, in turn, calls for greater engagement with civil society and other non-governmental actors in the development of the linkages.

2 Communities of Interests

Finding the shared values and flexibility necessary for the development of an acceptable vision for governance in this area is a key component of successful formation of regime linkages.

3 Competence

Discussions in the literature of which institution or regime is best suited to deal with an environment or trade issue often focus on competence rather than mandate. For example, the World Trade Organization's competence to deal with a particular issue might be weighed against the potential for an MEA to address the same issue. A good understanding of the competence of institutions is required to do a proper assessment of linkage claims.

4 Allocation of Jurisdiction

There are imbalances in the international institutional system, particularly regarding adjudicative and legislative capacities. These imbalances create the opportunity and the need for more coherent approaches to linkages in the environment and trade fields. The design of appropriate

linkage mechanisms, permits the most efficient allocation of jurisdictions between international organizations.

5 Linkage Structures

There are many types of linkage structures. Three models with particular relevance to the environment and trade fields are interpretive linkages, incorporative linkages, and negotiating linkages (Leebron, 2002). *Interpretive linkages* are managed through the legal interpretive provisions of international agreements or institutions used to link issues. *Incorporative linkages* integrate the issues into a single regime that governs all of them. With negotiating linkages, the parties involved in negotiations insist on a satisfactory resolution of all the issues before agreeing to any one of them. Thus, the choice of linkage structure defines the various means by which environment and trade issues and institutions can be joined together.

6 Transaction Costs

A key consideration in moving to new forms of enhanced institutional linkages is weighing the costs and benefits of the various options. Much of the analysis to date in the environment and trade policy domains has been limited to assessing comparative benefits. Transaction costs, both political and pecuniary, should have a bearing on deciding what new measures and approaches to linkages will be pursued in the future.

7 Subsidiarity

In this context, subsidiarity means tasks are best performed at the most local level of jurisdiction that is

practicable. Autonomous institutional arrangements related to MEAs have been deliberately established in lieu of formal intergovernmental organizations to meet the need for institutional economy. MEAs have evolved into an efficient form of international environmental governance. Their informal, flexible and decentralized nature makes them very amenable to linkage mechanisms.

8 Strategic Behaviour

Every regime linkage creates potential strategic problems, even if the reason for the linkage is non-strategic. An important message for environment and trade negotiators is that the creation of new linkages encourages strategic behaviour.

9 Consequences

A principal issue for environment and trade regime linkages is the effects one regime's norms have on the realization of the goals of the other. A practical application of this message for environment and trade negotiators is to think positively of ways to develop potential co-benefits from linkage scenarios.

10 Policy Targeting

The policy targeting literature tells us the environment and trade policy agendas should move ahead at their own pace, and one should not hold back the other. For example, reliance on trade measures should not be used as an excuse to delay the development of new environmental policy instruments to address environmental problems.

Notes

- 1 The paper presented at the Environment and Trade Symposium held in Ottawa February 20, 2003, focused on the following eight articles, selected from a longer list of references, because of their particular relevance to the subject of linkages between environment and trade regimes.

Bhagwati, Jagdish (2000) "On Thinking Clearly about the Linkage between Trade and the Environment," *Environment and Development Economics*, 5(4) (October): 485–496.

Bodansky, Daniel (1999) "The Legitimacy of International Governance: A Coming Challenge for International Environmental Law," *American Journal of International Law*, 93(3) (July): 596–624.

Churchill, Robin and Geir Ulfstein (2000) "Autonomous Institutional Arrangements in Multilateral Environmental Agreements: A Little Noticed Phenomenon in International Law," *American Journal of International Law*, 94(4) (October): 623–659.

Copeland, Brian (2000) "Trade and Environment: Policy Linkages," *Environment and Development Economics*, 5(4) (October): 405–432.

Leebron, David (2002) "Linkages," *American Journal of International Law*, 96(1) (January): 5–27.

Shaffer, Gregory (2001) "The World Trade Organization under Challenge: Democracy and the Law and Politics of the WTO's Treatment of Trade and Environment Matters," *Harvard Environmental Law Review*, 25(1): 1–94.

Trachtman, Joel (2002) "Institutional Linkage: Transcending Trade and . . .," *American Journal of International Law*, 96(1) (January): 77–93.

UNU (United Nations University) (2002) *International Environmental Governance*, UNU report prepared by Shona Dodds et al., Tokyo: United Nations University.

- 2 Parson, Edward Anthony (Ed.) (2001) *Governing the Environment: Persistent Challenges, Uncertain Innovations*, Toronto: University of Toronto Press, p. 375.

Legislative Approaches to Addressing Poverty and Social Exclusion: Quebec, Belgium, and France Innovate

Pearl Eliadis and
Benoît Leduc,
Policy Research Initiative

The use of legislation as a tool of public action sends a strong signal about addressing poverty and social exclusion as multi-dimensional phenomena that require a coherent policy response.

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The Policy Research Initiative's project, *New Approaches for Addressing Poverty and Exclusion*, contains a research component on legal policy perspectives, examining international law, human rights, and comparative law. This article focuses on legislative developments in Belgium and France with respect to social exclusion and integration in the context of recent developments in Quebec.

On December 13, 2002, Quebec adopted (but has not yet declared in force) *An act to combat poverty and social exclusion* (Bill 112). Bill 112 is the first legislation of its kind in Canada. As a legislative instrument in a comprehensive scheme to address both poverty and social exclusion, Bill 112 provides for income support strategies for persons living in poverty (whether unemployed or working poor), and access to education, employment, health, social services, and housing. It establishes a fund to support initiatives to fight poverty, an observatory on poverty and social exclusion, and an advisory committee on the prevention of poverty and social exclusion.

The Bill was introduced as a result of lobbying efforts by anti-poverty groups and other parts of civil society and the social sector. It has been met by qualified approval, albeit with some skepticism about its affordability and its future.

While an integrated legislative approach to social exclusion and poverty may be innovative in Canada, it is not a global first. Two European countries, France and Belgium, have introduced legislation to combat poverty and social exclusion, and are of particular interest in the context of Bill 112. This article looks at the recent experiences in these two countries, and key features of their legal policy environments, with concluding observations.

Concepts and Definitions

Bill 112 defines poverty as:

2. [Definition]: ...the condition of a human being who, is deprived of the resources, means, choices and power necessary to acquire and maintain economic self-sufficiency and favour active inclusion in Québec society.

During third reading, the words "in a lasting manner" were struck from the definition, thereby removing the requirement that a person had to be in a condition of persistent poverty. This change was brought about by representations from the Quebec Human and Youth Rights Commission. The Commission was concerned that a definition based on persistent poverty might deprive persons who are in a state of temporary poverty from needed supports.

The focus on exclusion emerged from multi-dimensional approaches to fighting poverty that developed in Europe in the 1970s (particularly in France where the term "social exclusion" was first coined in 1974). It also has roots in the increasingly important focus on the institutional sources of poverty (the protection of basic social and economic rights), and the way in which exclusion from social and political activities can be related to a *process* of economic deprivation, in the work of Amartya Sen in particular.¹ Bill 112 is set in this intellectual tradition.

Belgium

The decentralized constitutional structure of Belgium is of interest given several similarities with Canada, including a federal system with shared constitutional powers that creates challenges for the development and

and social development.² Placing these rights in a constitutional structure provided significant leverage and authority for subsequent agreements and, ultimately, a legislated approach to bring the various pieces together.

In 1998, the three levels of govern-

language from a negative right (the right not to be excluded) to a positive formulation (the right to be integrated) is significant.⁴

France

France's unitary state does not have the jurisdictional complexities that necessitated constitutional change in Belgium to provide rights regarding social exclusion. The national government has primary responsibility for issues related to social exclusion, with 18 government departments sharing policy and implementation functions.

Government departments, civil society, and social agencies co-operate to set objectives through the Conseil national des politiques de lutte contre la pauvreté, which is under the prime minister's authority, and brings together elected officials and non-governmental representatives. Fore-shadowing Quebec's Bill 112, the French government established a national observatory on poverty and social exclusion.

The legislative framework in France is set out by the *Loi du 29 juillet 1998 relative à la lutte contre les exclusions*. It guarantees fundamental rights with respect to employment, housing, health, justice, education, culture, the family, and childhood. The French legislation consolidates various pre-existing measures to reintegrate the unemployed into the workforce through contractual vehicles and the subsidization of salaries — measures that were put in place in the late 1980s. Along with a companion action plan (2001), the legislation consolidates these pre-existing programs, along with other initiatives, to subsidize payment of utilities, training,

Bill 112 is explicitly linked to basic human rights. Poverty and social exclusion are addressed in tandem, and poverty is defined in broad terms, with a focus on causes and consequences.

implementation of integrated social programs. The federal government's jurisdiction in Belgium is limited to matters, such as foreign policy, defence, and the justice system. Local and regional authorities are responsible for culture, education, health, employment, public works, the environment, and interregional commercial matters.

Beginning in 1974, the Belgian government had a legislated minimum income scheme, referred to as "Minimex." A more integrated approach to poverty and social exclusion required greater policy coherence than offered by income-at-point-in-time approaches. Efforts were made to acquire this policy coherence through intergovernmental agreements, but the constitutional complexity of the Belgian structure limited its success.

In 1993, the Belgian Constitution was amended expressly to incorporate social, economic, and cultural rights. Article 23 of the Constitution now provides for rights in relation to employment, social security, legal aid, medical insurance, housing, a healthy environment, and the right to cultural

ment signed the *Accord de coopération relatif à la continuité de la politique en matière de pauvreté*, which set out basic principles of intergovernmental coordination along lines of constitutional competence. Various other agreements, plans, and strategies have been established since then, a key feature being shared target setting by government, poverty associations, community groups, social agencies, and medical insurance groups.

Following the European Summit in Nice (2000), member states adopted a common policy to address social exclusion and articulate shared principles, including the principle of maximizing the participation and quality of life of all persons, and ensuring that social inclusion is integrated into social and economic policies.³

In July 2002, the Belgian government completed this policy process by enacting the *Law on the Right to Social Integration*, which repealed the 1974 legislation, and replaced it with a legal structure to support the integration of policy approaches to poverty and social integration. The 2002 law focuses on income, job planning and training, and housing. The change in

and housing initiatives for young persons between 16 and 25 years of age. It also includes measures for homeless persons with respect to housing, legal, voting, and health rights.

As in Belgium, the involvement of “social partners” in France is fundamental to the legislative scheme, and is implemented through, among other bodies, departmental councils and not-for-profit organizations. In particular, the French program relies heavily on the social sector. Job-seeking services and housing are offered through community services, as well as various supports for homeless persons.

Multi-Dimensional Approaches to Poverty and Social Exclusion: Key Features

The Belgian and French experiences share several features that are relevant to Bill 112: an integrated approach to poverty and exclusion, and shared responsibility.

Integrated Approach to Poverty and Exclusion

The European models adopt a multi-dimensional approach to poverty and social exclusion. Such an approach not only targets persons living in poverty (through income-at-a-point-in-time schemes), but also persons at risk who are identified using social exclusion indicators.

Income support schemes are thus supplemented with services for housing, integration into the workforce, settlement programs, and special supports for the homeless. In France and Belgium, these elements are integrated in a single legislative structure and supported by national plans.

Bill 112 adopts a similar model, and is explicitly linked to basic human rights. Poverty and social exclusion are addressed in tandem, and poverty is defined in broad terms, with a focus on causes and consequences. A significant difference between the two approaches, however, lies in the level of detail. While the French and Belgian legislation set out a detailed regulatory approach, Bill 112 is limited to broad principles.

Shared Responsibility

The Belgian policy framework targets persons living in poverty and at-risk groups (youth, single-parent families, persons with handicaps, immigrants). As in France, the objective is to create partnerships with the private and not-for-profit sectors, as well as community groups, although the partnerships in Belgium are less well developed than in France.

The importance of shared goal setting and concerted action from several parts of society appear clearly in Quebec’s Bill 112. During committee hearings on Bill 112, business and the social sectors were clearly identified as partners in the legislative initiative.

Conclusion

The use of legislation as a tool of public action sends a strong signal about addressing poverty and social exclusion as multi-dimensional phenomena that require a coherent policy response. Bill 112 comprises several strategies or tools, only one of which resembles the traditional income-at-a-point-in-time approaches. It is central to Bill 112’s legislative scheme that a combination of instruments be pursued in tandem.

From a Canadian perspective, this policy innovation focuses on social and economic rights — rights that have been highly controversial before the Canadian courts. While further research is required to assess progress in countries, such as Belgium and France, the convergence of approaches in a single legislative strategy has now reached Canada, and thus source material for research will come from this country as well.

Notes

- 1 As Sen argued, “insights provided by the perspective of social exclusion [are] its forceful pointer to the multidimensionality of deprivation and its focus on relational processes.” See Sen, Amartya (2000) *Social Exclusion: Concept, Application, and Scrutiny*, Asian Development Bank, Office of Environment and Social Development, June, pp. 44–45. See also the conceptual distinction between “income poverty” and “capability poverty” in Sen, Amartya (2000) “Chapter 4: Poverty as Capability Deprivation,” *Development as Freedom*, Anchor Books, pp. 87–110, esp. 90.
- 2 Constitution de la Belgique, 1993. Article 23.
- 3 *Construire l’Europe*, March 2000. See: <http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/com_obj_en.htm>. Accessed May 7, 2003.
For national action plans: <http://europa.eu.int/comm/employment_social/news/2001/jun/napsincl2001_en.html>. Accessed May 7, 2003.
- 4 The *International Covenant on Economic, Social and Cultural Rights* requires states that are party to the Covenant, to create meaningful rights and remedies. From this standpoint, the creation of positive rights that are justiciable is a step toward compliance with international human rights law.

What is a Crime?

Steven Bittle,
Law Commission of Canada

A host of social forces and events shape how we conceive certain behaviours and influence our choice of intervention strategies.

One fundamental instrument choice issue in any society is the regulation of harmful behaviours. When should a tool as powerful as the criminal law be engaged? When should alternatives, such as regulation, surveillance, public information, or community supports, be used instead? The Law Commission of Canada has just released a discussion paper entitled *What is a Crime? Challenges and Alternatives* that addresses some of these important social issues.

The discussion paper deals with contradictions and ambiguities in Canadian law regarding crime and punishment by posing questions for discussion and the research agenda: Have the right approaches and strategies been selected? What are the dangers of using one or another mode of intervention? What democratic values should support the design and implementation of our intervention strategies?

In contemporary society, a variety of mechanisms and techniques are used to encourage and reward certain behaviour and, conversely, to discourage, deter, and punish behaviour that is perceived to be harmful and unwanted. Criminal law is one strategy that is often employed to deal with harmful and unwanted activities. In recent years, there have been increased demands for more laws to deal with certain behaviours, as well as increased punishment for offenders. Commentators suggest a law and order agenda dominates discussion and debate around what has been perceived to be a growing crime problem. “Such ‘law and order’ talk...has become a dominant and daily feature of public culture as we embark on this new millennium. In our latter-day ‘risk society’, security is purportedly in short supply and menacing outsiders imperil us from all sides” (Menziez et al., 2001: 11). There are always questions, however, as to whether a given unwanted behaviour warrants the label of crime, and whether, in turn, relying on criminal law is the most appropriate approach for dealing with that behaviour.

The formal definition of a crime is an act that contravenes the criminal law. However, if we consider the broader social processes that give it meaning, it is apparent that there is much more to defining what is a crime than simply referring to the text of a statute. “Law can be said to have a distinctly *social* basis; it both shapes — and is shaped by — the society in which it operates” (Comack and Brickey, 1991: 15). A host of social forces and events shape how we conceive certain behaviours and influence our choice of intervention strategies. In this respect, the process of determining what constitutes an infringement of a law, and then how we deal with that behaviour, is ongoing, fluid, and dynamic. These determinations are not necessarily characterized by high levels of consensus, let alone based on absolutes.

In the last half of the 20th century, various scholars observed that the way we understand and respond to certain behaviours is more a reflection of how society is structured than an indication of inherent problems with individuals who were labelled as criminal. In the 1940s, for example, Edward Sutherland introduced the concept of white-collar crime and, in the process,

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challenged the prevailing notion that crime was uniquely a lower-class phenomenon. Other critical scholars followed, exploring the definition of crime and its control, revealing considerable gaps and tensions between the written law and law as it is lived and enforced.

An interesting example is the American anti-marijuana legislation of the 1930s. Study has shown that criminal justice officials effectively manufactured a crisis over the nature and extent of drug use, despite the fact that drug use was actually rare at the time (Becker, 1963). Stanley Cohen's study (1980) of the sociology of deviance supported the proposition that definitions of crime are not objective. Cohen noted that, if we characterize a group and their behaviour as a threat, and if this characterization is supported through media accounts and professional claims, then we are likely to respond accordingly, despite the fact that the nature and extent of the concern may be more apparent than real.

More recently, feminist scholarly research has shed light on the fact that definitions of crime fail to consider the experiences of women. "[Over the last 20 years,] feminism has made considerable inroads in challenging us to reconsider the traditional approaches to understanding the law-society relation as well as the claims that law itself makes in its Official Version" (Comack et al., 1999: 44). Scholars studying race issues have also drawn our attention to systemic biases within criminal justice processes, noting that conceptions of crime and its control do not include the voices of non-whites. Similarly,

our attention has been drawn to the importance of understanding the colonization of Aboriginal peoples when examining their over-representation in the criminal justice system. As a body of knowledge, studies of these types remind us of the contextual nature of

unwanted behaviours. There are several issues and trends that underscore the importance of addressing these issues. First, as Garland (2001: 120) suggested, there is "an emerging distinction between the *punishment of criminals* which remains the business

What are the legal, social, and cultural factors that influence the decision to criminalize or not criminalize unwanted behaviours?

crime and its control, and highlight the fact that experiencing conflict with the law is often inversely related to one's social standing.

In the past, the Law Reform Commission of Canada has argued that criminal law ought to be "pruned" to distinguish "real crimes" and public welfare or administrative wrongs. The label of crime, it was argued, should be reserved for "wrongful acts seriously threatening and infringing fundamental social values" (Law Reform Commission of Canada, 1976). Similarly, in 1982, the Department of Justice, in *The Criminal Law in Canadian Society*, suggested that criminal law should be reserved for the most "serious" harms, and we need to consider whether other, "less coercive" response strategies would be more appropriate for given unwanted behaviours (Government of Canada, 1982).

Why Is It Important to Ask What is a Crime?

The Law Commission's discussion paper is designed to provoke thoughtful reflection both on the role of law in our society and the ways in which we think about, and deal with,

of the state (and becomes once again a significant symbol of state power) and the *control of crime*, which is increasingly deemed to be 'beyond the state' in significant respects." The range of options now available for dealing with unwanted behaviour (e.g., restorative justice and various community-based programs) is considerable. What does this distinction mean for how we perceive, and respond to, crime? When and how is the use of criminal law and the formal legal justice system deemed appropriate? What bases do policy-makers use or should they use to negotiate this difficult terrain? These fundamental questions are raised throughout the discussion paper.

A second reason for returning to the question of what is a crime concerns the dominance of the crime control discourse in both popular culture and criminal justice frameworks. As noted above, discussions about what to do about crime occur frequently in contemporary Canadian society. Newspaper articles, community-level discussions and policy-makers have expressed a perceived need for harsher criminal sanctions. Garland (2001: 10–11) observed that "the background

affect of policy is now more frequently a collective anger and a righteous demand for retribution rather than a commitment to a just, socially engineered solution.”

The problem with the law and order agenda is that it does not reflect what research tells us about the nature and extent of crime in contemporary society. “Every piece of criminological evidence available to us shows that the [law and order] rhetoric is, quite simply, wrong” (Menziez et al., 2001: 12). In addition, there is a profound imbalance of justice in terms of who is criminalized as a result of this criminalization discourse.

A third trend is the blurring of the lines between the public and private realms. For many observers, the formal control of unwanted behaviour is no longer within the sole purview of the state. For example, the privatization of various criminal justice system functions is very much part of the Canadian criminal justice discourse. “Public sector agencies (prisons, probation, parole, the court system, etc.) are now being remodelled in ways that emulate the values and working practices of private industry” (Garland, 2001: 18).

The Law Commission of Canada What is a Crime? Project

The goal of this project is to develop an analytical framework for understanding the processes that both underlie and inform responses to unwanted behaviours, including the effects of choosing various response

and control mechanisms (e.g., the formal legal process, regulatory codes, health and education programs). Why are certain behaviours criminalized while others are not? What are the legal, social, and cultural factors that influence the decision to criminalize

or not criminalize unwanted behaviours? Why are certain behaviours considered a legal, health, educational, or lifestyle issue? What are the consequences of responding or not responding in certain ways to unwanted behaviour?

Over the next several months, the Commission will consult with Canadians to gather their comments and feedback for the What is a Crime? project. The Commission will also begin a program of interdisciplinary research that critically examines the factors contributing to the definition of criminal behaviour, and the mechanisms and techniques employed in response to certain activities. Details about the Commission’s What is a Crime? project, including information about its consultation process and research agenda, can be found on the Commission’s Web site <www.lcc.gc.ca>. Accessed June 12, 2003.

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Corporate Social Responsibility for Sustainable Development

**Jim Frehs,
Allison Christie Sajan,
and Mark Pearson,
Natural Resources Canada ¹**

With the acknowledgment that business plays a fundamental role in job and wealth creation in society, CSR is the way in which a company achieves the integration of economic, environmental and social imperatives to achieve sustainable development, while addressing stakeholder expectations and sustaining shareholder value.

The authors are with Sustainable Development and International Affairs at Natural Resources Canada.

Jim Frehs is Assistant Director, Allison Christie Sajan is a Policy Analyst, and Mark Pearson is Senior Director.

In 2001, Natural Resources Canada (NRCan) championed a proposal for an interdepartmental policy research study on corporate social responsibility (CSR) that was endorsed by the Policy Research Initiative's Sustainable Development Project and North American Linkages Project. The launching of the study, Corporate Social Responsibility: Lessons Learned, reflects growing awareness of the CSR concept and the important impact this can have for Canadian companies and for public policy/program development.

Corporate social responsibility does not have a standard definition or a recognized set of specific criteria. Many companies use different terminology to define their practices, such as corporate sustainability, corporate responsibility, corporate accountability or corporate sustainable development. With the acknowledgment that business plays a fundamental role in job and wealth creation in society, CSR is the way in which a company achieves the integration of economic, environmental and social imperatives to achieve sustainable development, while addressing stakeholder expectations and sustaining shareholder value.

The Brundtland Report has defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987, *Our Common Future*, Oxford University Press, p. 43). In this sense, CSR can be viewed as the business contribution to sustainable development. A key feature of the concept is how the business community engages shareholders, employees, customers, suppliers,

governments, non-governmental organizations, international organizations and other stakeholders.

Objectives of the Study

The purpose of the study was to review and analyze the many national, North American and international approaches to CSR, to inform public policy development for advancing the potential applicability of industry best practices to smaller and medium-sized companies, and larger firms further behind on the learning curve. The final document, to be released in the fall of 2003, will include recommendations to policy-makers on how to advance CSR in Canada.

Methodology

An interdepartmental working group was established to oversee the study, including the development of a framework. The working group established a list of 10 companies for review, following an initial screening of 55 candidate companies. Telephone interviews were used to conduct the survey with spokespersons from participating firms. The spokespersons included those involved in public affairs, environment, health and

Members of the Interdepartmental Working Group

- Environment Canada
 - Fisheries and Oceans
 - Foreign Affairs and International Trade
 - Industry Canada
 - Natural Resources Canada (chair)
 - Policy Research Initiative
 - Transport Canada
-

Companies Participating in the Study

- CPR
- DuPont
- Home Depot Canada
- Husky Injection Moulding
- Nutreco Canada (Marine Harvest)
- Syncrude
- Teck Cominco
- TELUS
- VanCity Financial
- Weyerhaeuser Canada

safety, corporate development, values and ethics, community relations, and corporate sustainability.

The framework for the study was based on a modified version of the Canadian Business for Social Responsi-

bility (CBSR) guidelines for CSR. These guidelines outline key program areas where companies practising CSR should be active. The study proponents selected this framework, and each participating company was asked to highlight the program areas where they were particularly strong. For this study, the program elements that support CSR are defined as community relations, governance and ethics, customer or product stewardship, employees, reporting and communications, stakeholder engagement, environment, shareholders, and supplier management.

The questionnaire focused on the business drivers for adopting CSR and the successes and challenges in implementing CSR. A more salient question involved the potential role of the federal government in advancing the adoption of CSR.

Drivers for CSR

- Corporate reputation and enhanced brand image
- Earn and maintain social licence to operate
- Establish or improve reputation with investors, bond agencies, and banks
- Reduce and manage business risks
- Employee morale and productivity
- Attract and maintain employees
- Competition for access to resources
- Access to markets/customers
- Corporate values: “the right thing to do”
- Meet changing stakeholder expectations
- Cost savings/improve the bottom line
- Improved relations with stakeholders/dispute resolution/issues management
- Provide valuable input to strategic planning, as well as a better understanding of sustainability issues facing the company
- Stimulate innovation and generate ideas
- Expedited permitting/improved relations with regulators

Key Findings

The Drivers for CSR

For companies, the business case for becoming involved in CSR is quite clear. The risks of not getting involved in CSR are also clear. A number of benefits and drivers for CSR were identified by companies during the interviews. Generally, these can be grouped against the program elements that were defined under the CBSR framework that was used.

The text box, Drivers for CSR, indicates what is driving companies to adopt CSR. At the top of the list is managing risks to gain access to resources and earn/maintain a licence to operate. Working with stakeholders to meet their expectations demonstrates a commitment to sustainable development and indicates that business has aligned its corporate values accordingly. With this in mind, a company is in an ideal position to report on its progress and demonstrate to its shareholders that investing in sustainable development can pay off in the long run, due to decreased delays in project approval, public relations problems and damaged reputation. Such values also resonate with employees as there is evidence this leads to improved staff morale and helps a company attract and retain high-quality employees.

Implementing CSR

There are a number of success factors and challenges that companies address when implementing CSR practices. The Success Factors/Challenges text box on the following page lists issues that were identified during the interviews.

Clearly, success in managing the change to a CSR organization involves a commitment from senior management, providing the skill and

incentives for employees to make the change, and having the resources in place to make it happen. Finally, ensuring the proper data collection and reporting is undertaken helps to move an organization along. Those that have taken action to address CSR have also hurdled some of the challenges identified. These success factors and challenges have important implications for governments as they determine the appropriate policy mix to stimulate business organizations to adopt CSR.

The Role of Government in Supporting CSR

Companies were asked what they thought might be potential roles for the federal government to advance the implementation of CSR. The Potential Roles of Government text box identifies the main roles noted during the interviews.

Given the diversity of responses, it is clear companies see a role for government to facilitate the adoption of CSR within Canada. The results from this series of questions will be useful for federal departments as they explore and define their respective roles in the context of CSR.

Conclusions

This study was conducted within the context of an increased understanding by stakeholders that the role of the corporation in society is changing. Evidence from the case studies, and recent and emerging national and international standards and guidelines, indicates stakeholders have expanded their expectations for social and economic performance. Recent corporate failures have raised the level of awareness of corporate governance practices and CSR.

Success Factors

- Vision and high-level commitment to CSR
 - Skills and tools
 - Incentives, motivational factors and employee buy-in
 - Adequate resources
 - Information and data
-

Challenges

- Developing the business case
 - Performance measures
 - Levelling the playing field with others in the sector
 - Ensuring continuity
 - Breaking old habits
-

When this increased awareness is coupled with the need to maintain or increase competitiveness in the global marketplace, the potential for change within the context of sustainable development becomes all the more relevant. While many companies are taking proactive approaches to CSR, it is clear from this study that implementing CSR represents a significant change-management challenge.

The findings of the study will help inform public policy development to advance sustainable development through corporate social responsibility.

Notes

- 1 The authors are employed in the Corporate Policy and Portfolio Co-ordination Branch of Natural Resources Canada under the direction of Patricia McDowell. They would like to extend their thanks to Ramona Baksh, John Besley, Roy Brooke, John Chibuk, Shawna Christianson, Paul Halucha, Lise-Aurore Lapalme, Stephen LeClair, Diane McLaughlin, Craig Millar, Andrea Moffat, Kris Nanda, and Alisa Postner of the Interdepartmental Working Group, and Five Winds International. For further information on the study discussed in this article, contact Jim Frehs at (613) 992-3863.

Potential Roles of Government (by company response in decreasing order)

- Act as a role model: communicate what government is doing
 - Disseminate best practices
 - Develop and support programs that help companies with CSR
 - Recognize and reward companies that are leaders in CSR
 - Clarify what CSR means; expectations
 - Promote interdepartmental co-operation and co-ordination
 - Help define the business case for CSR
 - Encourage public reporting on economic, social and environmental performance
 - Help brand Canada as a leader in CSR
-

Federalism and Transborder Integration in North America

**Laura Macdonald
and Andrea Rounce,
Carleton University**

Canada has never been more economically integrated with the United States than now, yet at the same time, in terms of tax structures and social systems, Canada has never been so different from the United States.

Laura Macdonald is Associate Professor of Political Science at Carleton University. Andrea Rounce is a Ph.D. candidate in political science at Carleton University.

Organized by the Centre on North American Politics and Society (CNAPS) at Carleton University, the Federalism and Trans-Border Integration in North America conference was held on February 7 and 8, 2003, in Ottawa. The conference grew out of a need identified by the organizers to examine the political and social implications of the deepening North American continental integration.

A full report of the conference is available on the Web site of the Centre on North American Politics and Society, Carleton University <www.carleton.ca/nac>. Accessed June 12, 2003.

Understanding Integration and Federalism

In his keynote address, Richard Simeon, University of Toronto, laid out three competing hypotheses about the effects of North American integration on Mexico, Canada, and the United States. These three hypotheses shaped much of the following discussion.

Hypothesis 1

The effects of integration are centrifugal, disintegrating, and decentralizing in all three countries.

Hypothesis 2

The effects of integration are centripetal, homogenizing, and centralizing.

Hypothesis 3

Political change is produced primarily by domestic forces rather than external forces, and thus changes in federalism must be understood in terms of domestic forces.

Stressing the importance of economic integration for the three countries, Simeon noted how pressures to integrate are mediated by the institutions of federalism. Emphasizing that North American integration is occurring (albeit unequally in the three countries), he argued that integration itself is not a major source of change in federalism. However, pressures from provinces or states and cities for more participation in any future negotia-

tions would likely accompany pressures for further integration.

Federalism in Canada, the United States, and Mexico

Numerous participants discussed the fact that while the three countries of North America are all formally federal, federal principles are implemented in very different ways. In this regard, Robert Finbow, Dalhousie University, provided the example of revenue distribution in the three countries. In Canada, the federal government uses equalization payments as the means of redistribution to the regions. The United States normally establishes national standards and requirements for the allotment of resources. In Mexico, redistribution was once done in terms of income per capita; now poor states receive more funds than wealthier states.

Regions and Institutions of Governance in North America

According to Robert Stumberg, Georgetown University, trade negotiations do not necessarily threaten federalism, and legislative oversight can be developed to ensure that institutions of federalism remain strong. As an example, he presented the case of the Forum for Democracy and Trade, a national network helping specific American states cope with the economic effects of trade policy while safeguarding governing authority.

Kathy Brock, Queen's University, examined the development of dialogue among sub-national governments and between sub-national governments and local communities. She remarked that there is no communication among communities on the effects of trade agreements, that citizen dialogue is given minimal attention, and there is no replication of this dialogue in international agreements. Similarly she noted that, in Canada and the United States, issues arising from communities having Aboriginal, linguistic, or cultural minorities are absent from decision making around international agreements, in which business interests tend to dominate.

Ken McRoberts, Glendon College, York University, focused on the construction of new institutions of governance among regions. Considering that Canada, Mexico, and the United States are federal regimes, an opportunity exists to integrate activities across regions at sub-national levels. He examined the processes of integration in Europe, using the example of Catalonia. Taking advantage of the "Europeanization" of Spain, the Catalanian government developed an autonomous trade policy beyond the national state.

However, McRoberts noted that national states continue to be important limiting factors on the capacity of regions to build multi-level governance relations. He concluded that there is no significant political and economic integration among regions beyond national states. Although there is an increasing exchange of information among regions, multi-level governance is still uneven in Europe and uncertain in North America.

Federalism and Social Policy in an Integrating Region

Several presentations examined the interface between federalism, integration, and social policy. While not all participants in the meeting would agree, several presenters did seem to support Richard Simeon's Hypothesis 3, the idea that there is no direct relationship between integration and public policy, and that the three states of North America do contain considerable room for manoeuvring and policy autonomy.

Kent Weaver, Brookings Institution, commented that there are many difficulties associated with analyzing the relationships between regional integration, federalism, and social policy. Each variable is complex in itself, and trying to establish causal links between these variables is very challenging. Weaver observed that regional integration has an impact on federalism, while both federalism and regional integration have an effect on social policy. Nevertheless, he concluded that the effects of regional integration on social policy seem to be mostly indirect, and not very consistent across sectors.

Alain Noël of the Université de Montréal, addressed the impact of economic integration on federalism and social policy in Canada, with an emphasis on the Quebec experience. He argued that empirical evidence suggests the provinces are strengthened through a greater decentralization of social policies in a federal system. He noted that the evidence shows there is no convergence of policies between Canada and the United States, and thus no impact on federalism. Based on these arguments, Noël has observed what he called the paradox

of integration: Canada has never been more economically integrated with the United States than now, yet at the same time, in terms of tax structures and social systems, Canada has never been so different from the United States. This situation is due, in part, to the fact that increased continental economic integration has provoked a reaction by Canadian domestic actors who claim the need for protection within the Canadian federation.

Gerald Boychuk, focused on two general questions: how has economic integration affected the Canadian federal system through its impact on social policy, and, how does federalism shape social policy as a response to economic integration? Considering the patterns of social policy convergence along cross-provincial and cross-border lines, he agreed with Noël that there is a paradox of convergence. It becomes evident when the impact of centralization and decentralization on social policy is examined. Boychuk described the paradox of convergence, highlighting the importance of jurisdictional mix and policy patterns.

Conclusion

The conference highlighted the importance of taking into account the relationship between economic integration and the mechanisms of governance at the national and sub-national levels. This perspective is of particular importance in the North American context in view of the federal structure of all three NAFTA governments. Increased economic integration has multiple implications for sub-national entities, providing new opportunities on governance issues, one example being on ways to accommodate and encourage diversity.

Immigration: Our Identity, Our Business, Our Choice Impressions of the Sixth National Metropolis Conference

**Jean Lock Kunz,
Policy Research Initiative**

Instead of focusing on how quickly immigrants outperform Canadian-born workers in terms of earnings, the benchmark should be how well they adapt and are accepted by the receiving society.

Jean Lock Kunz, Senior Policy Research Officer, is with the PRI.

The Sixth National Metropolis Conference was held in Edmonton from March 21 to 24, 2003.

With 18 percent (or 5.4 million) of its population born outside the country, Canada has the second highest proportion of foreign-born population among Organization for Economic Cooperation and Development (OECD) countries, second only to Australia. In the 1990s, over two million individuals were admitted as permanent residents to Canada, and the majority of them lived in the census metropolitan areas. Our cities have become more diverse in language, ethnicity, and religion. Immigration and cultural diversity are two key elements of the Canadian identity. The Honourable Denis Coderre, Minister for Immigration and Citizenship Canada, observed that, as Canada continues to look to immigration as an important source of labour force and population growth, immigration will be a central piece of government policy.

Minister Coderre emphasized that immigration is everybody's business. Developing the blueprint for Canada's immigration policy in the 21st century requires research as well as partnerships and collaborations among all levels of governments, stakeholders, and the public. The Sixth National Metropolis Conference brought together researchers, policy-makers, administrators, representatives of non-governmental organizations, and politicians to discuss immigration and diversity issues, and to exchange research findings and experiences on this subject.

In plenary sessions and workshops, participants shared their research and debated a number of issues, including

the concentration of immigrants in large urban centres, the integration of immigrants, and the translation of research into policy development.

Sharing the Benefits of Immigration

Immigrants mostly congregate in large urban centres especially Montréal, Toronto, and Vancouver, the so-called MTV areas. These cities thrive on the cultural vibrancy and economic vitality resulting from waves of immigration. Having witnessed the benefits immigrants have conferred on large cities, governments and communities in small and medium-sized cities outside the MTV also want to attract and retain immigrants. The challenge is how to draw immigrants to second-tier cities.

Evidence presented at the conference shows that education, employment opportunities, and settlement support are primary drivers in recruitment and retention of newcomers to small and medium-sized cities, both in Canada and the United States. The federal government has proposed a regional strategy, engaging the interested provinces and cities to develop plans of attraction, selection, and settlement according to their specific needs. One policy lever is the Provincial Nominees Program signed between the federal government and a provincial government whereby the province has a say in selecting skilled immigrants of significant benefit to its economy.

Manitoba is one province that signed such an agreement with the federal government. Its experience shows that, compared to other arrivals, those

who came through the Provincial Nominees Program have a higher level of employment and strong retention rate. Addressing regional specificity in the Canadian context represents a pragmatic and inclusive way to share the benefits of immigration more evenly across the country.

Maintaining a Sustainable Immigration Program

The economic performance of immigrants, relative to the Canadian-born population, has always been a yardstick against which immigration policies are measured. An impressive amount of research shows the deterioration in initial earnings among immigrants who arrived in the early 1990s relative to those who came earlier. The decline in initial earnings was especially evident among immigrants who were selected for their skills and education. The economic downturn in the early 1990s, and the slow recovery thereafter, were contributing factors to the poor earnings among recent immigrants. Another factor was the discounting of education and qualifications earned abroad in the Canadian labour market.

Given the concentration of immigrants in large urban centres and the difficulties recent immigrants faced in the labour market, how should Canada maintain a sustainable immigration program? One suggestion was that Canada should curb its current level of immigration. According to author Daniel Stoffman, population congestion would erode the livability and competitiveness of cities such as Toronto and Vancouver. Martin Collacott of the Fraser Institute felt there was no magic formula for Canada in

managing diversity, even though we share the hope in a diverse society. Diversity could be too much of a good thing, a potential source of social and political tension. Collacott also called for a balanced approach to immigration: mindful of the attitudes of the receiving cities on the one hand, and recognizing the needs of newcomers on the other.

Another subject of debate centred on the economic rationale for large-scale immigration. On the one hand, some argued that Canada should not rely on immigration to solve the issues of skills shortages and population aging. Stoffman maintained that baby boomers are still working and their children will soon enter the labour market. The Aboriginal population is exploding especially in the Prairie provinces. It would be wise to educate those already in Canada rather than look for talents elsewhere. Others also cautioned about the moral ramifications of immigration. Canada may reduce its skills shortage at the expense of developing countries that are losing highly qualified workers.

On the other hand, researchers such as Peter Li of the University of Saskatchewan, argued that Canada could not afford to reduce the level of immigration based on fear of potential problems. While immigration is not the panacea to population aging and skills shortages, it could mitigate these issues. The writing is on the wall. Some sectors, such as education and health care already face skills shortages. Moreover, immigration is about building a future for Canada. It is futile to engineer all aspects of the outcome of immigration. Instead of focusing on how quickly immigrants

outperform Canadian-born workers in terms of earnings, the benchmark should be how well they adapt and are accepted by the receiving society.

Focusing on Integration and Social Capital

Immigration does not stop at the port of entry. It takes years for immigrants to integrate fully into the receiving society. Professor Marie McAndrew proposed that, instead of focusing only on immigration levels, it may be useful to devote more attention to integration issues. Conference participants were reminded of the humanitarian goal of Canada's immigration policy. We need to reconcile economic and humanitarian goals. All immigrants have contributed to the Canadian society and economy, although some of these benefits may take a long time to be realized.

A key determinant of immigrant integration is social capital, including networks and shared norms. Research presented at the conference pointed to the need for more exploring on the role of ethnic identity and job search, and other labour market outcomes. The Policy Research Initiative announced an upcoming conference, *The Opportunity and Challenge of Diversity: A Role for Social Capital?*, being organized in partnership with the OECD and a number of federal departments. One objective of the conference, to be held in Montréal in November 2003, is to analyze the role of social capital in immigration and diversity.

Beyond Free Trade

**Sushma Barewal,
Policy Research Initiative**

A two-day conference, *Beyond Free Trade: Strengthening North America*, was put on by the North American Forum on Integration (NAFI)¹ in Montréal on March 27 and 28, 2003.

The Montréal conference provided an opportunity to take stock of the economic benefits of the North American Free Trade Agreement (NAFTA) to Canada, the United States, and Mexico, and to consider how best to deepen and broaden the North American integration process in political, social, and economic spheres. Presenters and participants represented diverse groups and organizations, including industry, academics, non-governmental organizations, various levels of government, diplomats, and politicians.

At the conference, Michael Gadbow (Vice-President and Senior Counsel, General Electric Company) appropriately observed that “geography made us neighbours; history made us friends; and globalization made us partners.”

There is little doubt that all three countries have benefited from NAFTA. Gross domestic product (GDP), and trade and employment figures amply substantiate that observation. (Interestingly, public opinion polls show that citizens of each country seem to think the other two countries have benefited more.)

In Canada and the United States, federalism and decentralization have helped speed up the process of integration. Under federalism, autonomous entities (states and provinces) are able to take independent decisions with respect to strengthening multilateral and bilateral ties without hindrance from other states or provinces. The result has been a growth in bilateral and multilateral relationships.

Examples of sub-national multilateral ties include:

- The Pacific NorthWest Economic Region (five northwest states, British Columbia, Alberta, and Yukon), whose purpose is to coordinate provincial and state policies throughout the region;
- meetings of western governors and premiers, modelled after the grouping of New England governors and the premiers of Atlantic Canada and Quebec; and
- the Council of State Governments. Many Canadian provinces have joined regional groupings of the Council. Nova Scotia and Quebec belong to the eastern group, Saskatchewan to the mid-western group, and British Columbia and Alberta to the western group.

With respect to bilateral ties, examples include the Alberta government’s bilateral advisory councils with the governments of Montana, Idaho, and Alaska, and the Ontario government’s participation in formal consultations with governments of the Great Lakes states.

Although not an item on the conference agenda, security issues seemed to colour much of the discourse. While it was recognized that security would continue to be a dominant concern of Americans, it was also noted that Canada and Mexico are significant trade partners of the United States. For example, a very high proportion of exports from Canada and Mexico are of products made by American companies established in these countries. As a result, the United States has a vested interest in keeping the

¹Sushma Barewal, Senior Policy Research Officer, is with the PRI.

border open and in furthering integration. Moreover, the United States consumes much more oil and natural gas than it produces, and a significant proportion of that material is imported from Canada. Thus, it is in the interests of the United States to participate fully with Canada and Mexico in developing, for example, a North American energy policy.

Based on the premise that integration works better among countries that are more or less economically comparable, the question of how to close the development gap for Mexico was an important theme of the conference. Robert Pastor proposed a fund, the source money for which would come from contributions of \$10 billion per year for 10 years (90 percent from the United States and 10 percent from Canada). This proposal was not seen as feasible in the foreseeable future. Neither the United States nor Canada was considering support for such a fund at this time. Canada would likely prefer to provide support through existing institutions, such as the North American Development Bank.

Are there other ways of raising the living standards in Mexico? One proposal, by Samuel Morley of the International Food Policy Research Institute, was for the Mexican government to change its development strategy from supporting capital-intensive industries to supporting the labour-intensive sectors, such as agriculture and construction. Another proposal, from Andrés Rosental of the Mexican Council of Foreign Relations, was to invite Canadian and US companies to invest \$10 billion to \$20 billion per year for five years for the development of the energy sector in Mexico, and for Mexico to guarantee access. This initiative would lead to five or

six percent growth in Mexico's GDP, and handsome returns for investors. Advantages of this proposal are that it does not use Mexican taxpayers' money, there is no need to identify where development money should go, and there is no requirement for a constitutional change.

NAFTA partners need to consider whether to take incremental steps toward integration or to go for the "grand idea" of a common market.

Overshadowing all future development efforts in Mexico is the difficulty of implementing a significant tax reform and allowing foreign companies to participate in the development of oil and gas resources. Other impediments mentioned were corruption, and the lack of both a proper infrastructure and the financial resources to invest in development.

Given the strong support for further integration from governments and businesses in the three countries, what is the best way forward? NAFTA is an agreement that takes trade and investment from point A to point B. It does not provide a process for continued integration beyond the trade dimension, as is the case in the European Union. NAFTA partners need to consider whether to take incremental steps toward integration or to go for the "grand idea" of a common market. In the current environment, participants agreed that it would be more practical to opt for the former approach.

Incremental steps could be taken in areas, such as regulatory co-operation, labour mobility and immigration, and trade remedy and dispute resolution,

while keeping in mind the long-term goals of a common market or a common external tariff. It would not be necessary to move on a trilateral basis on all issues. Progress could be made bilaterally, depending on the readiness of the countries. It was noted that from an American business

perspective, NAFTA is a done deal, and other trade issues are on the radar screen, such as World Trade Organization negotiations and the trade deficit with China. Furthermore, US national security is the issue that permeates all US positions.

The conference raised many questions requiring further research. These questions will no doubt help shape the agenda for next year's conference, which will be held on April 26 and 27, 2004, in Monterrey, Mexico.

Notes

- 1 NAFI is a non-profit organization devoted to developing North American dialogue and networks by arranging meetings between major stakeholders in the political, private-sector, labour union, and academic circles in the three NAFTA member countries.

North American Linkages – Roundtable Discussion

**Robert (Bob) Kunimoto,
Policy Research Initiative**

Canada has no choice but to take a more comprehensive, proactive approach with regard to its relationship with the United States.

The Policy Research Initiative hosted a roundtable entitled North American Linkages: Focusing the Research Agenda, in Ottawa, on April 4, 2003.

The roundtable of leading experts on North American relations from government, the private sector, and the research community discussed potential initiatives that may, in the current North American policy environment, allow Canada to enhance the benefits deriving from economic integration. The issues discussed, which had been identified through extensive prior consultations, included international regulatory cooperation, trade initiatives, labour mobility, and the emergence of trans-border regions.

The morning sessions provided context, and featured presentations on current Canada–US relations, the rationale for deepening linkages with the US, and the risks of continued integration. The afternoon sessions explored potential research initiatives that could inform policy discussions and assist in the creation of a framework for further research.

Canada–United States Relations: The Political Context

The roundtable opened with an assessment of the state of Canada–US relations in the contemporary, rapidly evolving geopolitical context. The general sentiment expressed by participants was that the current frictions were pronounced, but likely of a short-term nature. Participants agreed that, considering the importance of the American market for the Canadian economy, the Canada–United States relationship should be a source of

concern, particularly in the post-September 11 “security trumps trade” environment.

Given this political conjuncture, and the accompanying risks for the Canadian economy, most participants agreed that Canada faces an historic choice regarding its future in North America.

Does Canada Need Increased North American Integration?

It was agreed that Canada has no choice but to take a more comprehensive, proactive approach with regard to its relationship with the United States. We need to work toward enhanced integration, particularly by way of convergence of rules and regulations, while endeavouring to maintain those national elements of distinct importance to Canadians.

To move the agenda forward, Canada needs ideas that will be compelling both to Canadians and the United States. In this regard prescriptive policy directions were suggested, including the following.

- *Reinvent borders* by moving toward the elimination of barriers to the movement of goods and people within North America and, in turn, shift the security emphasis to the protection of approaches to North America as a whole.
- *Implement a natural resources security pact* covering agriculture and forest products as well as energy, metals, and minerals, based on the core principles of open markets and regulatory compatibility.

Robert (Bob) Kunimoto, Senior Policy Research Officer, is with the PRI.

- *Maximize economic efficiencies* through harmonization or mutual recognition across a wide range of regulatory regimes.
- *Rebuild defence* with the objective of developing the capability to make a significant contribution to the enhancement of continental and global security.
- *Create a new institutional framework* with the United States based on co-operation and mutual respect for sovereignty, perhaps using joint commission models to foster co-ordination, and prevent and resolve conflicts.

Potential Risks to Continued Integration

While the majority of speakers were quite persuasive regarding the potential economic benefits of continued North American integration, several urged a more cautionary approach that would look at a full range of outcomes, not just those confined to the economic domain. Concern was expressed to the effect that past decisions and path dependency have had a “ratcheting” effect, leaving little scope for reversing decisions.

Some participants noted that, given the Canadian success in maintaining Canadian sovereignty, culture, values, and identity, we should take care not to trade off the public policy tools that led to this success. Comprehensive analysis of our unique, complex, asymmetric, and bipolar relationship with the United States requires the inclusion of additional research perspectives, which would include North American, Canadian, regional, provincial, and urban viewpoints.

Several cautionary factors should be considered.

First, the Canadian and US economies have quite different structures, and may respond differently to specific policy initiatives. In addition, enhanced integration might inhibit the use of micro-policy levers.

Second, we should recognize that energy resources are limited, not only in terms of sales to the United States, but also in terms of domestic con-

Comprehensive analysis of our unique, complex, asymmetric, and bipolar relationship with the United States requires the inclusion of additional research perspectives, which would include North American, Canadian, regional, provincial, and urban viewpoints.

sumption. Both as a strategic option and a domestic factor of production, energy activities should be regulated with a view to conservation which, in turn, will provide a negotiating element in future deliberations with the United States.

Third, economic integration should not mean social integration. This point is particularly important given that broadening integration from the narrowly defined goods sector to include the services sector may very well impinge on the traditional delivery of services. This potential is particularly evident with respect to the delivery of social services within Canada.

A number of participants suggested these arguments fail to recognize that further integration is an inexorable trend, driven by market forces independent of federal policies. The federal role should be one of facilitation

(e.g., reducing transaction costs at the border). Similarly, other participants posited that we place too much emphasis on policy tools, and not enough on outcomes. There was consensus that, as a starting point, we need to identify our priorities, and, once identified, invest in them appropriately. In addition, we should recognize a decentralization of power from the federal level, with many regional jurisdictions, or other sub-national interests, negotiating transborder

agreements. This activity, while potentially productive, may affect the role of the federal government in providing national policies.

Potential Policy Initiatives Toward Integration

A research program focusing on the enhancement of North American economic integration needs to consider the recent dynamics of Canada–United States relations. In particular, this program would examine issues relating to maintaining secure access to North American economic space, co-operative approaches to North American security issues, and the identification and elimination of impediments to the full realization of the benefits from NAFTA. Many participants believe we need to move beyond NAFTA and the focus on trade in goods. The economic imperative for Canada is not only to maintain stable

access to the North American market, but to move toward an agenda that facilitates the movement of people and capital between Canada and the

US perspectives on single NAFTA-related issues, which makes an incremental approach toward addressing Canada–United States NAFTA issues

A number of participants suggested that further integration is an inexorable trend, driven by market forces independent of federal policies. The federal role should be one of facilitation.

United States. This agenda promotes trade in higher value-added industries, such as those producing services and knowledge-based products.

Moving beyond the economic agenda, the roundtable discussions focused on the necessity of examining security from the US perspective, although within the context of an encompassing and integrated Canada–United States agenda. However, there was recognition that the policy development process regarding Canada's participation in security and border matters was well underway. The urgency surrounding security required a fast-track policy development horizon compared to the medium- to longer-term research horizon on enhanced economic integration.

The major initiative, big idea, or big step approach was discussed, the idea being that we need to capture US attention in Washington to enhance Canada–United States economic integration. There appears to be little common interest between Canadian and

problematic. The big idea could include key components such as security, trade, commerce, natural resource co-operation, mobility, and institutions.

Finally, there was consensus that the research focus on Canada and the United States is the most appropriate at this stage, since the inclusion of Mexico would result in a different set of issues, a different dynamic with the United States, and a different set of policy trajectories.

Next Steps

The roundtable provided a wide range of valuable suggestions and directions for the PRI's North American Linkages Project. Although, many of the suggestions were policy prescriptions, policy advice, or policy directions, they will be instrumental in refining the project's research framework and workplan.

The articles in this issue of *Horizons* suggest a relatively optimistic view of the effects of aging. However, the aging population is still a huge challenge. A recent C. D. Howe paper, for example, uses an analysis of age-specific productivity rates to suggest a more worrying view of the consequences of aging.

According to the study, population aging represents a serious obstacle to maintaining a healthy growth rate in Canadian living standards. The projected decrease in the ratio of working population to total population signifies that Canada will require strong labour productivity growth over the coming decades to maintain past rates of growth in output per capita. At the same time, demographic change may have a negative influence on the productive capacity of the Canadian economy.

Yvan Guillemette, *Slowing Down With Age: The Ominous Implications of Workforce Aging for Canadian Living Standards*, (C. D. Howe Institute, Commentary No. 182, May 2003). This commentary is available at http://www.cdhowe.org/pdf/commentary_182_english.pdf. Accessed May 29, 2003.

Raising the “R” Word

**Robert Judge,
Policy Research Initiative**

Our public education authorities have deemed it important for students to learn the capitals of the world or the elements of the periodic table, but not the Five Pillars of Islam or the Ten Commandments of the Judeo-Christian traditions.

Robert Judge is an analyst with the PRI.

On March 18, 2003, Metropolis Canada, in partnership with the Multiculturalism Program of Heritage Canada, organized a public panel, Religious Communities in Pluralistic Societies, in Ottawa. The event featured three speakers: Paul Bramadat, Assistant Professor of Religion and Contemporary Culture at the University of Winnipeg; Paul Weller, Professor of Inter-Religious Relations at the University of Derby, United Kingdom; and Cynthia Keppley Mahmood, Senior Fellow at the Joan B. Kroc Institute for International Peace Studies, University of Notre Dame, United States.

Canadians live in a liberal and multicultural society. The importance we attach to our freedom to conduct our lives in all their diversity, including religious diversity, is beyond question. To this end, many see the principle of separation of church and state as essential to our religious freedom. In this country, discussions of religion have now been largely set aside from public discourse and state activities, even while religious activities continue to play an important role in the private lives of many Canadians.

Each panellist challenged the absence (or superficial presence), of religion within the public discourses of their respective countries (Canada, the United Kingdom, and the United States).

Paul Bramadat suggested we examine the implications of the presence of religious Canadians in a pluralistic society that has largely pushed religious discussions out of public arenas. Our public education authorities have deemed it important for students to learn the capitals of the world or the elements of the periodic table, but not the Five Pillars of Islam or the Ten Commandments of the Judeo-Christian traditions. This has led to many naïve or ill-informed assumptions about religious faith within Canada. It also makes it difficult to reach out to religious communities that feel cut

off from, or even in opposition to, “mainstream” secular attitudes and understandings.

Bramadat also warned of “reductionism” that too often characterizes public discourse on the religious aspects of events that thrust themselves onto the public agenda. For example, in the wake of the events of September 11, a “bad” form of reductionist argument might represent all Muslims as potential “fifth-column” terrorists in disguise. While policy-makers in Canada have worked hard to eradicate this form of reductionism, Bramadat suggested we too often witness reductionism of the “good” kind: all violence or harm perpetrated in the name of religion, as in the history of Christian residential schools for Aboriginal students. Instead, Bramadat suggested we need a more nuanced understanding of the role religious faith plays in the motivations of those who do harm. Similarly, he suggested that, in a pluralistic society, we need to be able to discuss religion intelligently in our public discourse, rather than ignoring or misunderstanding the importance of this enduring aspect of human civilization.

Paul Weller presented a number of arguments about the connections between religion and the public spheres, drawing in particular on his studies of religion, state, and society in the United Kingdom. Weller’s first

thesis, echoing concerns raised by Bramadat, is that states that treat religion as a private matter, as opposed to engaging in a frank public discourse on the various roles and positions of religious faith, are depriving themselves of social resources to reach out

Amritsar, India, in which the Sikh militants who sought refuge in the temple were labelled “terrorists” by the Indian government. Mahmood contends that the framing of these militants as “terrorists” as opposed to “criminals” led to a massive military operation

States that treat religion as a private matter, as opposed to engaging in a frank public discourse on the various roles and positions of religious faith, are depriving themselves of social resources to reach out to faith communities and, in turn, are encouraging reactive or inward-looking religious expression.

to faith communities and, in turn, are encouraging reactive or inward-looking religious expression. Indeed, the thrust of most of his talk was to again stress the importance of a more considered and informed approach to religion in public discourse.

Weller concluded by stressing the importance of dialogue among various religious communities, the state and the wider public in pluralistic societies. He acknowledged that such discussions are likely to be messy, uncomfortable, at times divisive and even angry, but essential to the well-being of, and respect for, pluralism.

Cynthia Keppley Mahmood, an expert on Sikh militancy and the anthropological study of political and religious violence, also stressed the importance of informed and nuanced public discussion of religious activity. Too often we reduce complex events and motivations to simplistic and inaccurate labels that may, in turn, result in policy responses that are inappropriate, if not extremely harmful.

As an example, she pointed to the 1984 Golden Temple episode in

incommensurate with the simple capture of the militants sheltering in the temple. The military crackdown on the Sikh community, in turn, was extremely destructive of relations between Sikhs and the state in India.

Mahmood suggested declaring a broad but vaguely defined war on terror in the wake of the events of September 11 has resulted in a blunt response that may not be well calibrated to the long-term establishment of peace and security.

Thus, each presenter lamented the lack of anything but a superficial understanding of religion in our public discourses, and they all called for more informed and nuanced understandings of the place of religion and religious activity in pluralistic societies.

They each make a compelling case. The challenge is to think through how we might have more informed public discussions of religion while respecting the separation of religious belief from public policy that is the cornerstone of our religious freedom.

Canada's Religious Make-Up

“Seven out of every 10 Canadians identify themselves as either Roman Catholic or Protestant, according to new data from the 2001 Census. The census showed a continuation of a long-term downward trend in the population who report Protestant denominations. The number of Roman Catholics increased slightly during the 1990s, but their share of the total population fell marginally. At the same time, the number of Canadians who reported religions such as Islam, Hinduism, Sikhism and Buddhism has increased substantially. Much of the shift in the nation's religious make-up during the past several decades is the result of the changing sources of immigrants, which has contributed to a more diverse religious profile. As well, many major Protestant denominations that were dominant in the country 70 years ago, such as Anglican and United Church, are declining in numbers, in part because their members are aging and fewer young people are identifying with these denominations. In addition, far more Canadians reported in the 2001 Census that they had no religion. This group accounted for 16% of the population in 2001, compared with 12% a decade earlier.”

From Statistics Canada, “Religions in Canada”. Available at <http://www12.statcan.ca/english/census01/Products/Analytic/companion/rel/canada.cfm>. Accessed May 29, 2003.

Addressing the Lack of Data on Our Aging Population

By Christian Dea,
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Existing surveys lack consistency, making it difficult to use the available information for policy research and analysis purposes.

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As the population ages, there will be a major reallocation of resources in the economy and the labour market

As aging baby boomers retire over the coming decades, there may be major structural changes in terms of employment supply and demand. The potential impacts of an aging population include a major change in household saving and spending patterns and a decline in the relationship between producers and consumers. These pressures will likely affect the behaviour of individuals and businesses, manufacturing patterns, and human resource allocation in the economy.

The aging population raises major socio-economic, financial, and inter-generational issues as well as public policy challenges. To deal with these issues properly, we need tools in place that will let us closely monitor changes in current labour market conditions and transitions to retirement, and conduct research, strategic policy analysis, and program evaluation. Research and policy analysis are necessary for understanding the socio-economic, financial, and other factors that influence retirement incentives and older workers' attachment to the labour market.

Current surveys are incomplete

There are many sources of high-quality data concerning the labour market, the workplace, social activities, health, and sources of employment income. Primary sources of data include the Labour Force Survey (LFS), the Survey of Labour Income Dynamics (SLID), the Census, the Workplace and Employee Survey (WES), the Longitudinal Administrative Databank (LAD),

the Survey of Financial Security (SFS), the General Social Survey (GSS) and the National Population Health Survey (NPHS). Recent studies using existing data have led to only partial and incomplete analysis and research results, for the following reasons.

- Key information on older workers and senior citizens is lacking, particularly with respect to such factors as total household wealth and its composition, health insurance coverage, plans and reasons for retirement, and arrangements to make the transition from work to retirement. In addition, the sample size for studying target groups, such as workers aged 45 and over, senior citizens, and some professional groups, is insufficient.
- Existing surveys lack consistency, making it difficult to use the available information for policy research and analysis purposes. For example, the surveys are not comprehensive. Each focuses on a specific theme, and the relevant information is scattered among the surveys. It is also difficult to compare the information since the surveys cover different time periods and populations. Lastly, the data are not sufficiently longitudinal. It is therefore difficult to follow the paths leading from work to retirement.

A data strategy reflecting the importance of the issues

We suggest a two-part strategy to meet short-term needs initially and then medium- and long-term information needs.

The first phase would consist of modifying existing surveys by increasing the sample size and adding question modules to meet information needs. For example, the sample for SLID could be increased and information

added on household wealth, health insurance coverage, and plans for retirement. The LFS could also be modified to better reflect certain monitoring issues concerning the labour market for older workers and transitions to retirement. Working with existing surveys would be less expensive and would make it possible to respond quickly to certain public policy issues over the short term.

Key information on older workers and senior citizens is lacking, particularly with respect to such factors as total household wealth and its composition, health insurance coverage, plans and reasons for retirement, and arrangements to make the transition from work to retirement.

However, there are many disadvantages to focusing solely on meeting these short-term needs. In particular, it is difficult and possibly expensive to increase substantially the sample size and the number of questions in existing surveys. The quality of the data could also be affected. Given this constraint, existing surveys would remain incomplete.

To address the lack of information over the longer term, the second phase would involve developing a thorough longitudinal survey specifically targeting older workers. Several countries have taken this approach, including the United States with its Health and Retirement Study (HRS), the United Kingdom with the English Longitudinal Study on Aging (ELSA) and the European Union with the Survey of Health, Aging and Retirement in

Europe (SHARE). These countries invested in developing thorough longitudinal surveys of older workers and senior citizens to better understand the issues associated with retirement and the health of this target population.

The American model (HRS) could serve as a reference and make comparisons easier with other industrialized countries, such as the United

Kingdom (ELSA) and the European Union (SHARE). Developing a longitudinal survey of older workers would make it possible to compile information directly linked to the issues surrounding aging and to monitor closely the transition of older workers to retirement and their activities during retirement. The costs of reproducing this type of survey or other survey models should be assessed, but this second project phase would likely be more expensive than the first.

We are working with various government stakeholders and Statistics Canada to assess the needs, technical issues, and financing involved in improving and developing surveys. We are also interested in developing partnerships with other stakeholders and organizations to study these issues.

Researchers and policy-makers are taking a new look at public policies to find broader grounds for assessing their economic and social impacts on individuals, families, communities, and nations. John Helliwell's *Globalization and Well-Being* introduces new research on social capital and well-being, and applies it to key issues facing individuals and governments in the age of globalization.

Helliwell first looks at the latest evidence about the extent to which globalization has altered the scope and salience of nation-states. He then deals with the implications for both domestic and international policies. Throughout the book, the author emphasizes well-being as an explicit focus for research and for public policies. He argues that, whatever one thinks of globalization, there is ample scope for countries like Canada to retain their distinctive qualities, and still have independent national and international policies.

Globalization and Well-Being was the winner of the 2002–03 Donner Prize for best book in Canadian Public Policy.

John F. Helliwell, *Globalization and Well-Being*, (Vancouver: UBC Press, 2003).

Moving to a Better Understanding of Skill Use in the Workplace: The Employee Skill Assessment Survey Proposal

**David Wallace,
Human Resources
Development Canada**

David Wallace is a Senior Research Officer for the Workplace, Skills & Productivity Studies Group at Human Resources Development Canada.

A vast body of empirical research links human capital to earnings and productivity. Most of this work, however, relies on indirect measures of human capital, such as years of schooling, credentials received, and occupation. Research using more direct measures, namely literacy and numeracy skills, has shown that human capital proxies do not capture the true variation in skills across individuals. An individual's education level does give an indication of that person's human capital, but not all of those with the same education embody a similar level of human capital. Taking measures of literacy and numeracy skills, in addition to educational attainment into account, yields a better measure of the human capital spectrum.

Literacy and numeracy are key elements of human capital. Literacy refers to a broad set of information-processing competencies needed to function in advanced industrialized economies. It is the ability to understand and employ printed information in daily activities at work, home, and in the community. Numeracy refers to the knowledge and skills required to apply arithmetic operations to numbers embedded in printed materials, as well as the knowledge and skills required to manage effectively the mathematical demands of diverse situations. Literacy and numeracy are not conditions that adults either have or do not have. They must be measured as proficiency levels along a continuum denoting how well adults use printed and numerical information.

Literacy and numeracy skills are highly transferable, and are closely related to labour-market outcomes, including employment and wage outcomes. In addition, they influence our ability to learn new skills. (Survey data show these skills are positively associated with access to adult education and training.) So from a policy perspective, what more do we need to know?

The answer is plenty. Canada participated in the International Adult Literacy Survey (IALS) in 1994, and is now participating in the Adult Literacy and Life Skills Survey (ALL). But the information on skill demands in the workplace collected in these surveys is very limited. Are the outcomes for low-skilled employees better in workplaces with high skill demands? What role do literacy and numeracy skills play in the selection of employees by firms? What are the relationships between employee skills and workplace-level factors, such as work organization, technology use, and the competitive position of the firm? Are low-literacy immigrants concentrated in firms of a specific type? These are examples of questions that carry important policy implications with respect to economic growth, income distribution, and social inclusion that cannot be addressed with the ALL study or the IALS.

The proposed Employee Skill Assessment Survey (ESAS) could help address these questions. This unique proposal combines two existing data collection instruments: the direct assessment of literacy and numeracy skills developed for the adult literacy surveys, and the Workplace and Employee Survey (WES).

The WES is a large sample survey of the non-agricultural business sector. It is administered to about 8,000 business establishments, and then to a sample of employees within those same workplaces. In total, nearly 25,000 employees are surveyed. Topics covered in the employer survey include the firm's training activities, business strategies, work organization, innovation, and adoption of

new technologies. Examples of employee data of interest include education, work arrangements, training, and technology. Together, the employer and employee surveys provide extensive information, at the workplace level, on technological, organizational, and economic factors affecting the demand for skills.

The ESAS will administer literacy and numeracy assessments to employees who participate in the WES. Skill test results can then be linked to detailed information on employees and their places of employment. As a result, the ESAS will present policy-makers with an important new view of workplace change and skill demands. It will provide additional insight on the relationships between employee characteristics and workplace factors, and on the role of human capital in determining employee earnings and the firm's performance.

This new perspective may bring new challenges. The policy interventions necessary to achieve employment and income objectives may have to be revisited. This body of information will inform the thinking of policy-makers on government action to enhance the capacity of individuals and organizations to adapt to workplace change.

ESAS: Employee Skill Assessment Survey

Very few countries have large-scale, linked employer–employee surveys. Administering literacy and numeracy skill assessments to employees participating in such a survey would equip Canada with a unique tool to analyze the distribution and correlation of skills across workplaces and industries.

It is proposed to put ESAS into the field in 2005. About 16,000 employees would be covered; a sample of this size ensures it is representative of all industries and establishment sizes at the national level. The linked ESAS–WES data would become available in 2006.

Canadian policy-makers have to deal with the need for new modes of governance in the context of a changing global order. It is apparent, even to the most casual observer, that traditional public policy solutions may no longer be appropriate or effective.

The Art of the State brings together political scientists and economists to look at governing and governance in an increasingly globalized world, exploring ways in which democratic governance can survive. The book includes contributions on the new economic order, on international governance and Canada, on sub-national communities, on the changing nature of power and democracy, and on managing interdependence in a federal state.

Thomas J. Courchene and Donald Savoie, *The Art of the State: Governing in a World without Frontiers* (Institute for Research on Public Policy, McGill-Queen's University Press, 2003).