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- “Structural” unemployment in Canada
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## Staffing Programs for Researchers

The Economic Council of Canada has launched two programs designed to provide researchers and highly qualified Ph.D. students with an opportunity to work, for a fixed term, with Council research staff on a variety of projects.

The first program provides a Ph.D. student whose thesis topic is relevant to the Council's research program with an opportunity to write his/her dissertation at the Council. The student will receive an assignment lasting up to two years with the possibility of a one-year extension in certain cases. The Council offers two positions of this kind.

The second program comprises two options. The first option, involving a term not to exceed one year, is aimed at professors planning sabbatical leave in order to pursue their research or to undertake new projects. The second option, involving a term of at most two years, is open to professors taking leave without pay, to public service professionals, to researchers from other institutions, and to other individuals with appropriate qualifications. The incumbent's responsibilities will combine research work with the provision of advice and counsel to senior management at the Council. One position is available for each of these two options.

Brochures describing each of these programs have been sent to universities and to most research centres across Canada. Candidates interested in obtaining additional information are invited to contact the Corporate Secretary, Economic Council of Canada, Post Office Box 527, Ottawa, Ontario K1P 5V6; telephone (613) 952-1712.

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**Editor: Jean-Guy Bruneau**





Judith  
Maxwell

## Discovering trends in job structure

In this issue, we report on *Good Jobs, Bad Jobs*, a Council Statement on Employment and the Service Economy. Our research has isolated several fundamental new trends in the economy which will have profound social consequences in coming years.

We have discovered, for example, that the job structure is becoming polarized into good jobs – with high pay and relative security – and bad jobs – with low pay and little security. This new structure has an important impact on the distribution of income in our society.

We have also discovered a powerful centralizing force in the new job structure which pulls the good jobs into the metropolitan areas, thus aggravating the urban-rural disparities that have long plagued Canada.

In addition, we have learned that the strongest force behind the growth of the service sector is the growing demand from resource and manufacturing industries.

While the project thus provides a new perception of the way labour markets and industrial production function, we are aware that there is a need for ongoing research so that Canadians will be able to understand better the causes and consequences of these new trends that are helping to define their lives. It is necessary to know, for instance, just how much mobility there is between the good and bad jobs. The social consequences of an economy where people are stuck in bad jobs for a whole lifetime will be very different from one where people spend a few years in a bad job.

These issues are of particular concern to women, as you will see in the report of a speech "The Economic Role of Women" which I delivered at an International Women Day Seminar at Statistics Canada in March. Women are over-represented in the bad jobs category, and they run the most severe risk of being trapped in poverty. This has important consequences for the quality of their life and also for their children's chances of success in school and in later years.

The new geographic distribution of

jobs – with the concentration of good jobs in the cities – also raises some interesting questions. We do not know, for example, to what degree technology will make it easier or harder for the peripheral regions of Canada to generate good quality jobs. Does technology provide the means to overcome distances, to get costs down and quality up? Or, is technology yet another element of the centralizing force that concentrates new jobs in the biggest cities?

We do not know the answers to these questions, but it does seem clear that resource-based provinces like Newfoundland and Prince Edward Island must master the use of the new technologies if they are to minimize the effects of these centralizing forces. And in our current projects on local development (see *Au Courant*, Volume 10, No. 3), we have identified several situations where economically depressed communities have used technology as the lever to develop a small but successful export industry.

One of the key messages from this study is that there are strong linkages between labour market policies and industrial policies. Competitiveness, which is a big preoccupation of so many Canadians these days, will be determined by the way managers blend production, marketing, and human-resource policies. One will not succeed without the others.

Other articles in this issue touch on industrial policy from a different perspective. In our *Dialogue* column, for example, we describe the work the Council has been doing to evaluate the contribution of mergers and acquisitions to economic performance.

As we hope to do in all our projects, *Good Jobs, Bad Jobs* has succeeded in putting new information and new insights into the public debate. I am pleased to see that it is already influencing the way policymakers are thinking about social and economic issues here in Canada. To me that is a sign that the Council is doing its job. It shows, once again, the power of ideas.

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# Trends in the service economy

*No longer can prosperity come straight out of the ground; increasingly, it must come from the minds of the Canadian people.*

In the late 1940s, 60 per cent of the Canadian labour force worked in the goods sector – natural resources, manufacturing, and construction. Today, barely one work life later, over 70 per cent of workers are employed in services.

And this dramatic shift in employment patterns is, if anything, accelerating. During the last decade, virtually all of the net job creation in this country took place in the service sector.

At the same time, another worrisome trend is emerging. The number of middle-income workers is declining and incomes are becoming more polarized around two quite distinct growth poles. One includes highly skilled, well-compensated, stable jobs, while the other – and this is the troubling aspect of the trend – consists of non-standard jobs with relatively low levels of stability, compensation, and protection. In fact, we can speak of “good jobs” and “bad jobs.” Worse, it is most often young people, women, poorly educated workers, and older workers who are found in this category.

While many are clearly doing very well through employment, the bottom line is that there is less economic security for a declining share of fewer Canadians.

services play such a central role. These principles are as follows:

- strengthen the commitment to human-resource development;
- promote economic security for workers; and
- recognize the role of services in economic growth.

## Jobs in the 1990s

The Council notes that the changing structure of employment should not be seen simply as the result of an expanding service sector. A number of other factors have played important roles, including fast-paced technological innovation, the information explosion, and economic globalization. Together with growth in the service sector, these factors feed the incessant demand for more highly skilled and educated workers.

The Council's analysis suggests that the Canadian labour market in the 1990s will be defined by the following features:

- slow growth of the work force, with an older age profile;
- increasing employment in service activities;

## “Non-standard” forms of employment

Non-standard forms of employment include part-time jobs, short-term jobs, temporary-help agency work, and own-account self-employment. These jobs are often characterized by a degree of precariousness, i.e., they tend to be poor paying, unstable, and poorly protected.

- more work with high knowledge content;
- concentration of “good” jobs in large cities;
- growth of non-standard employment forms; and, possibly,
- widening disparities in the quality of jobs and in the degree of economic security they provide for workers.

These changes will shape the education and training decisions of young people and the career patterns of the adult work force.

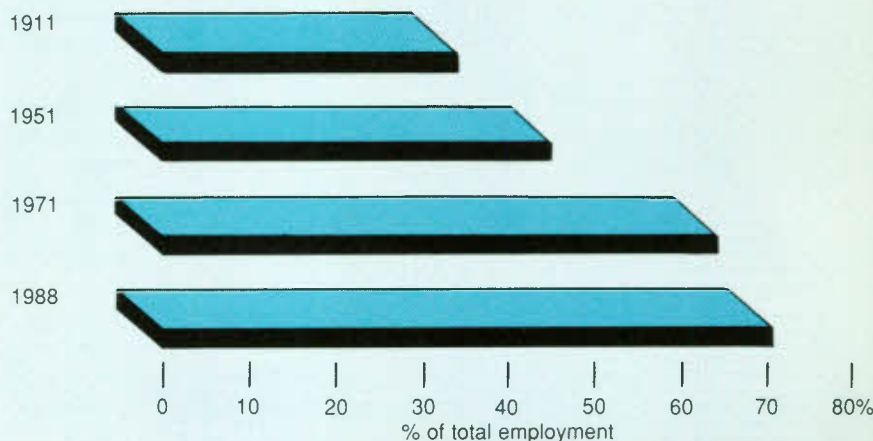
Increasingly, economic performance is closely linked to the human factor. Canadians should not expect to improve – or even maintain – their standard of living unless, as a nation, they attach a high priority to the quality of the work force. The Council argues that developing human resources through effective education and training policies is an investment in the future.

## Adjustment needed

In its Statement entitled *Good Jobs, Bad Jobs*, the Economic Council of Canada offers a detailed analysis of employment trends in Canada in recent years and concludes that government policy and institutions have not kept pace with labour market developments. Consequently, adjustment is needed – and needed quickly. This challenge will demand the concerted efforts of governments, employers, unions, and the workers themselves.

The Council identifies three general and mutually reinforcing principles that must lie at the heart of any strategy designed to achieve high employment and to maximize the contribution of human resources in an economy where

The Growth of Service Employment, 1911-88





# The rise in "nonstandard" jobs

Canadian workers' real incomes increased significantly during the late 1960s and early 1970s, peaking in 1977.

A decade later, real incomes have actually declined slightly. At the same time, earnings have become more polarized, shifting to the high and low ends of the wage scale. The result? The proportion of middle-income earners is growing smaller, and there has been a rapid expansion in non-standard, unstable and low-paying jobs, on the one hand, and highly specialized, well-paying jobs, on the other.

## The declining middle

In 1967, 27 per cent of the Canadian work force had annual earnings that placed them in the "middle-income" category. By 1986, only 22 per cent of the labour force fell within this group.

This downward trend has made itself felt in all income categories and in all regions of the country, ranging from 4 percentage points in the Prairies to 8 percentage points in Ontario.

While the growing polarization in earnings applies to families as well, it is not as evident when the distribution of total income is considered – at least not since 1973. These results, notes the Council in *Good Jobs, Bad Jobs*, suggest that transfer payments are offsetting at least some of the increasing disparity in labour income.

The Council finds it troubling that, given the present context of large budgetary deficits and mounting public debt, the social safety net could be facing an increasingly onerous burden because of the growing disparity in employment incomes.

## Non-standard jobs: part-time employment

The number of people in non-standard work forms have exploded in recent years. The most important type of non-standard work is part-time employment, defined as jobs with less than 30 working hours per week.

Part-time work rose from 4 per cent of total Canadian employment in 1953 to 15 per cent by the mid-1980s.

Since 1975, part-time work has accounted for at least 30 per cent of net job growth in every province except Alberta, Prince Edward Island, and Ontario. In Quebec and Saskatchewan, it has contributed no less than 40 per cent of new jobs.

Involuntary part-time employment – where workers would have preferred full-time jobs if they could have found them – has also been increasing and now accounts for 24 per cent of all part-time employment.

Most part-time workers are employed in the retail trade and personal services and the overwhelming majority are young or female (or both). By comparison with their full-time counterparts, part-time workers are much more likely to be short-term employees, to be employed in very small firms, and to be non-unionized.

## Short-term work

Another type of non-standard employment, short-term work (jobs of less than six months' duration), is also growing. According to the Council Statement, most short-term workers are young;

indeed, a significant number of them are full-time students. Short-term jobs are more likely to be part-time and to be situated in small firms. Short-term workers are less likely to be unionized or to be covered by a pension plan.

## Self-employment

Another growing form of non-standard work is self-employment (or, more precisely, "own-account" self-employment, where there are no employees). Council researchers discovered that 10 per cent of overall job growth during the past decade has been in this category. The own-account self-employed are most frequently engaged in traditional services, which include a wide range of sectors – hairdressing, trucking, child care, snack food, moving, and so on.

While there is a high degree of variability, their earnings tend to be lower than those of workers employed by others. In 1986, more than half of the self-employed earned less than \$10,000, compared with 27 per cent of paid workers.



High technology contributes to economic growth.



## Temporary help

Employee opportunities in temporary-help agencies have tripled in the 1980s and now stand at over 80,000. The Council Statement reports that, according to a 1988 survey, 41 per cent of such workers are engaged in this line of work because they could not find full-time jobs. Most temporary-help workers are in clerical occupations and about 70 per cent are female.

Not only are wage levels generally well below those for full-time workers, but fringe benefits are usually minimal.

## A subject of controversy

Between 1981 and 1986, these four forms of so-called non-standard employment accounted for about half of all new jobs. The increase in non-standard work has aroused a certain amount of controversy.

To some, this trend reflects the need for flexibility on the part of both employers and workers. The Council acknowledges that, in a context of rapidly changing market conditions, these forms of employment offer certain advantages. Certainly, some people consciously seek such jobs.

However, the Council's analysis shows clearly that non-standard workers



The service sector covers a wide range of industries.

generally earn less than others in full-time, more permanent jobs in the same occupations and the same industries.

The Council concludes, therefore, that the trend in favour of non-standard employment may be compromising the

economic security of growing numbers of workers. In the long run, it may even have a negative impact on Canada's sense of community.

## Refocusing

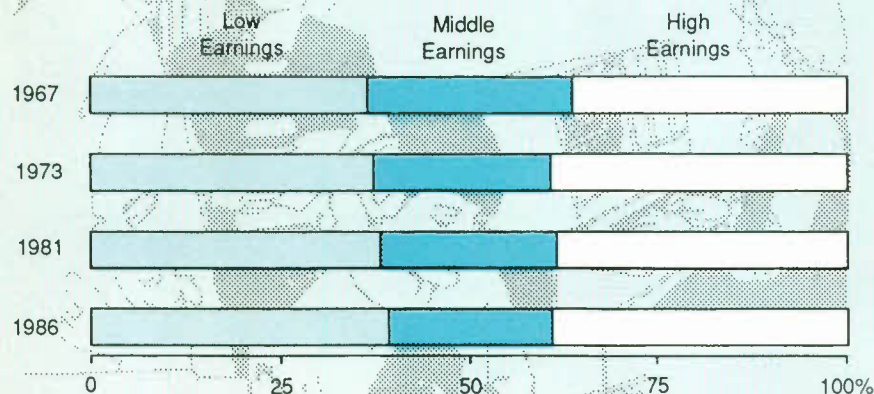
In impressing upon policymakers the need to take into account the new diversity of employment, the Council recommends that governments adopt legislation to require the inclusion of part-time employees, with an ongoing attachment to their employer, in all employee-benefit plans normally available to full-time employees. These part-time workers would receive prorated benefit.

The Council also recommends that awareness of the changing face of employment be systematically incorporated into the design of the various public benefit programs in order to ensure that workers in non-standard employment are not excluded from their benefits.

Finally, the Council urges governments to evaluate the adequacy of Canada's combined public and private pension systems in light of the marked increase in non-standard forms of employment.

### The Declining Middle

% of labour force





# What is the service economy?

In recent years, it has become clear that the neat distinction between goods and services is breaking down, that the two sectors are converging. An ever-larger volume of commercial, financial, and communication services, as well as others, is being packaged by manufacturers to form an integral part of the final product. Indeed, over the last decade, goods producers themselves have been responsible for much of the expansion that has taken place in the service sector.

The link between these two sectors has reached the point, according to the Economic Council in its Statement entitled *Good Jobs, Bad Jobs*, where goods and services have become vitally dependent upon each other.

Businesses in the resources and manufacturing sectors purchase and use services as "inputs" to their operations. Meanwhile, services help make resource and manufacturing industries more competitive by injecting "added value" into the final product.

Technological change is also blurring the conventional distinctive features of a growing number of service activities. Goods production itself is becoming more and more "service-like." Job growth in the goods sector is increasingly in white-collar occupations, which provide services such as administration, information collection and processing, research and development, marketing, and clerical work. As well, some recent innovations are endowing goods production with service-like features. The growing trend towards "bundling" training and maintenance contracts into equipment sales, for example, is also acting as a converging force.

## The service economy

The service sector includes a wide range of diverse industries and can be organized into three subsectors, each with its own distinctive characteristics and employment patterns.

The first of these groups, the "dynamic" services, includes four major industry divisions. Two of these are distribution-oriented (transportation, communication, and utilities; and wholesale trade), and the two others are commercially oriented (finance, insurance,

and real estate; and business services). These are high-value-added industries that have become more and more involved in internationally competitive markets. These services are becoming critical ingredients in the production and distribution of goods.

The "traditional" services subsector consists of retail trade, accommodation and food, and a wide range of personal services including haircutting, repairing, and amusement and recreation. These industries are traditional in the sense that they represent the old "Main Street" type of services.

The Council points out, however, that some significant changes are taking place within this subsector, most notably, the emergence of megacorporations. These are particularly in evidence in the restaurant industry, where they have introduced mass production technologies, inventory systems, and marketing techniques on a massive scale. A number of innovations have also appeared in retailing, such as self-service and at-home buying.

Despite these recent innovations, however, the traditional services remain largely isolated from the general trend towards globalization and still tend to operate in local or, at most, national markets.

The third and last subsector is composed of the so-called "non-market" services. They include workers in education, social services, and public admin-

istration. While competition has not traditionally been a significant factor in this subsector, the efficiency with which these services are produced has a direct impact on the required level of public financing.

## Why has service-sector employment grown so rapidly?

It has been claimed that growing service-sector employment simply reflects the poorer productivity performance of this sector relative to the goods-producing sector, or that the demand for services has simply grown as incomes have risen and as more women have entered the work force.

The Council believes, however, that these factors have likely accounted for only a small part of the shift to services.

While acknowledging that identifying the reasons behind the rapid growth in service-sector employment is a difficult task, the Council argues that the driving force in this expansion has been a sharp increase in the demand for services as inputs to the production process.

## Internationalization of services

Responding to the new opportunities offered by technological change, services have also been part of the global trend



Most temporary jobs involve office work.

towards internationalizing business activities.

The figures speak for themselves. By 1988, foreign direct investment by Canadian service firms exceeded that of manufacturers. Only a decade earlier, foreign investment by manufacturing firms was roughly four times that of services.

The growing Canadian presence abroad involves a wide range of services, including financial, accounting, engineering, and computer services.

While the direct impact of trade in services on employment levels is still difficult to distinguish, current trends indicate that the role played by service industries will be much more significant in the years to come.

### Location of jobs

One school of thought holds that growth in the service sector offers some hope for reducing regional disparities. Compared with manufacturing or resource-based activities, services, by their very nature, are perceived as more "footloose." Thus they should be easier to locate outside central regions and large areas. In addition, telecommunications should further release services from locational constraints. So much for the theory.

Council researchers have documented that "dynamic" services instead follow a definite development pattern: they tend to congregate in large cities, the larger the urban centre, the higher the concentration index of services.

These services tend to congregate in large cities because, among other reasons, there they enjoy ready access to highly skilled labour, to complementary activities, and to a market composed of other businesses in the goods and service sectors.

In fact, both dynamic-service firms and the head or divisional offices of major corporations tend to locate in large cities. Both are highly dependent upon access to information and face-to-face contact. On the other hand, branch plants, which are geographically more dispersed, have less need for producer services, since those services are, for the most part, provided by their head offices; accordingly, branch

plants create less demand for local service plants.

The result of this situation is that disparities within regions – between the largest cities and the smaller urban areas – appear to be increasing. And inter-regional disparities are becoming more pronounced because the major cities are disproportionately located in developed regions.

### Services and economic growth

The Council Statement emphasizes that the shift to services has profound implications for economic development. The Council therefore suggests general directions for economic development policies in light of recent changes.

Among other things, government policy should be neutral in its treatment of goods and services, so as to eliminate

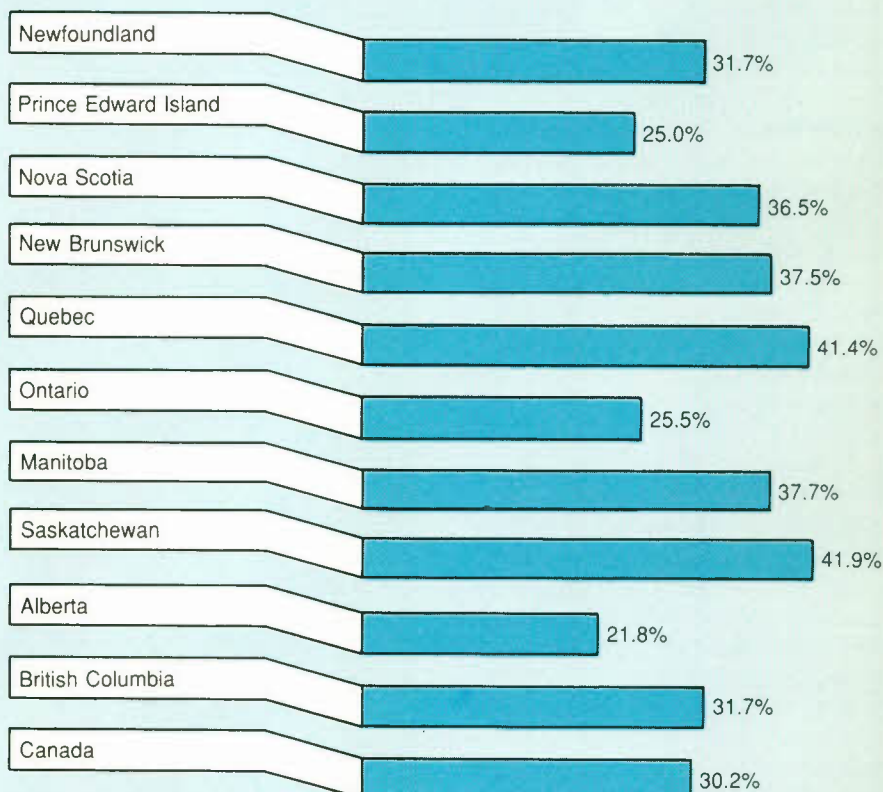
the traditional bias in favour of resource-based and manufacturing industries.

Industrial policy should be aimed at fostering linkages between the goods and service industries, which already share a number of common characteristics in terms of client-supplier relations.

The key elements of service-sector infrastructure – telecommunications and computer technology – must be recognized by governments as critical components of an information-based economy that are capable of meeting the challenges of international competition.

Finally, the Council recommends that regional-development efforts should be aimed at promoting urban development, building on the complementarities that exist between services and the regional industrial base, developing a highly skilled labour force, and strengthening telecommunications and computer infrastructure.

**Contribution of Part-Time Employment to Total Employment Growth, by Province, 1975-88**





# Education and training: A priority

**G**overnment spending on education in Canada rivals that of any other nation. As a percentage of gross domestic product, Canada's public expenditures on education place it in second spot among the industrialized countries.

The Council's analysis of the employment situation suggest however that Canada is not getting a good economic return on its investment in education.

It points to the following deficiencies:

- close to one fifth of the adult population is functionally illiterate (reading at or below a Grade 9 level);
- a relatively high secondary-school drop-out rate (nearly 30 per cent), coupled with a scarcity of apprenticeship and training programs. In the United States, only 13 per cent of 17-year-olds fall outside the formal education and training system; Japan's figure is only 6 per cent;
- Canada's high rate of postsecondary attendance may be due, according to some studies, to its relatively less demanding secondary curriculum;
- Canadian students have failed to rank above the middle level in mathematics and science tests in comparison with their counterparts in some countries;
- a disturbingly high proportion of those taking trade and vocational programs do not appear to benefit from their education; graduates experience high unemployment rates and low average earnings, and the majority report that they do not use the skills acquired in their studies; and
- finally, the relative quality of the high-skill segment of the Canadian work force is judged mediocre according to some international standards. The 1989 World Competitiveness Scoreboard ranked Canada, at best, in the middle group with respect to managerial talent, R&D personnel, and skilled labour.

Unfortunately, the research indicates that the consequence of these deficiencies are heightened in a service economy.

Jobs with high-skill and educational requirements clearly represent a growing share of the labour market. Education and human-resource development have become more critical than ever before at a time when the economy is being constantly buffeted and driven by such forces as technological change, the information

revolution, and intensifying global competition.

Countries with high production costs, such as Canada, will have no other choice but to rely on the excellence of their work force to retain a comparative advantage in the global marketplace. A growing number of jobs are information-based. Even those that do not have a high-skill content demand basic literacy and numeracy.

In short, unskilled and poorly educated workers are disadvantaged on the labour market and are facing special problems in adjusting to the changing employment structure.

## Education

Considering the fundamental imperatives of labour market preparation – particularly the need to provide Canadian workers with the analytical tools to “navigate” in an information-based society and to foster a standard of excellence through highly educated workers – the Council has concerns about the

quality of education in Canada.

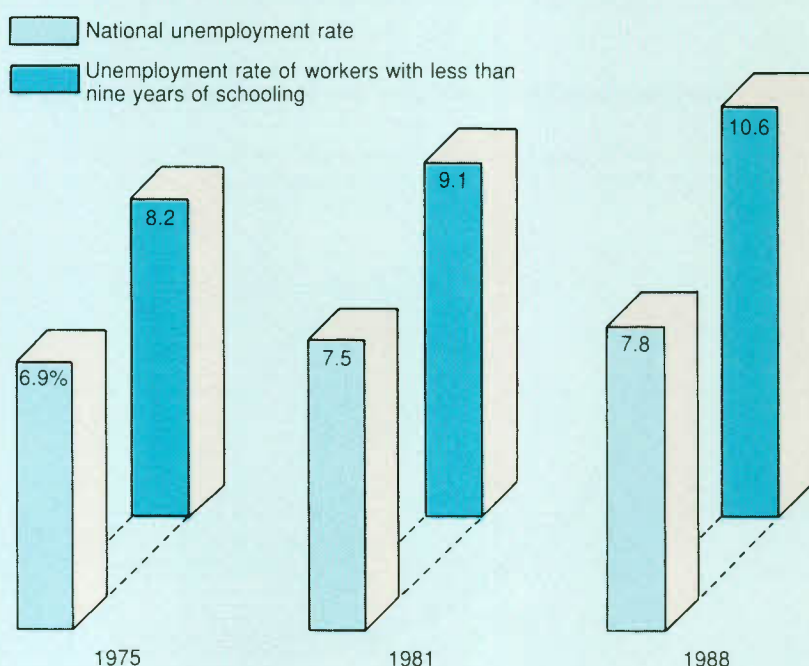
The troubling indicators mentioned above do not seem to be the result of inadequate spending. Although real expenditure per student at the postsecondary level has declined over the past decade, spending on primary and secondary students has been rising steadily.

The Council perceives a growing public awareness of the problems in education, as well as mounting calls for action to solve them.

The Prime Minister recently proposed that a working group be created to determine how Canada's education systems might more effectively meet the country's human-resource needs.

At the present time, the Council does not have full information on the scope of this initiative nor on the response of the provinces. But it stresses that what is needed in this area is hard and well-focused research. It believes that a major empirical study should be undertaken into the state of education in Canada, with a view to pinpointing concerns about educational quality.

Level of Schooling and Rate of Unemployment, 1975-88



## Training and labour adjustment

While high-quality education represents the essential precondition for a first-class work force, the development of vocational skills must be based in the training system. Indeed, training is essential for enhancing on-the-job performance and industrial competitiveness.

The Council's view is that the current training effort in this country is not satisfactory. It is beset by two major problems. First, the investment in education by Canadian industry is insufficient, and the situation is all the more regrettable in light of evidence that employment-based training is the most effective. Second, public policy continues to have a "damage control" orientation, emphasizing income maintenance and short-term training for the long-term unemployed.

The Council considers that, among other things, it will become more important in the 1990s for public policy to deal directly with "unattached" workers. Certain groups – older workers, workers with low educational attainment, and people who have been laid off – have an especially difficult time adjusting to changes in the labour market. And this problem is growing in scope, particularly as the pace of retraining accelerates to meet the changing industrial and professional structure. In 1986, over 40 per cent



Training – one of the keys to better jobs.

of those separating from goods-industry employment found their next job in services.

There are also wide disparities in the efficiency with which workers find new jobs.

### Policy changes

The Council maintains that policy changes are necessary. It recommends that the share of unemployment insurance

(UI) funds allocated to retraining be increased and that the eligibility restrictions for training be relaxed.

As a long-run goal, the Council endorses the transformation of the UI fund into an "employment insurance" fund so as to offer unemployed workers a range of benefit options, including income support, retraining, mobility, and occupational counselling.

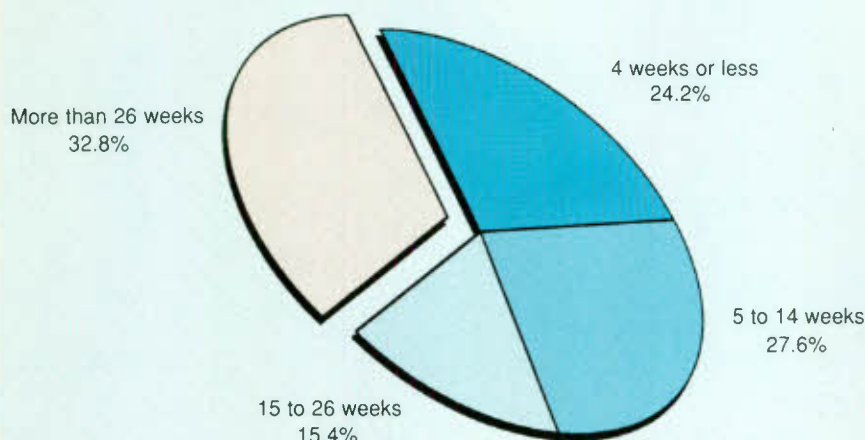
For older workers, policy should be aimed more at reintegration through retraining and counselling than at support payments.

In order to help laid-off workers adjust more easily, the Council urges that labour standards be strengthened by stipulating longer advance notice of layoffs and compulsory labour/management adjustment committees in the event of major layoffs.

The Council stresses the importance of human-resource development by Canadian industry, arguing that training decisions should be decentralized. It also recommends that increased funds be allocated to the Industrial Adjustment Service to help develop sector-specific human-resource plans in industries that have chosen to initiate such plans.

Overall, concludes the Council, Canadian employers, workers, and labour unions need to make a much stronger commitment to training.

Distribution of Job Separators by the Number of Weeks of Joblessness, 1986





# "Structural" unemployment

The mere existence of a job opening does not necessarily mean that a jobless worker will find employment.

The process of matching people and jobs involves reconciling a set of infinitely diverse characteristics. The age, sex, education, location, and aspirations of workers must be matched with such job features as pay, working conditions, and skill requirements.

Two working papers – "Unemployment in Canada" and "The Natural Rate of Unemployment" – written by Andrew Burns, an economist at the Economic Council of Canada, trace the evolution of unemployment both nationally and regionally, and come to the conclusion that current high unemployment rates are due primarily to a variety of "structural" factors connected with the labour market. The effect of these factors is to create a widening divergence between the requirements of job vacancies and workers' job characteristics.

Much of the recent rise of unemployment is attributable to the forces unleashed by the 1981-82 recession and the associated drop in commodity prices which provoked increases in mismatch. Over this period, long-term unemployment (lasting more than a year) rose dramatically.

The fact that workers must spend such a long time looking for a job is indicative of a serious mismatch between what employers are looking for and what job seekers have to offer.

While noting that long-term unemployment receded slightly in 1987, Burns stresses the sensitivity of labour markets to external shocks.

Maintaining steady growth in employment is clearly essential to making further progress in reducing unemployment rates. But in order to attack the mismatching problem at its roots, Canada will have to focus on programs and policies that are geared to helping workers move from one kind of industry and/or occupation to another. Thus these policies must be attuned to the needs of the region, or even the community.

Labour market programs that are designed and delivered without taking regional differences into account will prove much less effective in meeting these aims.

## Regional structure

Burns notes, first of all, that regional labour markets are distinct and respond to external stimuli in different ways. What would pass for full employment in Ontario, for instance, would mean something else entirely in Newfoundland.

In the second part of his study, Burns traces the evolution of unemployment from a regional perspective. He points out that, generally speaking, long-term unemployment is more evident in those regions that have experienced the most extensive industrial restructuring.

The widening disparities between regional unemployment rates are due, in large measure, to the fact that provinces do not all have the same ability to absorb and adapt to external economic shocks. The timing and pace of the shift in employment to services has also varied from one province to another.

The Prairie provinces and British Columbia experienced the largest relative increase in structural unemployment. In the Prairie provinces, falling commodity prices led to a decrease in construction activity and a general decline in manufacturing.

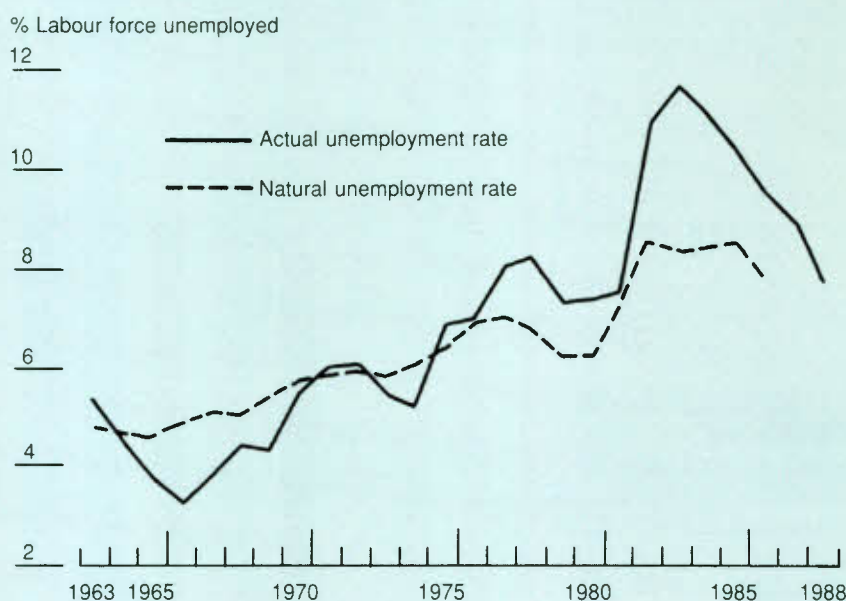
Ontario experienced very little increase in structural unemployment, owing to the

diversity and density of its economy, which enabled workers to move relatively easily from declining to expanding industries. In Quebec, the share of manufacturing in total employment fell less abruptly than in British Columbia, but that decline was not any smaller in overall magnitude. Like British Columbia, Quebec has achieved significant improvements in productivity in the wake of industrial reorganization. That reorganization, however, has brought with it concomitant increases in structural unemployment. Despite a significant absolute increase in unemployment in the Atlantic provinces, industrial restructuring has been much slower. Relative to their initial levels, neither productivity nor structural unemployment increased as dramatically in these provinces.

The author argues that economic policy designed to enhance labour market flexibility would provide the Atlantic provinces with their most valuable weapon in the fight against unemployment.

In general, the author concludes, training programs should aim at producing workers who are able to adapt to rapidly changing economic conditions and who can meet the particular requirements of different labour markets.

Actual and Natural Rates of Unemployment



# The economic role of women

**T**he Chairman of the Economic Council of Canada, Judith Maxwell, recently gave a seminar at Statistics Canada to mark International Women's Day. Summarized below is her talk tracing the changing role of women in the economy.

By investing more in the training and education of women and by making it easier for women to successfully balance their work lives with their family responsibilities, Canada would improve its chances of meeting the economic and social challenges of the decades ahead.

Women's contribution will become all the more important in the future because of the progressive aging of Canada's population. By the year 2020, the proportion of workers in relation to the total population will be shrinking. Who will be the caregivers delivering health and social services to the older population? And who will produce the goods and services in a society where workers will be increasingly in the minority?

According to Mrs. Maxwell, women's potential has yet to be fully utilized. "Once we invest more in the education and training of women," she states, "they will be able to enter better jobs and to make an even bigger contribution to society."

That, in fact, may be the key to our capacity both to generate the kind of living standards and lifestyles that Canadians want, and to meet the challenge of an aging population in the coming decades.

According to Mrs. Maxwell, women must also learn to invest more in their own education. Because of family break-ups, women are increasingly being called upon to be family breadwinners. Thus it is essential that they acquire the tools they need to improve their situation.

## A stabilizing effect on family incomes

One thing is certain about the changing economic role of women: they now make a significant contribution to family incomes. In many cases their financial support is crucial. Mrs. Maxwell argues that it is important to recognize the economic contribution women are making

and the stabilizing effect their earnings have had on family incomes.

These developments, in turn, have had an impact on family lifestyles, as women are often forced to adapt to shift work, part-time work, and so on.

In 1911, only 15 per cent of women were in the labour force. Today, more than 60 per cent of women hold a job, with the biggest increase occurring since the 1960s. Only one third of women in the 25-64 age group worked outside the home in 1966. By 1988, the corresponding figure had jumped to 75 per cent and the pace of change continues. By 1986, the typical married woman provided 27.6 per cent of the family income, up from 21.4 per cent in 1973. But female earnings are still only 59 per cent of men's – partly because women are over-represented in jobs that pay lower wages.

In the past 20 years, there has been evidence of increasing employment polarization for both men and women.

More women are rising to senior positions that are well paid, yet most must still devote a significant portion of their time to their children's education, their

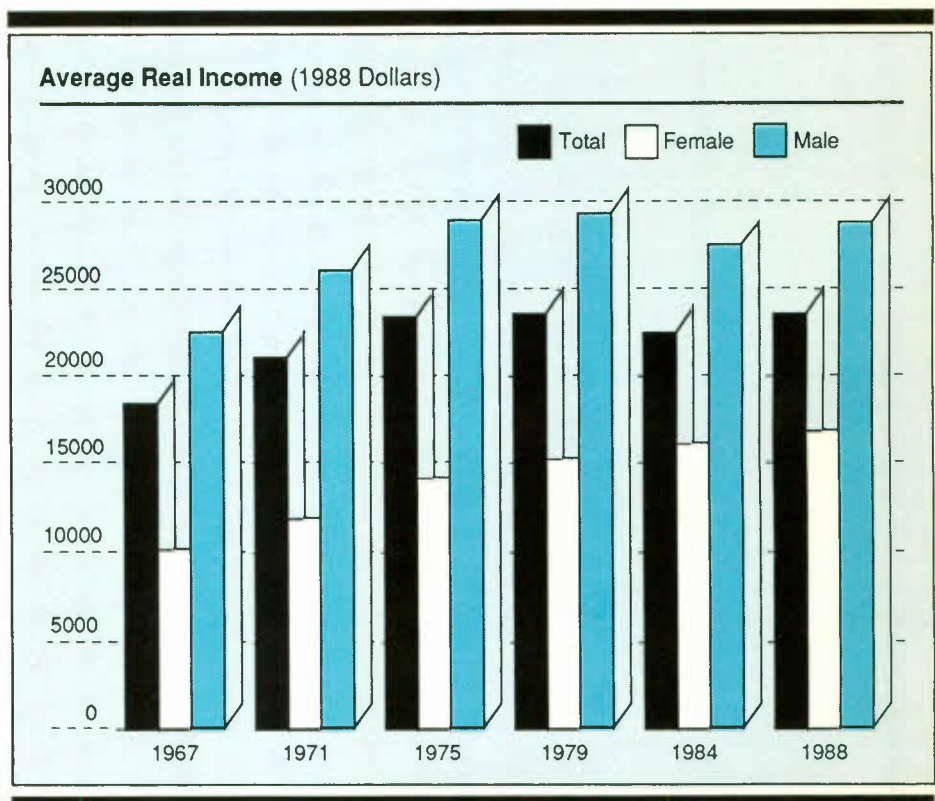
parents, and the smooth running of the household.

According to Mrs. Maxwell, however, a large proportion of women are found at the other end of the spectrum – in bad jobs with a high degree of instability. Suffering from a relative disadvantage in training and education, and frequently saddled with heavy family responsibilities, these women find themselves trapped in poorly paying dead-end jobs that in many cases leave them stranded in poverty.

Some women accept jobs of this kind because of the inherent flexibility. They sacrifice career development in order to fulfil their nurturing roles.

Others take on part-time work simply because they cannot find anything else. Still others are disadvantaged because of discrimination – the principle of equal pay for work of equal value is not respected.

Overall, says Mrs. Maxwell, "the picture that emerges is one of under-utilization." These women are experiencing hardship and are not achieving their full potential. And it is society as a whole that is the poorer.





### Education and training

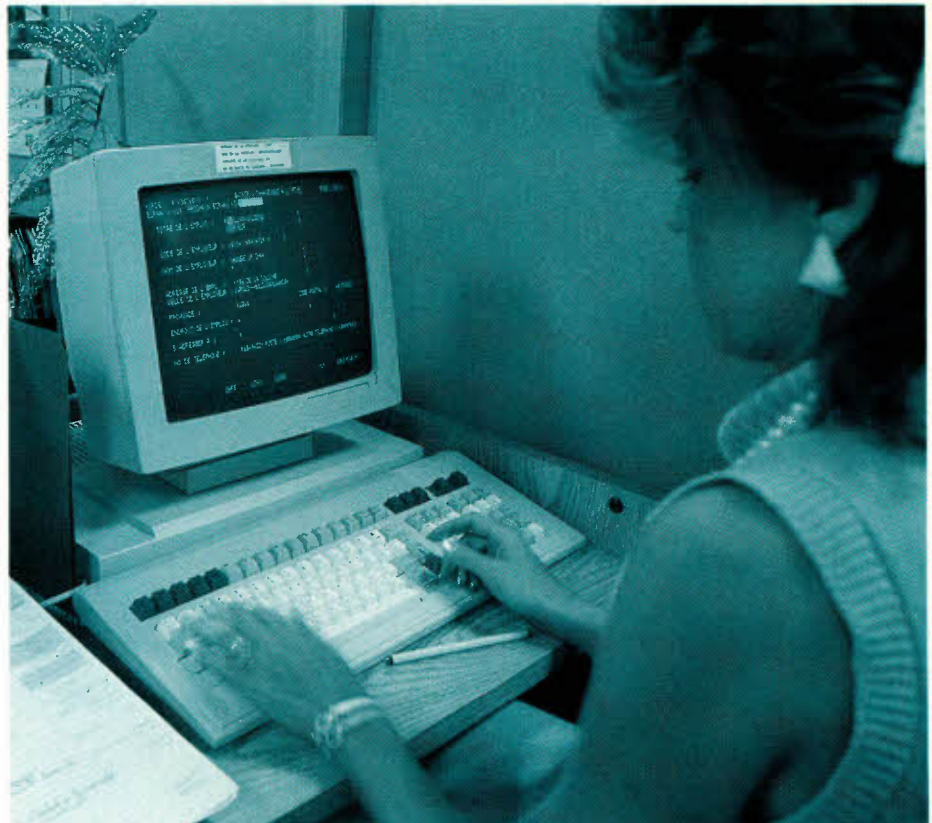
Not only are Canadian employers under-investing in employee training, but such training as they do provide tends to be heavily concentrated among highly skilled, well-educated male workers.

However, women have made spectacular improvements in their commitment to higher education. No less than 53 per cent of all Bachelor's degrees are now granted to women – up from a 38-per-cent increase in 1971. There are also important changes occurring at the Master's and Ph.D. levels.

"There are overall signs that the educational attainment of young women entering the work force these days is higher and more diversified," notes Mrs. Maxwell.

### An excessive burden

Mrs. Maxwell finds it troubling that society sometimes places an excessive burden on the shoulders of women. "I have seen too many cases of women in their 40s and 50s who are quite simply worn out," she says.



Employment and Immigration

Women's earnings have helped stabilize family incomes.



These are people who have worked for 20 years or more, who have earned the respect of their colleagues while they have raised a family. They are often divorced or bereaved or have had to take on more than their fair share of family-related responsibilities.

The result? A woman in this situation may suddenly find it necessary to take an extended period of leave. There is no specific illness; she is simply worn out and depressed. "I agree she needs rest," stresses Mrs. Maxwell. "But I sense that what she needs more than anything is a little bit of hope and peace of mind."

Not only are sad cases such as these costly to employers, they also represent a terrible waste of resources.

And it is precisely in order to avoid that kind of waste that society must invest more in women.

So, concludes Mrs. Maxwell, the more encouragement we give to women by offering them better training, better support systems (including child care and elder care), and more flexible working arrangements, the better their chances of achieving their true potential.



# Mergers and acquisitions

**I**n recent years, the media have reported on many spectacular corporate takeovers in Canada, the United States, and Europe.

Ever since the beginning of the twentieth century, mergers and takeovers have tended to wax and wane in a cyclical fashion. We are now apparently in the throes of another such cycle, one which experts consider to be of unprecedented intensity. Because these "marriages" (of convenience, or otherwise) have such potentially important effects on the economy, interest in the phenomenon on the part of businessmen, workers, and ordinary Canadians, to say nothing of governments, is very high.

Some experts regard mergers and takeovers as a good way to rationalize administration and production; others worry about the ultimate implications of allowing control of the economy to fall into the hands of a small number of megacorporations.

Corporate mergers and takeovers, then, have emerged as a major issue of the day. To throw more light on this subject, the Economic Council of Canada recently began a pilot research project.

*Au Courant* recently interviewed the leader of this pilot project, Senior Economist, Abe Tarasofsky.

***Au Courant:*** What were the reasons for the Council deciding to undertake this research project on mergers and acquisitions?

**Tarasofsky:** For some time, the Council has been interested in the question of what kind of firms would be likely to be competitive in the emerging global economy. A number of leading business spokesmen have been arguing that what Canada needs is more big corporations. By implication, they mean firms that became big by acquiring other firms. That is one basic reason. Another basic reason is the observable fact that in Canada, and even more so in the United States, the United Kingdom, and Western Europe, there has been a tremendously strong trend during recent years for firms to acquire other companies. So the subject of corporate

acquisitions has been very much on people's minds. Some theorists have argued that these acquisitions are basically very healthy things, while others have argued the opposite.

***Au Courant:*** What are you trying to find in your study?

**Tarasofsky:** My study is a pilot study and is best understood as part of a wider exercise. The specific question with which I am concerned at the moment is whether corporate acquisitions are profitable. Do acquired firms become more profitable after being taken over, or less? The existing evidence is extremely mixed. There is relatively little Canadian research on this subject, which is why we thought it would be useful if we did some.

***Au Courant:*** Is this a recent phenomenon?

**Tarasofsky:** Corporate takeovers are anything but a recent phenomenon. They go back to the emergence of corporations as important business organizations. The phenomenon is a very cyclical one and has been tracked since the beginning of the twentieth century. Canadian cycles appear to coincide very closely with American cycles.

***Au Courant:*** Why should a firm choose to expand by acquiring another firm?

**Tarasofsky:** There are many possible reasons. For instance, there are solid



Abe Tarasofsky

the way stock markets work. Finally, there might be managerial reasons reflecting the diversity of interests between managers of corporations and shareholders.

***Au Courant:*** Are there dangers if the economy becomes dominated by a small number of megacorporations?

**Tarasofsky:** That is a very important question in Canada because approximately a dozen large conglomerates represent about 20 per cent of the entire Canadian corporate sector. Ten years ago they represented about 10 per cent.

*"Canada has had all along, and continues to have, one of the most highly concentrated economies in the world."*

economic reasons, such as potential efficiencies of scale and of scope, and potential administrative efficiencies, depending on the relationship between the two firms. Or, there might be purely speculative reasons having to do with

Canada is the only country in the western world where conglomerates are so important, and it is unfortunate that we know so little about them. The American experience makes the subject especially interesting. While their



conglomerates performed extremely profitably from the early 1960s to the mid-1970s, they have been performing poorly since, divesting many of their acquisitions. This is striking because, during roughly the same period, Canadian conglomerates doubled their share of the economy.

**Au Courant:** *Are there specific government regulations in regards to mergers and acquisitions?*

**Tarasofsky:** Canadian competition law has always allowed the government to scrutinize mergers and prohibit those that restricted competition. When the current Competition Act was introduced three years ago, it explicitly recognized that certain mergers, even though they potentially restricted competition, could be justified on grounds that they increased efficiency.

**Au Courant:** *Do mergers or acquisitions have any bearing on the work force?*

**Tarasofsky:** This question is not an aspect of the present pilot study, but we hope to be able to look into it in the

four out of 10 recorded deteriorated performances, and the other two remained where they were before. There are, however, other important considerations that should be explored, such as the effects of acquisitions on

agreement and the rapidly increasing globalization of markets throughout the world, it is a question that is becoming ever more important because it is not clear how increased foreign competition will affect the performance of firms in

***"Canada is the only country in the western world where conglomerates are so important, and it is unfortunate that we know so little about them."***

wages and jobs, as well as on suppliers and lenders. We have not yet been able to investigate these issues but we are hoping to do so. We also hope to examine whether Canadian tax rules, such as interest deductibility and loss provisions, have had a perverse effect by prompting takeovers that otherwise would not be economically advisable.

highly concentrated industries. We hope to shed some light on these issues.

**Au Courant:** *What are your tools for measuring profitability when a merger or acquisition has taken place?*

**Tarasofsky:** Two kinds of data have traditionally been examined to investigate the profitability of acquisitions: stock market data and accounting data. One of the advantages of our present research is that we are using both. We hope thereby to provide a more comprehensive answer to that question.

**Au Courant:** *Can you draw any conclusion from your preliminary work?*

**Tarasofsky:** The most important conclusion that we can draw so far is a negative one, namely that takeovers are not, in general, an especially efficient way for firms to grow.

***"Some theorists have argued that these acquisitions are basically very healthy things, while others have argued the opposite."***

near future. We have a certain amount of American evidence on this question and it is quite mixed.

**Au Courant:** *Do takeovers tend to transfer resources into more productive hands?*

**Tarasofsky:** On the whole, the profitability of the acquired assets remains about the same as it was before. Generally speaking, from the standpoint of profitability, resources do not move into more productive hands. I have found that about four acquired firms out of 10 improved their performance. An equal

**Au Courant:** *Could this phenomenon affect Canada's performance in the world market?*

**Tarasofsky:** In order to investigate that question, you first have to study the relationship between acquisitions and corporate concentration. Canada has had, and continues to have, one of the most highly concentrated economies in the world. Next, you need to investigate the effects of high concentration levels on the economy, if they have produced more efficient or less-efficient firms, and whether they have had adverse equity effects. Because of the free-trade



# PUBLICATIONS

## Council Report

**Good Jobs, Bad Jobs** (EC22-164/1990E, \$5.95 in Canada; US\$7.15 outside Canada).

Good Jobs, Bad Jobs draws a new portrait of the Canadian labour market. This Statement by the Economic Council of Canada focuses on the shifting structure of this country's economy, from one based on resources and manufacturing to one where most people are now involved in the production of services. The report concludes that fundamental changes are occurring in the labour market and that many of Canada's institutions and patterns of behaviour must be reshaped to build a first-class work force and to enhance the security of workers in the future. To this end, it considers a range of policy issues regarding training and labour-adjustment, employment-benefit standards, and industrial and regional development.

## Research Studies

Research studies are published by the Economic Council in both official languages. A list of titles is

available on request, and ordering instructions appear below. Each study clearly attributes the findings and conclusions to the individual author, or authors, rather than to the Council.

**Adjustment to International Competition: Short-Run Relations of Prices, Trade Flows, and Inputs in Canadian Manufacturing Industries**, by Richard E. Caves (EC22-165/1990E, \$6.50 in Canada; US\$7.80 outside Canada).

The author analyses, for the first time, the responses of Canadian manufacturing industries to changes in international competition – changes in prices and varieties of imports, in Canadian tariffs, and the exchange rate. He concludes that Canadian manufacturing industries are fairly dynamic; when faced with toughened competition from abroad, they meet the challenge by increasing investment, raising labour productivity, changing their product lines, and altering the markets to which their products are sold. This research study contributed to an Economic Council of Canada policy state-

ment on the impact of the Canada-U.S. Free-Trade Agreement.

## Working papers

**No. 1** "Unemployment in Canada; Frictional, Structural, and Cyclical Aspects," by *Andrew Burns*.

**No. 2** "The Natural Rate of Unemployment; A Regionally Disaggregated Approach," by *Andrew Burns*.

## Discussion papers

"Recent Proposals to Reform the Bankruptcy Act: An assessment," by *Benoît M. Papillon*.

### Correction

In the last issue of *Au Courant* (Vol. 10, No. 3), the alert reader will no doubt have noticed a problem with the chart on page 9 diagramming the market shares of Pacific Rim countries. As a result of an error in paste-up, the legends for the columns were shifted. The first column on the left actually represents the *total* percentage of exports, and the following columns the respective market shares of Japan, the Asian NICs, the ASEAN countries, and China, in that order.

## How to order

Research studies and Council reports are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada, K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

Discussion papers, working papers, and the *Annual Report* are available without charge from the Publications Division, Economic Council of Canada, P.O. Box 527, Ottawa, Ontario, K1P 5V6.

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