

The Economy Through a Public Lens: Shifting Canadian Views of the Economy

Frank L. Graves

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INTRODUCTION: AIMS AND STRATEGY

The impact of economic performance on perceptions of economic and social well-being and attitudes toward redistribution in Canada is an intimidatingly broad topic. There are really two basic and quite separate questions: how does the public see the performance of the economy, and how does the performance of the economy influence attitudes toward redistribution?

We will begin by considering the basic terms of the first question. What do we mean by economic performance? Are we referring to GDP, job creation, standard of living, unemployment or wealth creation? Clearly, each of these disparate dimensions of the economy refers to some important aspect of economic performance. Moreover, “the public” is hardly a monolith and the perception of the different dimensions of the economy will vary significantly according to one’s location in society.

Moving from the official economic world of GDP, or productivity and unemployment rates, we enter the decidedly murkier realm of public perception. We care-

fully use the term “official” rather than objective economy to point out that an official statistical description of economic reality is not necessarily the ultimate criterion, or ultimate truth. While official statistics are clearly more scientific than public perceptions, public perceptions are not always “wrong” just because they are not synchronized with official statistics. For example, official unemployment rates seriously understated real unemployment in the mid-1990s (e.g., due to the high incidence of discouraged workers).

Although the social science literature is not entirely consistent on this point, it does suggest that there is a close relationship between perceived and “real” economic indicators, and that public opinion concerning the economy bears a close relationship to what is actually happening in the economy (i.e., public opinion mirrors economic indicators such as unemployment and inflation).¹ However, Canadians’ views of economic performance are, at times, only loosely connected to objective accounts of the “official” economy. Repeatedly, respondents to social surveys and participants in focus groups strenuously question the veracity/meaning of “objective” indicators of economic performance.

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Our data show that during the second half of the 1990s we noticed a significant lag between recovery of economic confidence among consumers/citizens and apparent recovery of the objective economy. Also, our research with focus groups showed a broad tendency to discount the legitimacy of many conventional measures of economic performance. For instance, very few Canadians believe that the unemployment rate is an accurate measure of the real extent of unemployment. It is our sense that the gap, volatility and lag factors were especially pronounced (in both qualitative and quantitative evidence) during the middle part of the 1990s. These vagaries in public perception are not simply a function of low levels of economic literacy, although this factor certainly accounts for a good deal of the tension between official and public accounts of the economy.

It should also be recognized that perceived economic performance is segmented according to the social and economic circumstances of the perceiver. Typically, affluent and educated members of society are more likely to be aware of and agree with economists' accounts of economic performance.² In Canada, governments typically lose the support of public opinion during economic hard times and see a less dramatic return of support when economic good times return (Clarke et al. 1992b)³ (although our own analysis shows that economic optimism is a consistent, strong and significant predictor of support for the incumbent government).

This article focuses not only on economic well-being but also on social well-being. This expanded focus presents a daunting problem. Economic performance as it translates into standard of living is only

one component of perceived quality of life. Most people believe that social well-being is a much broader and more elusive concept that includes both equality and wealth and a host of other non-economic factors (e.g., human rights and freedoms, environmental quality, health outcomes, security from crime and violence).⁴ In fact, one of the most basic public policy dilemmas is the relative importance and trade-off of the economic and social dimensions of well-being.⁵ We will comment later on a growing tendency for the public to explicitly connect the social and economic realms of well-being.

The literature suggests that it is often hard to separate out the specific factors that cause shifts in public opinion. Public opinion on social issues differs from that on other kinds of issues (Page and Sharpiro 1992). As a result, the nature of the interplay between social indicators and economic growth, for example, is not well understood (Krause 1997; Fedderke and Klitgaard 1998). While it seems clear that stability of public institutions, stability of political regimes and level of rights play a definite role in economic growth, the same cannot be said for other social indicators or values — that is, those that are more closely linked to “quality of life.”⁶

This leads to the final area of discussion implied by our topic. What is the relationship between perceived economic performance and attitudes toward redistribution? At the most basic level, does a sense that the economy is performing well make the public more or less supportive of the distributive role of the State? While we can provide some answers to this narrow question, it becomes more meaningful when set against a broader question: how do changes in perceived eco-

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conomic performance influence the perceived role of the State? In particular, how have shifts in attitudes toward the economy and economic performance affected public support for the achievement of social progress through State intervention?

To simply look at attitudes toward (for example) taxation, social assistance or regional transfer payments is to miss the point that these views are modified by fundamental shifts in attitudes towards the role of the State. Moreover, we are witnessing a broad historical transformation in the role of the State concerning its economic and social functions. There is a voluminous literature on these shifts in attitude.⁷ Furthermore, our internal research confirms the broad finding that both trust in and support for government in its “passive” redistributive role have declined over the past 20 years. Declining support for the welfare state has, however, been somewhat overstated. In fact this support has been disguised by a shift in strategies for achieving social well-being. For instance, support for social assistance has been replaced by support for “active measures” (e.g., skills investment, self-employment assistance, early-childhood intervention) to deal with some of the very same social and economic issues.⁸ Focusing merely on redistribution may serve to occlude the more fundamental question of the role of government in achieving social progress and improved quality of life.

Public attitudes toward change, innovation and technology have undergone profound shifts. These shifts are linked to the emergence of globalization and the new economy and are producing significant pressure on State/economy/society linkages, with outcomes that are still highly uncertain. In fact,

the cumulative evidence suggests that the past decade has seen complex structural changes in public attitudes towards the State, the economy and social well-being, and that these changes are both driving and reflecting shifts in the institutional spheres (Graves and Reed 1999).⁹

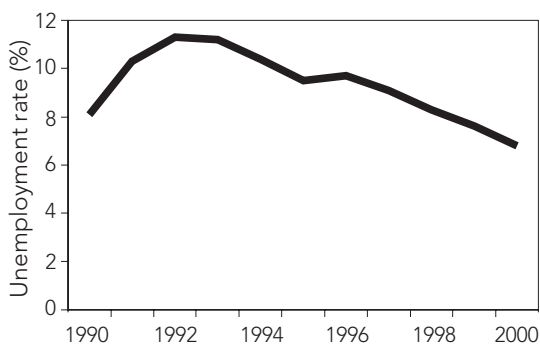
Although we have set our problem against a complex historical backdrop, our intentions in this brief discussion are quite modest. We will attempt to shed some preliminary empirical light on the matter based on ongoing research at EKOS (EKOS Research Associates 1997). We will provide a largely descriptive synthesis of some of our main conclusions. Our focus will be on four core questions:

1. What is the relationship between public perceptions of economic performance and the broad statistical performance of the Canadian economy? (Our focus will be on the areas of productivity/growth, employment and income levels.)
2. What is the relationship between economic and social well-being? (Our focus will be on public perceptions of this relationship.)
3. How has national economic performance (both statistical and perceived) influenced attitudes toward redistribution in Canada?
4. How has economic performance influenced broader attitudes toward active government involvement in the achievement of social progress?

The literature on the relationship between the official economy and the perceived economy is quite mixed in its conclusions but tends to agree that there is a discernible imperfect relationship between

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CHART 1
Unemployment Rate, 1990 to 2000



Source: Statistics Canada.

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the two. It also speaks of lags between economic shifts and public perceptions of those shifts. Some public perceptions may in fact precede changes and even influence the “objective” economy. For example, in the United States the Conference Board’s Consumer Confidence Index fell for the fifth consecutive month beginning in October 2000 (Conference Board 2001). These declines in consumer confidence actually pre-date, or at least are contemporaneous with, a real slowing of the American economy (Greenspan spoke of zero growth in January 2001). In the case of consumer confidence, public perceptions certainly do not lag behind the official economy and may well lead economic performance. This, however, is not a central question for our analysis.

PUBLIC PERCEPTIONS OF ECONOMIC PERFORMANCE: THE PAST DECADE IN REVIEW

The public view of the Canadian economy is quite different from the official statistical record, although there is an imperfect relationship between the two. In the 1990s

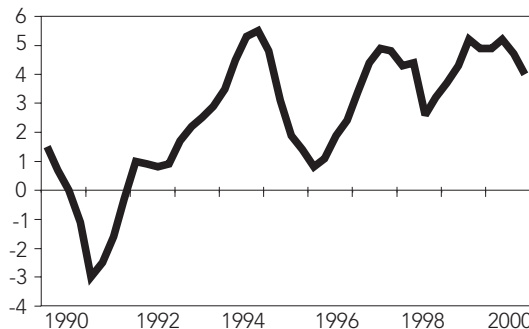
the economy was perceived as considerably more turbulent than it was, particularly in the middle part of the decade. It was also perceived as failing to strengthen for a significant period while it was in fact growing. Both of these phenomena were most evident in the middle part of the decade.

Before considering public perceptions, we present three statistical economic indicators for the three domains of economic performance noted in our first core question — unemployment rate, real GDP growth and real per capita personal disposable income (Charts 1, 2, and 3).

While the nomenclature of the economic realm remains mysterious for many Canadians, the core concepts of these three indicators are seen as having a “real world” impact and meaning. We have also added a measure of inequality (the inequality ratio) (Chart 4), which, although not directly a measure of economic performance, is germane to our discussion.

The charts clearly show that unemployment has fallen steadily since the early 1990s recession, that economic growth has

CHART 2
Real GDP Growth, 1990 to 2000

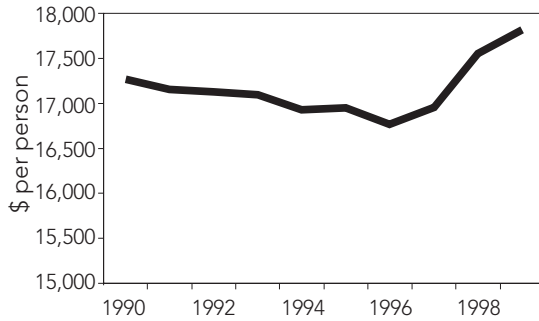


Note: Annual percentage change, quarter to quarter, in gross domestic product at market prices, in constant 1992 dollars.

Source: Statistics Canada.

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CHART 3
Real Per Capita Personal Disposable Income, 1990 to 1999



Note: Per capita personal disposable income in constant 1992 dollars.

Source: Statistics Canada.

increased since the mid-1990s and that real per capita disposable income increased throughout the 1990s. Chart 4 indicates, however, that, despite this rosy economic picture, income inequality rose in the latter part of the decade, implying that the fruits of the good economic performance observed were not well distributed. Moreover, it should be noted that in the latter part of 2000 the economy showed signs of slowing down, reflected in flattening growth in the GDP and little change in the unemployment rate. As well, recent news about an anticipated recession south of the border may soon be manifested in the indicators in Canada.

The Perceptual Indicators

EKOS has conducted interviews with hundreds of thousands of Canadians over the past 20 years, and our databases contain hundreds of variables germane to the topics at hand. While we will use other variables later in this article, we begin our examination of the past decade by tracking three variables — *fear of job loss* (Chart 5), *sense of loss of control* over one's economic future (Chart 6) and views on the strength of the Canadian economy (Table 1).

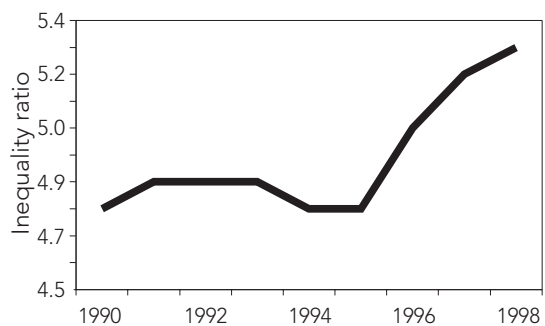
Our time series for *fear of job loss* and *sense of loss of control* are much more complete. We also have the advantage of some new (January 2001) data that allow us to evaluate whether the pervasive media discussion of an impending downturn, slowdown or recession (particularly as it applies to the American economy) has broadly influenced economic security amongst Canadians.

The charts show different aspects of the same story. First of all, insecurity declined in the latter part of the decade in a highly significant manner. The personal security indicators *fear of job loss* (Chart 5) and *sense of loss of control* (Chart 6) both dropped by nearly half. Similarly, perceptions of an improving overall economy shifted from a slight better:worse ratio of 45:31 in 1996 to a definitive 56:19 ratio in May 2000 (Table 1).

Another important characteristic of our security indicators is the high degree of segmentation in these responses by region and socio-economic status (Charts 7 and 8).

Fear of job loss and broader insecurity are higher amongst less-educated and lower-income groups. Comparing the underlying

CHART 4
Income Inequality Ratio, 1990 to 1998



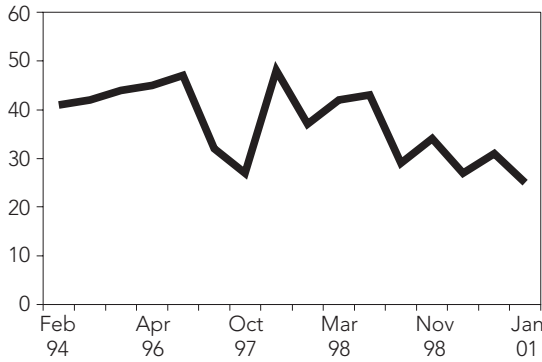
Note: Computed as the ratio of the average after tax income of top quintile to the bottom quintile of economic family units.

Source: Statistics Canada.

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CHART 5
Fear of Job Loss

Percentage of employed Canadians agreeing with the statement: "I think there's a good chance I could lose my job in the next couple of years."



Source: Rethinking Government, EKOS Research Associates Inc.

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demographic structure from 1994 to 2001, we find that the education effect is stronger today than it was in 1994, suggesting that the new economy is placing a greater accent on human capital.

There are also sizeable regional, generational and gender effects. Also, today's regional patterns are quite different from those of 1994. Otherwise the underlying demographic correlates of insecurity are fairly stable. Economic security is strongly linked to expectations of government in a manner that we will explore in the final section of this article.

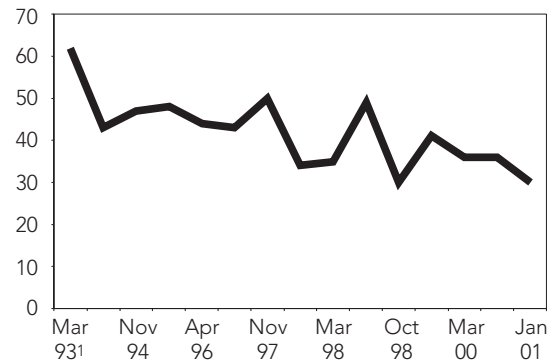
A direct comparison of official economic indicators and their (roughly) corresponding attitudinal indicator is problematic, largely because of issues relating to timing. While figures on expenditure-based GDP growth are released quarterly and frequently revised, we have asked Canadians about their sense of control over their economic futures irregularly and at different times. Nevertheless, there is merit in direct-

ly examining two variables — the unemployment rate and the *fear of job loss* expressed by employed Canadians (Chart 9).

While objective and subjective measures display the same general downward trend, there are important discrepancies between them. First of all, *fear of job loss* actually rose between early 1994 and April 1996, while the unemployment rate dropped from 10 to 9 percent. This was followed by some volatility until 1998, when *fear of job loss* started dropping in closer alignment to reduced unemployment. The perceptual data show volatility in the views of Canadians that is not evident in the unemployment rate. This is particularly true of the 1996-98 period, when Canadians were, it seems, highly uncertain about whether the recovery was real. We will comment on this "unhinged" quality later. Although both job and broader economic security indicators are volatile, the broader measure of *sense of loss of control* is par-

CHART 6
Perceived Loss of Control Over Personal Economic Future

Percentage of Canadians agreeing with the statement: "I feel I have lost all control over my economic future."



¹ Small wording change after March 1993.

Source: Rethinking Government, EKOS Research Associates Inc.

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TABLE 1
Tracking Views on the Canadian Economy
"Compared to five years ago, do you think that the Canadian economy is doing much worse, worse, the same, better, or much better?"

	Nov 96 (n=1535)	May 00 (n=1505)
Better	45%	56%
Same	24%	24%
Worse	30%	19%
DK/NR	2%	1%

Source: Rethinking Government, EKOS Research Associates Inc.

ticularly mercurial (Chart 6). This may reflect public anxiety about not only the labour market but also the broader vagaries of interest rates, public finances, domestic and global stock markets and currency rates.

We would also argue that the sharp reduction on this indicator reflects not only differences in the business cycle but also structural shifts as the economy moved to greater dependence on technology and as north-south trade grew much more rapidly than east-west trade. Globalism, trade liberalization and new technology all caused considerable anxiety and turbulence that seem now to have been replaced by greater levels of public comfort with the "new" economy.

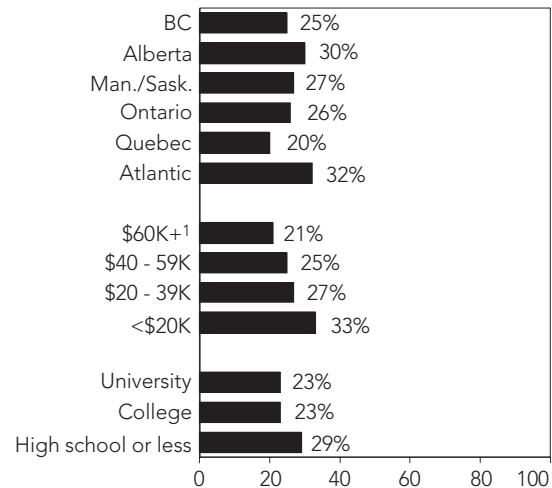
For example, the first part of Chart 9 shows fears rising while unemployment is flat or improving. This may reflect the relatively inert quality of insecurity. We speculate that anxiety and insecurity are more stubborn than confidence and optimism. In other words, the lagged quality of perceived insecurity vis-à-vis the official economy may not be symmetrical with respect to moving from good times to bad. People seem to stubbornly hold on to their fears but will quick-

ly abandon confidence. We saw the same inertia attached to beliefs about the state of public finances in Canada. This may also be a unique feature of the Canadian public — Americans are less insecure, according to our recent comparison survey, although no more optimistic.

A Qualitative Check on the Official/Public Gap

Analysis of these quantitative perceptual indicators is of only limited assistance in solving our problem. Qualitative research using focus groups is a more subjective or "phenomenological" tool for deconstructing relationships in the "lived-in world" (*lebenswelt*). By this we mean that we rely more on the personal accounts and understandings of the respondent than on external measures and analysis of their situation.

CHART 7
Fear of Job Loss – Demographic Variations
 Percentage of employed Canadians agreeing with the statement: "I think there's a good chance I could lose my job in the next couple of years."



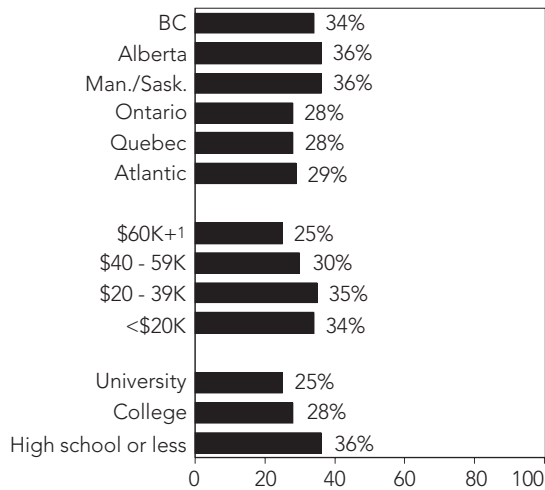
¹ Refers to household income.

Source: Rethinking Government, EKOS Research Associates Inc.

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CHART 8
Perceived Loss of Control Over Personal Economic Future – Demographic Variations

Percentage of Canadians agreeing with the statement: "I feel I have lost all control over my economic future."



¹ Refers to household income.

Source: Rethinking Government, Jan. 2001, EKOS Research Associates Inc.

Many qualitative studies conducted by EKOS over the 1990s examined public perceptions of national and local economic performance, social well-being and redistribution (EKOS Research Associates 1997). This research elaborates on the existence of an imperfect relationship between objective measures of economic performance, provided by leading macroeconomic indicators, and public perceptions of the state of the economy.

Two key related factors appear to underlie this apparent distortion. First, people tell us that they form their perceptions about the state of the Canadian economy based on their personal economic circumstances and on examples of local economic growth. This may help to explain why media reports of impending economic

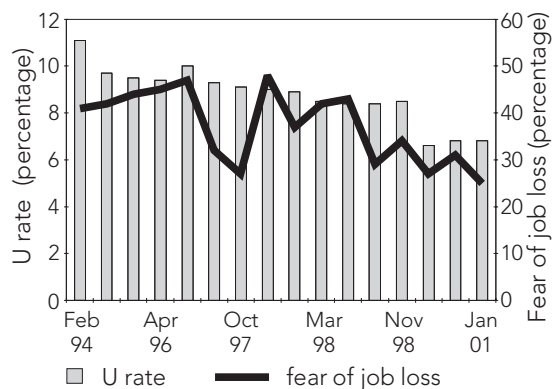
gloom have not affected our most recent measures of job and personal security. Second, Canadians tend to be highly sceptical about the validity of objective macroeconomic indicators. It is our sense that this scepticism (like the lag and turbulence effects) was higher in the 1996-98 transitional period than at other times.

In addition to anecdotal observations of their economic circumstances, the objective indicator that Canadians point to most often as evidence of real improvement is lower unemployment rates. Other key indicators used by economists and reported by the media, such as inflation rates, stock market performance and GDP growth, are less familiar and relevant to the average person.

Yet even the unemployment rate is seen as an imperfect indicator of economic performance. Many people erroneously assume that it reflects the number of Canadians who are receiving Employment

CHART 9
Perceived Loss of Control Over Personal Economic Future

Percentage of Canadians agreeing with the statement: "I feel I have lost all control over my economic future."



Source: Statistics Canada & Rethinking Government, EKOS Research Associates Inc.

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TABLE 2
Tracking Demographic Variables on Perceived Economic Indicators

	Percentage of Canadians agreeing with the statement: "I feel I have lost all control over my economic future."		Percentage of employed Canadians agreeing with the statement: "I think there's a good chance I could lose my job in the next couple of years."	
	Feb. 1994 n=2369	Jan. 2001 n=3099	Feb. 1994 n=1532	Jan. 2001 n=2457
Region			Region	
Atlantic	42	29	Atlantic	52
Quebec	41	28	Quebec	33
Ontario	45	28	Ontario	45
Man./Sask.	49	36	Man./Sask.	51
Alberta	46	36	Alberta	46
British Columbia	42	34	British Columbia	28
Age			Age	
<25	36	23	<25	42
25-44	42	29	25-44	43
45-64	50	37	45-64	39
65+	47	31	65+	38
Education			Education	
=/<HS	47	36	=/<HS	45
College	45	28	College	46
University	37	26	University	32
Gender			Gender	
Male	38	29	Male	38
Female	48	32	Female	45

Insurance benefits and thus under-represents a growing proportion of the workforce that is ineligible to receive benefits. Many people also assume that most of the jobs created over the past 10 years have been low-paying service-industry jobs, despite evidence that many of the jobs created have been well-paying. Scepticism about the worth of economic indicators is also linked to Canadians' increasing distrust of government and elites. Our qualitative findings suggest that many Canadians feel that economic indicators are manipulated by governments with a goal of maintaining the socio-economic status quo.

Both focus group and survey research also suggest that Canadians perceive the

fruits of Canada's recent positive economic performance to be unevenly distributed. Focus group participants say the uneven distribution is masked by most popular indicators, particularly GDP growth rates. As Chart 4 clearly demonstrates, these concerns are related to a real and steep rise in income inequality in the latter part of the decade.

In the mid- to late 1990s, Canadians had no difficulty reconciling positive economic indicators with the view that most Canadians were no better or worse off than before. The explanation was that the new wealth created in the 1990s tended to flow into the hands of relatively few people while the majority saw their incomes stagnate. To

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some extent those feelings are corroborated by the evidence (Chart 4). Moreover, many Canadians felt that while cuts to the social safety net had allowed Canadian governments to improve their fiscal situation and bolster Canada's international competitiveness, they had hurt the average family. This helps to explain why broader perceptual indicators of social well-being remained stable or even decreased during the 1990s despite objective indicators of positive economic performance. Our most recent survey evidence shows that this has changed, with most Canadians now agreeing that their economic circumstances are better.

It will be helpful to review our examination of the interplay between the official and perceived economy in the 1990s by looking at three broad phases — the early, middle and late 1990s. For this we return to Charts 1, 2, 5 and 6.

The Early 1990s: Through a Glass Darkly

The decade began with the country sliding into what was an unusually deep and protracted recession. Unemployment reached well into double digits (Chart 1) and there was huge downside adjustment, first in the private sector and then in the public sector. The economy contracted 3 percent (Chart 2). Interest rates were relatively high and public finances reached such a desperate state that by the mid-1990s there was talk of IMF intervention and *Wall Street Journal* references likening Canadian public finances to those of a “banana republic.” Real per capita disposable income declined until past mid-decade even while productivity increased, albeit slowly.

The cumulative weight of this grim picture produced a sense of gloom and anxiety in the Canadian public, with a stunning two-thirds of Canadians agreeing with the bleak proposition that they had lost control of their economic future (Chart 6) and under one-quarter feeling comfortable disagreeing. Similar numbers expressed anxiety over their personal risk of job loss. All in all, the first third of the decade concluded with Canadians' views on the economy under a cloud of gloom bordering on despair.

The Mid-1990s: Insecurity Unhinged

Towards the middle part of the decade the economy had climbed out of recession and was demonstrating consistent albeit rather tepid growth (Chart 2). Canada putatively hit the “fiscal wall” in 1995, and the crushing combination of huge public deficit and debt, record-high tax levels and a sector-limited recovery led most Canadians to discount any claims of recovery by the official economy. This inertia of public despair and anxiety continued well into 1997 (Chart 6), even as the economy continued to recover; job creation burgeoned and public deficits were largely arrested and eliminated. This led us to question why, if GDP was up, Canadians were so down.

By 1997-98 public confidence was unhinged and we witnessed wild fluctuations in people's sense of job security and broader economic security (Charts 5 and 6). There was a tendency to largely discount government claims of fiscal progress, although public concerns with debt and deficit did begin to abate. Concern about public finances had gone from a strong plurality holding the view that the deficit was

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mostly a “manufactured” issue at the outset of the 1990s to a pinnacle of public concern by mid-decade.¹⁰

From a qualitative perspective, many Canadians saw (or experienced) the employment losses of the first third of the decade as profound and permanent and the gains of the middle third as selective and volatile. For many, there was a virtual collision between the conclusion to the “old economy” and the awkward, first steps into the new, which in part explains the unhinging discussed above. Compounding the impact of this collision was the speed at which it took place and the amount of “traffic” involved. Coinciding with the emergence of new economic “realities” were the ground-level impacts of government retrenchment and broader institutional and societal shifts. These profoundly inter-related, dynamic forces challenged Canadians’ resilience. In a sense, a great number of Canadians realized that they could not cling to what they had known (because it was gone) and had yet to fix in their minds what the future would hold.

The Close of One Century and Opening of Another: Fluxophilia and the New Economy

However, as the 1990s closed and the new century opened, Canadians could no longer ignore the sustained strong performance of the Canadian economy. Aggregate unemployment continued to drop dramatically (Chart 1), GDP continued to grow, and the Canadian economy began to rival and even surpass the American juggernaut, which had left most advanced Western economies in its dust throughout the 1990s. The yawning pro-

ductivity and standard-of-living gap between Canada and the United States was stabilized and there was some evidence that the Canadian economy was beginning to narrow the American advantage. Moreover, interest rates remained low and real per capita disposable income was rising. While the common perception may be that the enfeebled Canadian dollar is not part of our rosy economic picture, the low dollar has in fact contributed to this success.

Perhaps even more pointedly, the state of Canadian public finances had been dramatically reversed. Record deficits were being replaced by large surpluses at the senior levels of government. This reversal is important for two reasons. First, our research, even up to 1997 and 1998, showed that most Canadians still believed the rate of growth of the public debt was accelerating. Second, and more importantly, our multivariate analysis of attitudes towards government (expectations, trust, appropriate expenditure levels) showed that concern over public finances explained as much and possibly more of the observed variance than any other single factor (including perceptions of the broader economy) (EKOS Research Associates 1995). Canada had magically transformed itself from a banana republic into a northern tiger, leading growth in the G8 and with sound public finances and the lowest unemployment rates in well over a decade. All of this occurred against a backdrop of an almost miraculous new global economy that appeared poised to repeal the laws of business cycles and to continue with unabated growth, floated on the magic carpet of globalization, the electronic revolution and exotic new biotechnologies.

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Synthesis

How does this brave new economy appear through the prism of public attitudes? The most recent data suggest that the public has indeed registered the official success of the economy, although there are entrenched divisions across class lines as to the extent of this success. *Fear of job loss* is well down and *sense of loss of control* has been virtually halved from its mid-1990s apex. It must be noted that economic insecurity is still fairly volatile and confidence levels are not firmly entrenched, particularly amongst certain segments of Canadian society. Our US-Canada comparative survey shows that although the incidence of Canadians believing they had lost all control of their economic future was well down, it was twice as high as that among Americans in 1999. In EKOS's most recent soundings, however, Canadian insecurity continued to decline while American insecurity rose almost 10 percentage points on our *loss of control* indicator (Chart 10).¹¹

There is also a sense that economic polarization has not decreased as the economy has rebounded and that, in fact, a widening and hardening gap between rich and poor is a permanent feature of the new economy, part of the price that must be paid for negotiating a successful strategy to deal with globalization.¹² It is, however, instructive to note that while the majority of Canadians believe poverty is growing and the gap between rich and poor is widening, the size of this majority has shrunk over the past two years.

The more impressive evidence is, however, the breadth of Canadian confidence in the economy. In late 1997 only slightly more Canadians believed the economy was better compared to five years previously than believed it was worse (Table 1), but in May

2000 the better-to-worse ratio had risen to nearly 3:1.¹³ The future looked even brighter for the majority of Canadians, with only single-digit percentages now characterizing themselves as pessimistic and close to four in five declaring themselves optimistic about their personal futures (Chart 11).

Meanwhile, we have seen a dramatic reversal in attitudes towards globalization, technology and trade liberalization. In the early 1990s most Canadians were opposed to NAFTA, almost none had even heard of the Internet and new technology was associated more with risk than with opportunity. In early 2000 globalization was seen in decisively positive terms, the Internet was seen as the most powerful agent of positive change in the lives of the over 60 percent of Canadians who were online, and further trade liberalization was supported by the clear majority of Canadians. Only 4 percent of Canadians believed that change was mostly "a bad thing" while 66 percent thought it was mostly a "good thing" (30 percent were indifferent or did not know) (EKOS Research Associates 2000a).

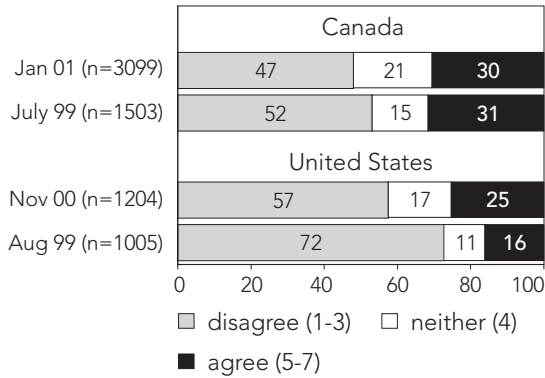
Canadians have emerged from the turbulence and insecurity of the 1990s with a fundamentally different outlook on the economy. They have moved from "future shock" to what we call "fluxophilia" (love of change). This transformation may represent the emergence of a new postmodern personality. It may be as significant as the shift in worldview and values that accompanied the transformation from mercantilism to industrialism (although compressed into a tiny fraction of time compared to that great transition).

All of this suggests that the traditional relationships between perceptions of the economy and attitudes towards government

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CHART 10
Tracking Economic Insecurity

"I feel I have lost all control over my economic future."



Source: Rethinking Government, EKOS Research Associates Inc., US Surveys.

and society may be undergoing a historical transformation beyond the usual fluctuations of the business cycle. Within this historical cauldron, equally profound transformations in the role of the State and broader institutions are taking place. This sets the stage for the final questions of our discussion — how do citizens weigh and balance economic and social well-being, and how do economic perceptions influence attitudes towards the redistributive role of the State?

ECONOMY FOR WHAT? THE PUBLIC BALANCE OF ECONOMIC AND SOCIAL WELL-BEING

There is a vast philosophical and social science literature on the notion of well-being. Our intention is to bypass these intellectual views and assess public impressions of the relative importance of economic and social well-being. In the public consciousness, economic well-being refers to the amount and security of one's income/wealth set against the costs of

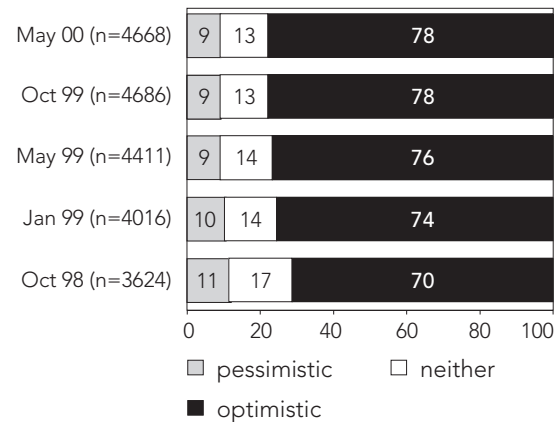
necessities and luxuries. Social well-being is a more complex and elusive concept; for most people the notion of overall quality of life, both individual and collective, would come close to the definition of social well-being. Our research indicates that members of the public draw a clear distinction between the economic and social realms.

Quality of Life Versus Standard of Living: Dominance of the Social Realm

As noted above, our research has revealed a profound gap between the resonance of "standard of living" and that of "quality of life." In fact, this gap is at the essence of the conflict between Canadians' views of economic policy and indicators such as productivity growth. In what we have labelled the "Bay Street variant," productivity is primarily linked to improving the material standard of living and involves a relatively small tool kit of solutions (chiefly

CHART 11
Optimism

"Would you describe yourself as pessimistic or optimistic about your personal future?"



Source: CIO Government Communications Surveys, EKOS Research Associates Inc.

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tax cuts and minimal government) (EKOS Research Associates 1999). Formulated in these narrow, economistic terms, the issue finds little resonance with Canadians. In the people's variant of this agenda, or what we call the "Main Street variant," the issue is constructed around productivity for quality of life. This objective brings into play a much expanded tool kit, which, while not excluding tax cuts, orders and clusters priorities in a more balanced manner, with the emphasis on human capital (e.g., health, education, skills, kids).

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As discussed in note 4, our focus-group participants had a great deal of fluency in these issues and had no trouble discussing standard of living and quality of life. Most described standard of living as measurable in income/assets: "It's about how much money you have." They saw quality of life as a much broader concept, encompassing a whole range of potential factors depending on individual preferences and motivations.

The connection among macroeconomic performance, standard of living and quality of life was much debated in our focus groups held in the early part of 1999. For many, the extent of the connection for "average people" like them was determined by government action (i.e., how it distributes economic benefits throughout society). All participants believed, for example, that it is quite possible for an economy to grow while most people see their standard of living decline if the "rich are allowed to keep all the profits." Most participants believed this may well be what has happened in Canada. The idea of the rising tide lifting all (or at least most) boats was seen as theoretically plausible but did not resonate: "Not everyone has the same chances to benefit; some boats are leaky."

Moving Beyond the Dualism of Social or Economic Agenda: The Emerging Humanomic Ethic

Given the two competing models of Bay Street and Main Street, the majority of Canadians would line up behind Main Street on this complex issue. The preferred goal for Canada in 2010 is to have the "best quality of life in the world" (Chart 12). It is worth noting that achieving the highest standard of living is at the bottom of the list. Indeed, the top part of the chart is dominated by "softer" goals and the bottom by harder, fiscal goals. It is not that people do not want more money — they clearly do — but that they do not want to define themselves or the society they pass on to the next generation in purely pecuniary terms. It is also worth noting that Canadians are resistant to a purely idealistic-humanistic societal goal. The *bridging* of social and economic concerns can transcend these false dichotomies.

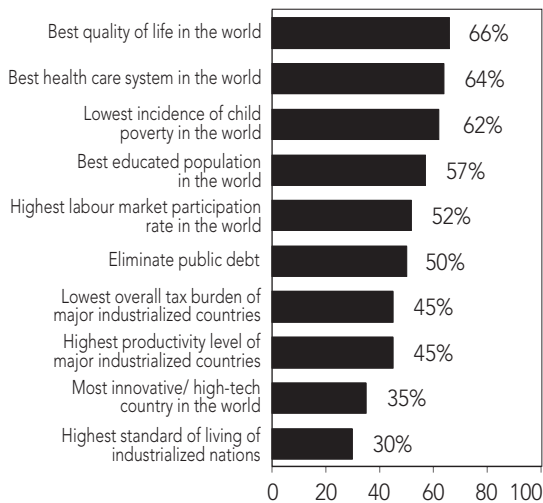
Canadians do not equate quality of life with standard of living. Quality of life is linked to human investment priorities; for example, there is a strong link between a healthy population and quality of life. It should also be noted that there is a strong positive association between perceived quality of life and income (Chart 13). It is remarkable that in research carried out by EKOS this strong linear relationship seems to disappear and even reverses itself after annual income exceeds \$150,000.¹⁴ This implies profound questions about the ideal distribution of wealth in society.

There is also an expressed desire to explicitly link social and economic policies, which are now broadly seen to have complementary rather than competing agendas. In evaluating the current emphasis of

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CHART 12 Preferred Goals for Federal Government

"If you were Prime Minister for a day, and had to pick an overall national goal for Canada to achieve by the year 2010, which of the following would you choose?"



Note: Presented in series of random, paired choices. Percentages indicate average number of times each option was selected over all others.

Source: Productivity Study, June 1999, EKOS Research Associates Inc.

government, most Canadians see its prevailing focus as economic. However, Canadians register substantial support for a more balanced or social learning agenda.

DO RISING ECONOMIC TIDES BOOST COMPASSIONATE ETHIC? THE IMPACT OF ECONOMIC PERFORMANCE ON ATTITUDES TOWARD REDISTRIBUTION

How does the performance of the economy (both official and perceived) affect attitudes toward redistribution? In narrow terms, this could refer to the emphasis placed on tax burden versus spending priorities, particularly social assistance,

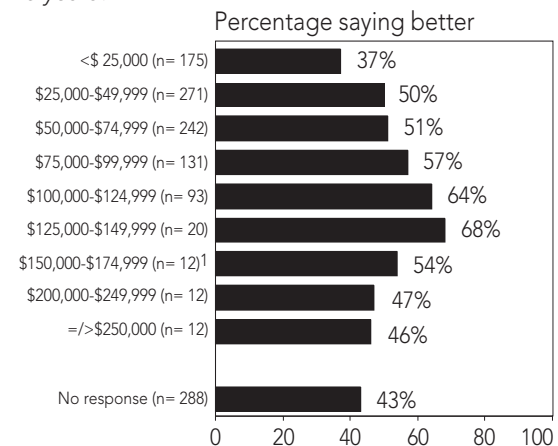
regional transfers and unemployment insurance.

We can consider relationships at both the micro (individual survey respondents) and macro (aggregate) level. The former refers to the relationship between an individual's sense of personal economic security and his or her attitude toward redistribution, the latter to how aggregate societal attitudes vary according to official and perceived ups and downs in the economy. This would be roughly analogous to the distinction between an individual's income and GDP.

In addition to considering the relationship between economic performance and attitudes toward redistribution in the narrower sense, we have argued that it is essential this

CHART 13 Quality of Life

"Thinking about your personal quality of life, do you think it has gotten better or worse in the past 10 years?"



¹ Four persons in the sample had household incomes of between \$175,000 and \$199,999. All of them said that their personal quality of life had gotten better over the past 10 years. When these responses are added to the previous household income level, 68 percent of respondents (n = 16) with incomes of \$150,000 to \$199,999 say better.

Source: Productivity Study, 1999, EKOS Research Associates Inc.

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problem be cast in a broader historical field. We believe, as do many others, that broader historical shifts are occurring in terms of basic values and orientations to the role of the State, economy and society. These contextual factors are crucial to an understanding of the simpler issue of how economic performance influences attitudes toward redistribution. These revolve around shifts in expectations and value of the State and the marketplace.

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The Individual Linkage Between Economic Performance and Attitudes Toward Redistribution

Before considering macro or societal linkages, it is helpful to consider the micro or individual-level linkage between economic performance and attitudes toward redistribution. As noted earlier, we extend the analysis to the broader issue of support for active government. Economic performance is typically thought of as an aggregate attribute of the overall (or regional) economy. Individuals can also demonstrate (and reflect broader) economic “performance” (e.g., their personal income, wealth, productivity, standard of living), but this is an unusual usage of the term. There is, however, a danger in correlating only the aggregate attributes of a society (as, for example, in Chart 12). Although these macro indicators are interesting and useful to examine in the aggregate, this level of analysis can disguise the way these relationships function at the individual level.¹⁵

In fact, the micro or individual-level relationships between economic performance and attitudes towards redistribution function very differently from relationships at the macro or aggregate societal level. For individuals, there is a striking and predictable linkage between social class and attitudes

towards government spending. Economically secure citizens are much less supportive of redistributive functions and more supportive of accelerated tax relief than citizens drawn from economically vulnerable locations within society. This is a reflection of both class values and interests and corresponds roughly to J.K. Galbraith’s “culture of contentment” thesis. The economically secure are much less likely to need government support and much more likely to pay more taxes than the economically vulnerable.

If the macro level followed the same logic as the micro level, we would expect that as aggregate perceptions of economic performance (and security) strengthen there will be more secure people and hence less support for active State redistribution. In fact this is not the case. As economic performance has improved, producing more affluent people, the appetite for active government has risen, not declined. Potentially, the discrepancy can be explained by the notion of “relative deprivation.” More citizens may be affluent, but the gap between the truly wealthy, who make up a small percentage of the population, and the rest of the population may remain the same or become perceptually even wider. This provides a vivid illustration of aggregation bias and a useful segue to the more relevant topic of the aggregate linkage among societal attitudes toward redistribution, the State and economic performance.

The Macro Linkages

Canadian society has not become more resistant to an active role for the State in social well-being. In fact support for active government investment has risen impressively over the past five years. This conclusion is clearer when scrutinized against the

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TABLE 3
Allocation of Budget Surplus

"As you may know, the government in Ottawa has said it will have a budget surplus over the next several years. How would you prefer the federal government make use of this budget surplus?"

	Invest in social programs like health care and education	Reduce the national debt	Reduce the level of taxation across the board
Region			
Atlantic	63	17	18
Quebec	57	18	23
Ontario	52	28	20
Man./Sask.	47	24	27
Alberta	44	34	21
British Columbia	45	29	26
Household Income			
<\$20,000	64	18	17
\$20,000-\$39,999	56	22	21
\$40,000-\$59,999	48	28	23
\$60,000-\$79,999	45	32	22
\$80,000-\$99,999	47	28	24
=>\$100,000	41	29	27
"I Feel I Have Lost All Control Over My Economic Future."			
Economically secure	51	28	20
Economically insecure	55	20	24

yardstick of an "active" State investing in social well-being than against the narrower criterion of attitudes toward redistribution.

As Table 4 clearly shows, the percentage of respondents who say that the federal government should "increase" its involvement (summed across a broad range of government activities) has risen progressively (from 39 to 50) since 1995, while the per-

centage who say that government should "reduce or eliminate" its involvement has declined from 25 to 10. These clear (monotonic) patterns correspond fairly directly to rising confidence in personal and national economic performance.

Redistribution, in the narrower form of passive income supports and regional wealth transfers, has suffered stagnant or declining support over the past 20 years. This decline in support is associated with broad post-material shifts (e.g., from collectivism to individualism), declining trust in and expectations of government, and a growing belief that the parental welfare state had the irony of perpetuating the very problems it sought to solve. The shifting metaphor of the social safety net as a hammock, encouraging indolence and abuse, is evident in current political (and popular) beliefs.

Less obviously, this decline in support for the progressive redistributive State has not been replaced by the neo-conservative ethic of radical self-reliance, minimal government and trickle-down economics. These approaches have, if anything, been even more decisively eschewed by citizens who seek a more pragmatic and effective strategy for achieving social well-being. This points to the centrality of human capital investment, in concert with explicit attention to fiscal prudence and sound economic management, as the key to securing stable quality of life. When it is cast in these terms, we can see rising support for a "conditionally active" State as the economy strengthens.

To empirically illustrate these arguments, we will conclude by reviewing shifting public values and attitudes

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TABLE 4
Future Federal Government Involvement
Across All Priorities

“Overall what would you like to see the federal government do in the future?”

	1995	1996	1997	1998	2001
Increase involvement	39%	39%	48%	46%	50%
Maintain involvement	34%	42%	40%	42%	38%
Decrease involvement	18%	13%	9%	9%	8%
Eliminate involvement	7%	7%	2%	2%	2%

Source: Rethinking Government, EKOS Research Associates Inc.

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toward the State and redistribution over the past decade. We will review four key indicators:

- changes, over the past several years, in the call for increase/maintenance or decrease/elimination of federal government activities (Table 4; Chart 14);
- public ratings of fiscal and social priorities for the federal government during the 1990s (Chart 15);
- specific reactions to a trickle-down strategy versus increased investment concerning child poverty in light of increased prosperity (Chart 16);
- shifts, over the past several years, in preferred broad role orientations for government (Chart 17).

Conditional Receptivity to New Activism: An Increased or Decreased Role for Government?

Despite deep scepticism about the effectiveness, efficiency and fairness of government, Canadians are now clearly looking

for a return to an active agenda. Reduced fears over public finances, growing concerns about the social costs of retrenchment and globalization, and a desire to preserve a unique Canadian identity are all fuelling guarded acceptance of a greater role for governments in general and the federal government in particular. Most recently, rising levels of economic optimism have reinforced this “active shift.”

One of the crucial questions here is what is the relative role of the economy in this rise in support for government involvement? Is it reduced fears over public finances, a sense that social needs have worsened or that public largesse is less constrained by economic fears? Our research suggests that all of these factors are at play, and our multivariate models indicate separate effects for each. In the aggregate, however, it appears that economic confidence may be the most crucial factor.

In the past few years we have seen Canadian public opinion stabilize at a consensus that both senior levels of government should increase or maintain their level of involvement across all policy areas (Table 4).¹⁶ In fact, as economic confidence has risen the emphasis on “increase” involvement has continued while that on “eliminate or reduce” involvement has lessened dramatically. In the past when we randomly used the word “spending” instead of “involvement” we achieved the same result.

Chart 14 breaks down the increase/decrease test for health care, education and unemployment. These specific tests focus on both redistribution (unemployment) and broader active investment measures (e.g., health care and education). They also include areas that are seen as worsening (health care) and improving (unemployment). Hence we

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can roughly test the impact of needs/conditions versus economic performance.

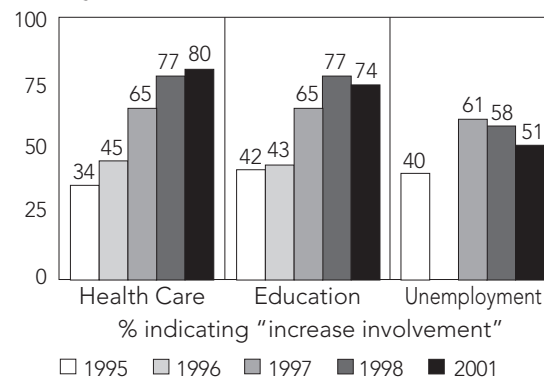
In the case of unemployment (an area of declining need), the incidence of “increase” dropped by 10 percentage points between 1997 and 2001. It must be noted, however, that the increase figure is still significantly higher in 2001 (at 51 percent) than it was in 1995 (at 40 percent). This suggests that both social conditions and economic performance influence attitudes towards redistribution. In the case of health care, our measures of perceived need show that Canadians do believe needs have risen rapidly since 1995 due to perceived deterioration in the system. However, the incidence of perceived deterioration, while still high, has actually been dropping significantly over the past year. Meanwhile, support for increased involvement continues to rise. Once again, this suggests that both need and economic performance are important but that the economy may be a more significant factor.

Fiscal Versus Active Priorities

When we asked an *identically* phrased question about what priority the federal government should assign to “level of taxation” against other issues such as unemployment and debt, we found it registered low as a public concern (Chart 15). These patterns have continued into 2001 and are reinforced by other evidence and numerous other tests.

There has been a consistent and progressive pattern, since the mid-1990s, of declining concern with level of taxation (now cited as a priority for government by only 62 percent of Canadians, versus 92 percent for health and 87 percent for child poverty). At the same time, we are finding evidence of rising concern in other areas (Chart 16) and

CHART 14
Future Federal Government Involvement by Priority



Source: Rethinking Government, EKOS Research Associates Inc.

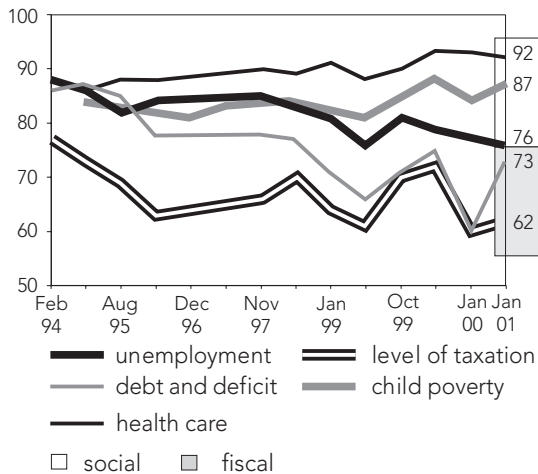
increased receptivity to the need for government to play a role in addressing problems in our collective life. We are also seeing a fairly strong rejection of trickle-down economics.

The public’s desire for a return to active government is, however, highly conditional. The public resists a return to old-style government and seeks a new approach that stresses targets, results measurement, fiscal discipline and partnerships. The public does not want to reduce the government’s role to that of accountant. They want government to help plan, coordinate and protect. Despite their reservations, Canadians still want government to deal with the really big problems that are too onerous for them to manage on their own. Children, the next generation and the widening gap between rich and poor are some of the issues that Canadians are deeply concerned about and do not believe will be adequately managed through tax cuts or minimal government.

Chart 17 shows the most recent role hierarchy for government, noting changes from five years earlier. Canadians espouse a mix of liberal and conservative roles for the

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CHART 15
Longer-Term Tracking of Federal Priorities
"Thinking not just of today but over the next five years, what priority should the federal government place on each of the following areas?"



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Note: % indicating high priority (5,6, 7 on a 7-point scale) "debt and deficit" replaced by "debt and public finances" in January, 1998.

Source: Children's Survey, January 2000, Rethinking Government, EKOS Research Associates Inc.

federal government. The continued (and recently declining) low ranking of minimal government, in contrast to the high ranking accorded a government role in promoting full employment and tolerance and understanding, reflects a desire for active government.

Note that the public's hierarchy is dominated by active roles. At the bottom of the list is minimal government. Equality roles (based on redistribution) are also rated low, as are values linked to wealth and competitiveness. This indicates the danger of focusing on attitudes towards redistribution as a bellwether for attitudes towards government involvement when discussing Canadians' views of their economic and social well-being.

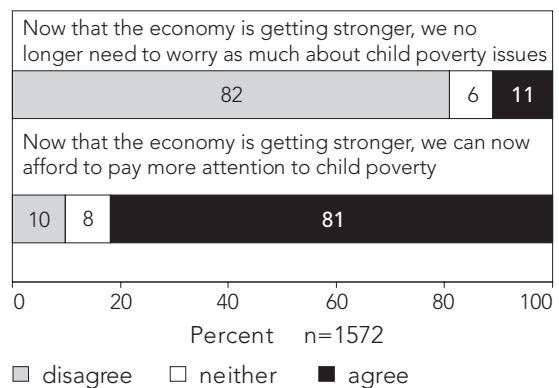
One of our core conclusions is that the economy is very important but that the

economy and economic values are seen as instrumental, not terminal, values. Economic values like thrift, productivity and competitiveness are seen as tools for the achievement of higher-order, humanistic goals (e.g., a healthy population, freedom, a clean environment). We believe that the idea of "humanomics" will help to capture this rising sentiment.

"Humanomics"

Although another neologism to describe government is probably not an urgent need, we believe that the label *humanomics* can help describe a growing public desire for an economic approach that recognizes both the centrality of real-world human results (e.g., improved health, skills and quality of life) and human-resource inputs (e.g., improved human-capital investments in health and education) as a means to achieve these results. Humanomics is a blending of social investment and hard economic priorities, with government serving as a strategic broker among citizens, the private sector and institutions. The notion of humanomics can help redefine

CHART 16
Concern for Others

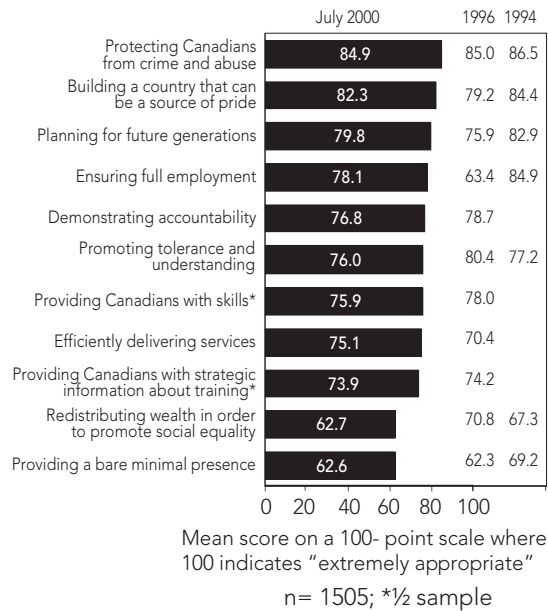


Source: Rethinking Government, Nov. 97 & HRDC Child Poverty Survey, Oct. 97, EKOS Research Associates Inc.

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CHART 17 Tracking Future Roles for Federal Government

"For each of the following, I would like you to rate how appropriate you think that each would be as a future role for the federal government."



Source: Rethinking Government, July 2000, EKOS Research Associates Inc.

the relationship between economic policy and social policy as components of an overall plan to increase opportunity and reduce economic risks, rather than as competitors for scarce societal resources. Citizens believe that humanism and economics can be synthesized to transcend some of the excesses and divisions that have characterized the traditional left-right focus. We believe the notion of humanomics can also help solve the paradox of how it can be "the economy, stupid!" when all of the government's priorities and top-rated values are humanistic concerns.

Despite the allure of a new humanomic State, deep divisions underlie the potential consensus for such a model. The rapid social, economic and cultural changes of the late

20th century have fostered the emergence of an incipient underclass in Canada, along with deep disagreements amongst the economically comfortable classes.

This analysis suggests that the ongoing fluctuations in the economy will continue to have a profound impact on the debate, although that impact will be less predictable in future. The recent federal election was probably the first campaign in what will be an intense "vision" war to rebalance the roles of the economy, society and the State. Although the performance of the economy will continue to strongly influence the outcome, there are reasons to believe that a less deferential, more sophisticated postmodern citizenry will ultimately demand that it be given the final say.

NOTES

The core conclusions in this article are based in part on the thesis developed in Graves (1999). Although as the author I am ultimately responsible for any errors, I share any credit with a number of colleagues. At EKOS, Andrew Sullivan and Sheila Redmond were especially helpful in assembling the literature and background analysis. Christian Boucher, Norm Leckie, Manon DesGroseilliers and Patrick Beauchamp all provided additional useful input. Alfred MacLeod bravely presented a rough draft to the initial authors' symposium, at which point we received helpful feedback from other participants and from the editors. Richard Jenkins provided very insightful commentary as the discussant, for which I am grateful. Finally, I thank the hundreds of thousands of Canadians who patiently endured our surveys and focus-group sessions during the 1990s.

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- 1 Page and Shapiro (1992) argue that public opinion varies in regular, predictable ways. This view is not without its detractors, who argue that the fit between objective and subjective economic variables is less reliable than commonly assumed. See, for example, the articles in Clark et al. (1992a).
- 2 This does not necessarily indicate that the more highly educated members of a society always respond to economic indicators in an objective fashion. For example, Krause (1997) questions the use of aggregated public opinion data to determine relationships between the economy and economic expectations — that is, personal financial and/or sociotropic expectations concerning the economy. When disaggregated, the data show that those with high school education or less were uninfluenced by “expectational” cycles — that is, their personal financial expectations mirrored actual economic conditions — whereas among those with at least one undergraduate degree there was a difference between real economic conditions and personal and sociotropic financial expectations. This finding is consistent across virtually all of our indicators of economic performance, optimism and security, with more affluent Canadians as well as those with higher levels of education declaring themselves to be more bullish not only about their own situations but also about the state of the country, its finances and its future prospects. It should be noted that Krause looks at disaggregation by education level only.
- 3 This is supported by EKOS’s *Rethinking Government* series.
- 4 In the qualitative component of EKOS Research Associates (1999), focus-group participants were asked whether they discerned a difference between “standard of living” and “quality of life.” Consistent with the quantitative findings, they saw quality of life as far higher in priority and encompassing a host of factors including standard of living, emotional, physical and spiritual well-being, a clean environment and active government supports.
- 5 There appears to be a threshold effect in the relationship between social variables and economic growth. In underdeveloped countries an increase in economic growth is matched by a dramatic rise in social indicators such as birth rate and employment, whereas in developed countries a similar increase in economic growth is not matched by a comparable jump in social indicators. One can extrapolate that in a functioning democracy the public takes high growth rates for granted in assessing quality of life and therefore, after a “bad economic spell,” sees conditions as merely returning to expected levels. See Krause (1997) and Fedderke and Klitgaard (1998).
- 6 Social indicators are broadly understood to include life expectancy, physician-to-population ratio, availability of education, suicide and homicide rates, energy consumption, etc. There are suggestions that a web of associations amongst social indicators might play a role in economic growth, but there is little theoretical understanding of this role. Most social indicators are proxies for difficult-to-measure attributes. They seem to be more consistently and strongly associated with level of change than with rate of change in per capita GDP. It may well be that the rate of change in GDP and other objective economic indicators have little bearing on changes in public opinion on social issues (cultural indicators), as changes in these areas are caused by other factors not strictly related to economic indicators. Therefore a lag between an improved economy and public perception of improving social conditions or social variables is not all that surprising. See Fedderke and Klitgaard (1998).
- 7 The more influential literature in this area includes Nye, Zelikow and King (1997), Inglehart (1990), Nevitte (1996) and Giddens (1998).

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- 8 While this clear shift in preference towards active measures is evident across many areas of social policy, it is particularly marked in the field of labour markets. After extensively tracking Canadian attitudes towards Employment Insurance (and its predecessor, Unemployment Insurance) throughout the 1990s, we now find a 20 percent advantage for those who believe EI should act as a springboard for the unemployed to return to work over those who believe it should be used, for instance, to stabilize the economy during periods of recession. See EKOS Research Associates (2000a).
- 9 One might speculate that the lag is indicative of a transition period in the learning processes of a public embarking on a positive relationship with globalization and the new economy, equivalent to that in emerging marketplace economies. The evidence in this article is for the existence of this lag and the emergence of a new way of looking at the economy and its interplay with social factors. Anderson and O'Connor (2000) describe the learning process concerning economic indicators that took place during the first five years of East Germany's marketplace economy after destruction of the Berlin Wall and reunification with West Germany, with East Germans' perceptions of the economy gradually becoming aligned with the objective economy.
- 10 The February 1994 issue of *Rethinking Government* reported that 47 percent of Canadians agreed that "recent concern about the deficit was manufactured by large businesses and wealthy Canadians" and just 27 percent disagreed.
- 11 This finding supports the findings of the Conference Board's Consumer Confidence Index referred to earlier. See Conference Board (2001).
- 12 While in 1996 some 81 percent of Canadians were worried Canada was moving "increasingly to a society of haves and have-nots," by July 2000 the figure had stabilized at 75 percent. In related qualitative research conducted as a component of the *Rethinking Government* studies, participants viewed this phenomenon with a sense of resignation, with a disenfranchised underclass as the unfortunate by-product of international competitiveness.
- 13 These findings are explored in depth in EKOS Research Associates (2000b). However, it should be noted that this information was gathered before news of the current slowdown in the United States broke.
- 14 While the number reporting that their quality of life has improved over a 10-year period rises with income, this trend levels off and then in fact reverses at \$150,000 per annum. See EKOS Research Associates (1999).
- 15 The problem of potential discrepancies between correlating aggregate and individual-level data is discussed in the literature under the rubric of aggregation bias (either "ecological" or "psychological fallacies").
- 16 Respondents were asked to indicate whether the federal government (and the provincial government, separately) should "increase," "maintain," "reduce" or "eliminate" its involvement in a series of 20 different policy areas. The findings discussed here are based on the aggregate responses of respondents across all individual policy areas explored in the question.

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