



Economic Pain Not Spread Equally

If a recession hits Ontario, as many think is already the case, will its turbulence affect all of us in the same way? Not if past history is a guide.

Martin Prosperity Institute researchers using the definition initially introduced in Richard Florida's *Rise of the Creative Class* have examined century-long trends in employment in four major economic classes of workers:

Creative class. High autonomy occupations where workers are paid to think (e.g., artists, doctors, nurses, senior managers, architects).

Service class. Low autonomy occupations in the service sector (e.g., food service workers, janitors, grounds keepers, secretaries, clerks)

Working class. Occupations that depend highly on physical skills and repetitive tasks. (e.g., construction trades, mechanics, crane operators, assembly line workers).

Farming/forestry/fishing class. Occupations specific to the farming/forestry/fishing industries.

These distinctions are different from the usual industry classifications. Somebody may be working in the automotive industry but is not necessarily working on the assembly line in a working class occupation. In fact, about a third of employees in Ontario's manufacturing industries are in the creative or service class. Manufacturing firms like General Motors and Research in Motion have many of their employees in creative occupations like design, accounting and management.

Occupations in the creative class and the service class are exhibiting the most employment growth in Ontario. Over the past 25 years, the creative class has grown from 26% of the workforce to 30%; the service class has grown from 41% to 46%. In the meantime, the working class percentage has fallen from 29% to 22%. Only 2% of workers are in the remaining class of farming, fishing and forestry occupations.

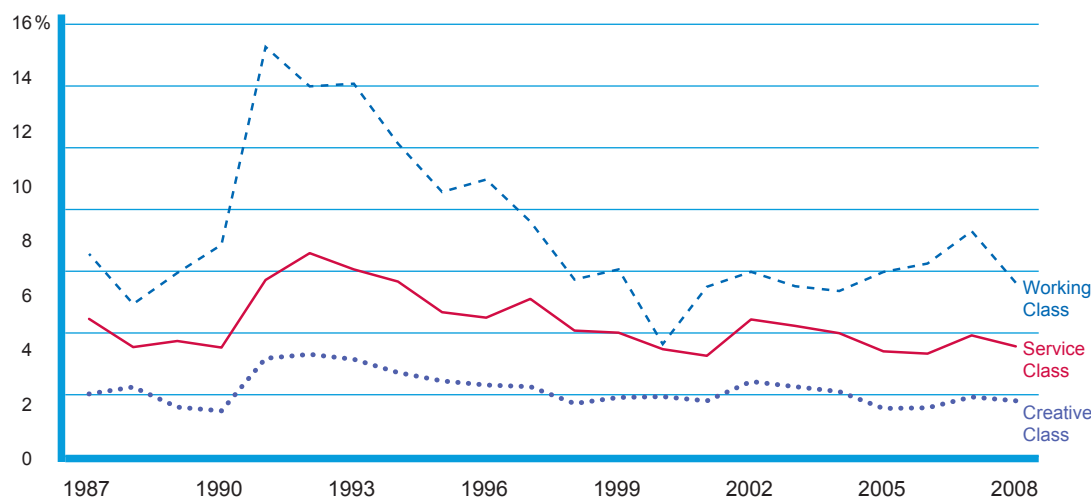
These trends mirror developments in the U.S. economy where the working class peaked at around 55% of U.S. workers in 1920. Since that time it has fallen to about 25%, the same as in Ontario. At the same time, the percentage of employment in our manufacturing industries has also been falling. Yet, manufacturing output continues to grow – manufacturing is truly a productivity miracle.

With the growth of the service and creative classes, wage inequality takes on a new face. Creative class occupations in Ontario pay considerably more than the other three – on average 38% more than all occupations. The service class earns 22% less than average. Working class occupations pay 17% less than average annually. Service class occupations are dominated by women and are much more likely to be part-time jobs, while the working class tends to be a male preserve. People in the creative class are much more likely to be university educated while those in the working class and service class are less likely to be university graduates.

But perhaps the biggest and scariest difference is in the impact of unemployment as the chart below shows.

Ontario, unemployment rate, 1987-2008

Percentage Unemployed



Source: Martin Prosperity Institute and Institute for Competitiveness & Prosperity analysis based on data from Statistics Canada, Labour Force Survey micro data for April in each year.

Unemployment rates among the working class have been about three times the rate of those in the creative class over the past decade. But the working class has been faring worse than this since 2003 when its unemployment rate began to creep up (until 2008) while for the creative and service classes it fell slightly. Service class unemployment has been about double the creative class rate and has not diverged from it in the past 20 years.

But look at the last recession in Ontario. Unemployment rates among the working class rose to 15% in 1991 while the creative class and service class experienced much more modest increases and for a slight lag in reaching unemployment highs.

As many observers see Ontario heading into another recession, will the working class be as vulnerable?

What our research suggests is that the longer run shift of Ontario’s and North America’s economies from working class to creative and service class jobs, while painful, may dampen the effects of recessions on job losses. Our future research will outline the effects of this shift on our industries and occupations with the goal of ensuring the jobs we create possess the right mix of skills, pay as well as possible, and add innovative value to our economy.

The Martin Prosperity Institute (martinprosperity.org) at the [University of Toronto’s Rotman School of Management](http://www.rotman.utoronto.ca) is the world’s leading think-tank on the role of sub-national factors – location, place and city-regions – in global economic prosperity. Led by Director Richard Florida, we take an integrated view of prosperity, looking beyond economic measures to include the importance of quality of place and the development of people’s creative potential.

This Martin Prosperity Insight is part of the “Ontario in the Creative Age: Toward an Economic Blueprint” series, a project we are conducting for the Ontario Government. The project was first announced in the 2008 Ontario Budget Speech, and its purpose is to understand the changing composition of Ontario’s economy and workforce, examine historical changes and projected future trends affecting Ontario, and provide recommendations to the Province for ensuring that Ontario’s economy and people remain globally competitive and prosperous. The series will involve a number of Insight releases over the course of the coming months.