

The Eric John Hanson Memorial
Lecture Series
Volume VII, Fall 1993

Governments and the "Jobs" Issue

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Arthur Kroeger

Visiting Professor, Queen's University and
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Recently, Deputy Minister Employment and Immigration,
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FOREWORD

The Eric John Hanson Memorial Lecture Series recognizes the many contributions made by Dr. Eric Hanson to the University of Alberta and to the wider community. Eric Hanson taught at the University of Alberta from 1946 to 1975. He was Head of the Department of Political Economy from 1957 to 1964, and was instrumental in building our department. Many of us have benefitted from his dedicated efforts and his wisdom.

The seventh Hanson Lecture, Governments and the "Jobs" Issue, was delivered by Arthur Kroeger. Dr. Kroeger is Chancellor of Carleton University, Chair of the Public Policy Forum, and a Visiting Professor at Queen's University and the University of Toronto. He is an alumnus of the University of Alberta, having received an Honours BA before going to Oxford University on a Rhodes Scholarship. He was made an Officer of the Order of Canada in 1989, earned the Public Service Outstanding Achievement Award in the same year, and was awarded an honorary Doctor of Laws degree by the University of Western Ontario in 1991.

In a very distinguished public service career that began in 1958, Dr. Kroeger has served as Deputy Minister in the Departments of Indian Affairs and Northern Development; Transport; Ministry of State for Regional Development; Regional Industrial Expansion; Energy, Mines, and Resources; and Employment and Immigration.

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Kenneth Norrie
Acting Chair
Department of Economics
January 7, 1994

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It is an honour to be invited to deliver the 1993 Eric Hanson Memorial Lecture. For me, the invitation was especially gratifying because it came from the university where I enrolled as a freshman in 1951, and which I still regard as "home".

I should add that the departments from which I received most of my instruction here were English and Modern Languages. I therefore trust that the Department of Economics, which is the sponsor of this lecture, will understand why, in addressing my chosen subject of "jobs", I do not propose to venture on to its ground, but instead will speak to you from my experience as a former government official.

My principal thesis is that Canada, in common with a number of other countries, faces severe problems of providing employment for its population, and that these problems may well get worse rather than better as we approach the next century. There are very severe fiscal constraints on governments at present, but I want to suggest that these need not preclude effective action. What is needed is for governments to develop a comprehensive approach to what has now become a pressing national problem, and to do so jointly with the private sector.

Finally, I shall have some thoughts to offer about the need for future inter-governmental co-operation in Canada and particularly the need to integrate welfare, unemployment insurance, training, and education in a re-designed social safety net.

"A Jobless Economy?"

In talking to you about the problem of employment, I want to begin with an incident that has stuck in my mind for many years.

In the mid-1960s my older brother was a Texaco representative in Southern Alberta. Among his clients was a Hutterite colony near Lethbridge. On one of his visits, a casual conversation with some of the leaders led him to ask about the social organization of the colony. What approach, for example, was used to maintain internal discipline, and to deal with those who rebelled against the colony's strict moral and religious precepts? He was told that such individuals would first be asked to correct their behaviour and, if they did not respond, would be given a severe talking to.

But what, my brother persisted, do you do when all else fails, when someone stubbornly refuses to behave? "Ab", came the reply, "if it comes to that, then we don't give him anything to do."

I think that those with first-hand experience of unemployment in our society could attest to the power of such a sanction.

The picture of post-war trends in Canada can be provided by a few basic pieces of data. In the decade of the 1950s the

Canadian rate of unemployment averaged 4.2%, in the 1960s 5%, in the '70s 6.7%, in the '80s 9.3%. So far in the 1990s it has been running above 11%.

It had been expected that the "baby bust" of the late '60s and early '70s, which nearly cut in half the number of youth reaching employable age in recent years, would greatly ease problems of youth unemployment and contribute to a general improvement in job markets. Unfortunately, the average rate of job growth over the 1980s also fell sharply by comparison with preceding decades. Almost anyone with children in their twenties today knows something of the acute difficulties young people are having in finding jobs, and particularly the permanent jobs that my generation virtually took for granted.

A trend that has particularly affected older workers is the growth in long-term unemployment. This trend first began to attract attention in Canada during the mid-'70s, when 13.5% of the unemployed were found to have been out of work for six months or more. **I**n the recession of the early '80s this figure nearly doubled. With the recovery it subsided modestly, but it then turned upwards in the recent recession, and a year ago stood at the unprecedented level of 30%.

One further important development I want to draw attention to is the polarization of labour markets. The late Economic Council of Canada made a major contribution to public understanding with its 1990 report entitled "Good Jobs, Bad Jobs". What the Council described was strong employment growth in the well-paid, high-skill jobs in fields such as financial services and computer applications; a roughly equal growth in what the Council characterized as "non-standard jobs", i.e., low-paid, low-skill jobs, many of them temporary or part-time; and a marked shrinkage of employment in the middle range -- the jobs

in mining, in forestry, and on factory assembly lines that have traditionally been regarded as the back-bone of the Canadian labour force.

These trends continue to the present day. Non-standard jobs accounted for half of all job growth in the 1980s, and by the end of the decade accounted for 28% of all employment. Statistics Canada reported last summer that part-time employment had risen by 286,000 in the preceding three years, while full-time employment had fallen by 466,000.

Disproportionately represented among the holders of non-standard jobs are those with below-average education, together with other groups such as single parents, who are predominantly women. What we have, therefore, is the steady growth over several decades of an under-class in the Canadian labour force, with increasing inequality in the returns to different people for a day's work. The tax system and social transfer payments have so far managed to mitigate the effects of this trend, but the longer term outlook is one of growing inequality in Canadian society.

Of all the trends that can be identified, the most ominous relate to the service sector, which in the past two decades or so has accounted for 90% or more of all net employment growth. Evidence is now accumulating that technology may soon devastate employment in this sector the way it has in manufacturing in recent years. The optical character reader, for example, will make redundant large numbers of transcription jobs. The people in these jobs are for the most part of only average intelligence, and not many are likely to move up the employment scale into functions such as computer programming. Depending upon how widespread such phenomena prove to be, they could lead to a serious deterioration in the job market.

Virtually all Western industrialized countries are faced with the kind of problems I have been describing. The OECD has forecast an average unemployment rate of nearly 12% for members of the European Community next year, and the long term unemployed in a number of members now account for 50% of the total, as compared with 30% in Canada. In the U.S., while unemployment is lower than in Canada, there has been a reduction in real wages of nearly 10% in the past decade. The President of the EC Commission has described mass unemployment as "paralyzing European societies" and has proposed a set of measures to deal with it. On this continent, President Clinton plans to hold a Jobs Summit.

Among independent commentators, Richard Barnet of the Brookings Institution has recently written that "across the planet, the shrinking of opportunities to work for decent pay is a crisis yet to be faced" and that "the world-wide job crisis threatens not only global economic growth but the capitalist system itself".

There is some division of opinion about how long present-day problems will continue, but I do not know of any serious analyst who expects a major improvement in the short term. Some are optimistic that the economic recovery will soon develop real momentum, but to most the prospects for employment growth are much more doubtful.

Concern about these issues is no longer the sole preserve of unions and social action groups. Here are some excerpts from a speech made last spring by Marshall Cohen, the Chairman of The Molson Companies Limited:

"The theory suggests that for every job we destroy, in the long run we create two. That has been an article of faith for decades. But I think it is time

to start questioning that faith...It seems to me that the rate of re-structuring has accelerated to the point where the economy may not be able to produce as many jobs as it eliminates for the foreseeable future... The benefits of [productivity increases] are obvious, but what of the costs? Can we take it as a given that lost jobs will be replaced, or will we suffer from a job gap --one that is more than transitional and temporary? ...Robert Reich, the new U.S. Secretary of Labour, has talked about a jobless recovery. But, are we verging on a jobless economy?"

In recent years, governments in Canada and elsewhere have come under increasing pressure to take action on employment problems. To date, the response has been quite limited. Governments are generally preoccupied with their fiscal problems, and are also at something of a loss to find measures that will produce real results and at the same time be affordable.

Fiscal Constraints

I want to spend some time outlining some aspects of the present fiscal situation, because budgetary deficits and huge debt loads will severely constrain the actions of governments in Canada for some years to come. In particular, the federal government does not have the option of spending its way out of the problem of unemployment and under-employment.

The 1993-94 main Estimates presented to Parliament by the federal government last winter provided for budgetary expenditures of \$161 billion. Of this total, some \$84 billion was transfer payments of one kind and another, while a further \$40 billion was public debt charges, leaving a balance of \$37 billion

which represented the cost of government operations. Of these categories, while the public debt charges will fluctuate in response to interest rate changes, they are clearly a non-discretionary item. With regard to government operations, cuts and constraints imposed in successive budgets have reduced real costs by about one-third over the past decade. While there is no doubt scope for further economies, they are bound to fall short of what is required. Even if the entire Public Service were eliminated, together with the armed forces, the foreign aid program, and all capital and operating expenditures of the federal government, there would still be a budgetary deficit. **In** brief, as the saying goes, you can't get there from here. The government's fiscal problems can be alleviated, but they cannot be solved by controlling tax cuts and imposing further salary freezes.

Reductions have also been made to transfer payments, primarily in transfers to the provinces. The limitation on transfers to the three richest provinces under the Canada Assistance Plan is a prominent example. While such measures have alleviated the federal government's budgetary problems, the provinces have complained with some reason that Ottawa has simply been shovelling its snow into their driveways. If the number of welfare claimants in Metro Toronto triples, as it has, cheques still have to be issued to the claimants even if no funds are forthcoming from the federal government. Ted Carmichael has pointed out that provincial deficits went from zero in '89 to almost \$25 billion in 1993-94. Provincial debt is growing at a 15% annual rate, and a number of provinces are now at the outer limits of their borrowing capacity. While the recession is partly to blame, these figures do serve to illustrate a fundamental point: to the extent that cuts in federal transfers simply result in provincial tax increases and/or larger deficits, there is no benefit to the taxpayers or to the nation's debt problem.

Despite a succession of tax increases and spending cuts of the kind I have described, the federal deficit has stubbornly refused to come under control, and we have recently learned that in the last fiscal year it attained the record level of \$40.5 billion. It is now clear that attention will have to be given to the difficult and sensitive area of transfers to persons, which has so far been touched rather lightly by spending cuts. This is an especially important development for the purposes of this lecture because of the close relationship between employment issues and social programs.

The body of legislation collectively known as the Canadian social safety net was put in place over a 30 year period, beginning with the 1940 Constitutional amendment which cleared the way for a national unemployment insurance program. Family allowances came next in 1944, then old age pensions in 1951, and hospital insurance in 1957. There followed the major programs of the 1960s: the Canada and Quebec Pension Plans, the Canada Assistance Plan, Medicare, and the Guaranteed Income Supplement. The era ended as it had begun, with the extensive revisions to the Unemployment Insurance Act of 1970 which made Canada's program one of the most generous and accessible in the world.

These programs were made possible by the strong economic growth of the post-war period, and the accompanying growth in revenues. During the 1950s, the federal government's revenues exceeded its program expenditures by as much as 40% in some years, with the result that major transfers of resources to the provinces could be readily financed, as could the federal portion of the new shared-cost programs. The widely held view was that these conditions would continue indefinitely. Indeed, during the 1960s a view developed in some quarters that governments had an obligation to guarantee every individual, not

only a job, but a "meaningful" job. All parties in Parliament supported the 1970 expansion of the Unemployment Insurance program, and indeed when the legislation was in Committee a number of further enrichments were unanimously adopted.

The White Paper Unemployment Insurance in the '70s, which accompanied this legislation, opened with the following statement:

As Canadians stand on the threshold of the '70s they see on the horizon the outline of many brilliant changes and developments developments which indicate we know how to exploit the break-throughs in technology marking us as a community capable of realizing the full promise of post-industrial era -- developments which single us out as one of the world's most affluent peoples with a spiralling gross national product and a rising standard of living.

These words make strange reading today; one could parenthetically express the hope that the pessimism of the 1990s will prove as ill-founded as the optimism of the 1970s. But we would be unwise to count on it.

Contrary to the assumptions of the early 1970s, the strong growth which had enabled Canada to finance the social legislation of the post-war period did not continue. Instead, productivity and real GDP growth flattened, while unemployment rose. The early 1980s saw the severest recession since the pre-war period, and over the decade real wages increased by barely 2%, as compared with 43% in the 1950s.

As a result, the federal government experienced increasing

difficulties in financing its social and other programs, and deficits mounted. The Unemployment Insurance Act was amended on three occasions in the 1970s, each time to make the program less generous and to contain the growth in its costs. The Established Programs Financing Act of 1977 represented a major effort by the federal government to bring under control its open-ended commitment to the financing of social programs operated by the provinces. The 1980s saw a series of amendments to the Act, each for the purpose of limiting still further the cost of the program to the federal treasury. Amendments for the same purpose were made to the Equalization Program and, in the 1990s, to the Canada Assistance Plan.

Despite these and other measures, federal revenues fell short of what was required, and a succession of deficits had to be incurred in order to finance the programs that had been put in place. **In** the short term this approach worked well enough; in the long term, less so, as rising public debt charges increasingly consumed resources freed up by various economy measures. What has been fundamentally lacking has been the strong economic growth on which our programs were premised. **In** brief, for the past decade and a half Canadians have been paying themselves more than they earned, and making up the difference with borrowed money. There is now a widespread recognition that this cannot go on for much longer.

These realities constitute the framework within which any program of action to deal with the rising employment problem will have to be designed. Fiscal constraints do not mean that effective action by governments is going to be impossible. They do however mean that some new approaches need to be developed.

Dealing with Unemployment and Under-Employment

As is the case with various complex diseases, there is no single "cure" for unemployment and under-employment. What is required is a diverse set of measures to deal with the multiple facets of the problem, and even then there is room for doubt that any combination of known remedies will bring back the happy circumstances of the 1950s and '60s. It is in fact quite possible that the best we will be able to do in the remainder of this century will be to slow or arrest the adverse trends. Even this much would however be a worthwhile objective, particularly if one contemplates the alternatives.

As a starting point, it is useful to recognize that there is no government in Canada or indeed in most of the industrialized world which treats the provision of employment as its highest priority, notwithstanding many speeches to the contrary. In practice, the approach of governments almost universally is, "Jobs are terribly important, but you must also take into account..." And so you must. Preserving the value of the currency and keeping in good standing with financial markets are not trivial objectives. Neither are public health or protection of the environment.

That much being acknowledged, however, there is still room for employment to be moved considerably higher on priority lists, and to be addressed much more systematically than it has to date. For much of the post-war period, governments in Canada and elsewhere have treated employment as a by-product of sound economic management: keep inflation under control, "get the fundamentals right", and the jobs will follow. It is now clear that these precepts by themselves are inadequate. The jobs are not following in sufficient numbers to meet the needs of our population.

To the extent that our governments have chosen to intervene directly in support of job creation, their preferred instruments have usually been make-work projects and industrial development grants. In the overall scheme of things, however, the impact of such measures on employment levels is very slight.

This was borne in upon me during the mid-1980s, when I was Deputy Minister of what was then called Regional Industrial Expansion. The department had received indications that an automobile manufacturer in Asia was interested in establishing a plant in Canada, and work was therefore put in hand to develop an incentive package. Our Minister included a visit to the company in a two-week visit he made to the Pacific Rim in the summer of 1985. The media became aware of our new prospect and there was much animated reporting about the subject over a period of some months. Provincial governments busied themselves with devising ways to compete with one another in offering attractive incentives.

In a previous era all of this activity might have been justified by the contribution the plant could make to exports, to GDP, to government revenues. Consistent with the more recent preoccupations, however, public discussion in this case focussed almost exclusively on the potential employment benefits -- 1200 new jobs, possibly more, when the plant would open in 1988 or '89.

To complete this picture, let me remind you that the mid-80s was a period when recovery from the recession was in full swing, with strong economic and -- for a time -- employment growth. The significance of this point is that, some months after the agreement with the company had been signed and work on the plant was getting under way, I had occasion to reflect on what had actually been accomplished. The point which loomed

increasingly large in my thoughts was that, during the two weeks my Minister had been away in Asia inter alia to urge the company to proceed with the project, the Canadian economy had without our help created 10,000 new jobs. What, then, had all the excitement been about at the prospect of a possible 1200 jobs or so three years hence?

I should add that, in a period of economic downturn, the same line of thought could have been stimulated because 10,000 jobs had been lost in a two-week period. **In** both cases the moral of the story would be the same: the direct impact that government intervention can have on employment levels, whether by make-work projects, industrial grants or similar measures is marginal at best. This is especially true now that governments everywhere are very short of cash. It follows that whatever happens to employment in the 1990s will depend very heavily on decisions by the private sector. And here one encounters the nub of the problem.

While governments diligently pursue job creation and proudly announce such results as they are able to achieve from time to time, a major objective of the private sector today is job destruction. Even the most casual newspaper reader cannot fail to be aware of the seemingly endless series of announcements about staff reductions by companies across Canada and abroad. The American Management Association recently reported that in the years 1990, '91, and '92 staff reductions in the order of nine to 10% were made annually by approximately half the major companies in the United States. The picture is similar in Canada. Such reductions are typically produced by technological change and industrial re-structuring, in many cases driven by intense competitive pressures. If our governments are to have any chance of dealing with powerful dynamics of this kind, they will have to find more effective ways of influencing private sector

decisions than they have so far.

Let me make it clear at once that I am not talking about Luddite interventions to induce or require businesses to make uneconomic choices. Globalization is a reality, and the test of competitiveness must be applied to every aspect of business operations. Nevertheless there are a number of actions that respect this test which still hold out the prospect of yielding useful results.

A good first step would be for governments to open a thorough dialogue with the private sector about contemporary problems of providing employment. There is a mutuality of interest here that should not be overlooked. For the same reason that Henry Ford used to raise his workers' pay so they could buy his cars, businesses today can hardly fail to recognize that continuing job losses and reductions in real wages must necessarily have a depressing effect on demand for the products they want to sell. **I**n his speech which I quoted earlier, Mr. Cohen also asked, "Are we seeing the evolution of an economy in which goods and services are more readily available, but jobs which allow people to afford them are harder to come by?"

While in many cases the replacement of employees with machines is the only rational decision for a business, in others the choice is not so clear. As Alice Nakamura has pointed out, sometimes mechanization can look attractive simply because it offers a less complicated life for an employer. Machines are not covered by government labour codes, nor do they take coffee breaks, file grievances, get pregnant, or go on strike. One could speculate that a conventional wisdom factor may also be at work in some cases. Labour force reductions have now come to be so widely seen as the key to competitiveness that a failure to come forward with a plan for major staff cuts could well lead a board

of directors to suspect that their Chief Executive was complacent and not quite "with it".

It is therefore not unreasonable to think that scope does exist to find economic alternatives to job cuts, certainly not in every case, but in enough to make the quest worthwhile. A good deal depends on mind-set. Tom Courchene has pointed out the dangers of viewing social policy largely as an avoidable cost, whereas in a human capital era it has a direct bearing on competitiveness.

In a dialogue between government and the private sector about employment, there are a number of subjects that could be examined. Taxation is an obvious example. A variety of instruments has been used in Canada over the years to encourage firms to invest in equipment, but incentives to invest in human capital are fairly thin on the ground. Some re-thinking in this area seems called for. Governments might also consider more use of taxation to counter cyclical phenomena. For example, in a recession interest rates typically fall. As a result, the economics are shifted in favour of machines, at the very time when unemployment is usually rising and measures to encourage industries to retain their employees are particularly needed. This phenomenon reinforces a perverse feature of the present Unemployment Insurance program which requires premiums to be raised in periods of high unemployment to cover increased outlays.

Not only do governments not provide much in the way of incentives for employment, they tax it. **In** recent years, payroll taxes have become an increasingly popular source of revenues. Now, it is an elementary principle that if you tax something you tend to discourage its use, as we are regularly told in justification for increases in tobacco taxes. But why, in this case, would

anyone want to tax jobs, or to increase taxes on them during a period when unemployment is rising? Yet this is precisely what governments across the country have been doing. Since January 1989, payroll taxes and supplementary labour benefits have increased by 43%.

There may well be worse to come. The Ontario Workers Compensation fund, for example, has an enormous unfunded liability which, in the normal course of events would have to be covered by premiums levied on employers and workers. The present high level of Unemployment Insurance premiums will by law have to be maintained for some years to come until the deficit has been liquidated. The Canada Pension Plan will require major premium increases in coming years, as the age profile of our population changes. And so on. It is not difficult to foresee what the effects on employment will be if the future unfolds in this way.

If the federal and provincial governments wanted to be really ambitious, they could try to devise a joint program to eliminate payroll taxes and replace them with revenue-neutral alternatives over a five-year period. Whatever replacement taxes were put in place would of course be unpopular, but they would at least not be as destructive of employment as present regimes. At the same time, an initiative of this kind would give Canada a significant labour cost advantage over the major European countries where non-wage payroll costs now range from 30 to 50% of the wage bill.

The elimination of payroll taxes could also be used as part of a larger bargain in which the private sector for its part would commit to measures that would protect or increase employment. Small and medium-sized businesses, which tend to be the most vociferous critics of payroll taxes, might find such a bargain

particularly attractive --and it is these businesses that have been the principal source of job growth in recent years. At the same time, the reduction or elimination of payroll taxes would not have the adverse effects of some other ways of reducing labour costs, such as reduced health and safety regulation.

In brief, it is time for governments to re-examine some of their fiscal practices. "User pay" is quite a sensible principle to apply to the operation of airports; it makes much less sense for the costs of social and labour market programs to be loaded on to those who provide employment.

The foregoing are merely examples of ways in which current problems of unemployment might be addressed. The fundamental requirement is for governments to develop a comprehensive approach to the subject, which in most countries has not so far been done, and certainly not in Canada. It is, for example, worth reflecting on the fact that we have government departments and agencies dedicated to many subjects, such as agriculture, energy, foreign trade, education, and the like, but as far as I know none with full-time responsibility for developing strategies -- practical and affordable strategies -- to deal with problems of employment. It is true that from 1966 until 1993 the federal government had a department called Employment and Immigration, but its mandate was not comprehensive; its main responsibilities were training, placement, make-work projects, and the operation of the U.I. system.

While a comprehensive approach to employment would require an examination of a number of areas of government activity, particular attention would of course need to be given to those most directly linked to labour markets. Education and training particularly require attention, as skill requirements in the workplace continue to rise. A study of the auto parts sector by

the Department of Employment and Immigration in 1985 found that 38% of its jobs were classified as skilled or highly skilled. When the study was repeated just four years later, this figure had risen by 19 percentage points, to 57%. Not coincidentally, during the same period complaints by employers in this industry about difficulties in finding qualified labour rose sharply. Such mismatches are one of the reasons why, even during the economic expansion of the late '80s, Canada's unemployment rate never went below 7.5%.

Training is not a panacea, but it can help more of our citizens to find work in a high-skill economy. An important step in this field was the passage three years ago of Bill C-21, which authorized the use of monies from the Unemployment Insurance account for a range of labour force development purposes, including the purchase of training programs. Notwithstanding those who say no action was taken to improve the competitiveness of the Canadian labour force after the signature of the Canada-U.S. Free Trade Agreement, expenditures of U.I. funds on training in the current year will be \$2.2 billion as compared with about \$500 million in 1990. In parallel, the Canadian Labour Force Development Board was created in 1991 to give the private sector an effective voice about training and other developmental programs. These were important steps, but a great deal more needs to be done about training requirements both by governments and the private sector.

An important weakness in the preparation of young Canadians to participate in the labour force is the lack of linkages between schools and the workplace. By way of comparison, in Germany some 70% of students enroll at the age of 16 or 17 on the famous "dual system", in which a part of each week is spent in the classroom and a part on the shop floor acquiring practical experience under the direction of a

professional instructor. Unlike in Canada, curricula are developed with the active participation of business and labour, together with the state and federal governments.

Here, despite the introduction of some co-op programs, our curricula remain predominantly academic. The implicit premise of our educational systems has been that those who did not go on to post-secondary institutions would go to work on assembly lines or in the natural resource sector. Today however these jobs are rapidly disappearing, and unskilled youth are experiencing increasing difficulty in labour markets. In 1992, only 27% of Canadians with less than nine years schooling were employed, as compared with 42% in 1975.

Under the German dual system, some 600,000 skilled young people entered the labour force in 1990. During the same year, Canada graduated approximately 24,000 apprentices, mostly in the construction and automotive fields. It is sobering to consider the implications such a disparity, extended over a period of years, for the relative competitiveness of the two countries.

More work also needs to be done on establishing nationally accepted standards for industrial training. In the European Community the British, who were among the last to come to grips with this subject, began work about 10 years ago. They now have in place a five-level system, with the highest level a near-equivalent to an engineering degree. In Canada, where this subject is an exclusively responsibility of the provinces, discussions by the Directors of Apprenticeship since the late 1950s have so far led to agreement on approximately 35 inter-provincial standards. The Germans have over 400.

Another area in which there is scope for further initiatives by governments is work-sharing. The popularity of this measure

was demonstrated in the first year of the recent recession, when Canada Employment Centres were deluged with applications for measures under the work-sharing provisions of the Unemployment Insurance Act. A creative approach to work-sharing could not only spread available employment over a larger number of individuals, but could also address the needs of women, especially those who are single parents, some of whom would welcome an opportunity to give more time to their families if they could do so without jeopardizing their jobs.

Work sharing is not a free good. It entails a reduction of income for individuals who participate. It also draws resources from the Unemployment Insurance program. Nevertheless, it has a potential for meeting some contemporary needs and should be more extensively used.

Contemporary conditions also require attention to finding innovative ways of providing employment, such as Judith Maxwell's suggestion of a Job Corps for youth and the elderly. What is involved here is a redefinition of "work", to cover a number of services we rely upon but which have traditionally been provided on a voluntary basis. Such an approach would require some government resources, but this need not be regarded as taboo. Richard Barnet has remarked upon the curious conventional wisdom whereby it is ideologically sound to spend millions of dollars on incentive packages for corporations and the jobs they promise, but "politically incorrect for governments to act as employer of last resort, hiring unemployed young people to clean up cities, rehabilitate houses, visit the elderly, and the like". It should in fact be possible for governments and the private sector to develop some productive partnerships on projects of this kind.

Finally, action is required to modernize our income support programs, which are less and less suited to the needs of contemporary society. Most welfare programs, for example, were designed simply to enable individuals to keep body and soul together. They include few provisions to facilitate a transition from welfare to employment or training, and indeed in many cases have built-in disincentives to doing so. For a single parent with the prospect of taking a job at the minimum wage, a simple calculation of relative benefits will demonstrate in many cases that the rational decision is to remain on welfare. **In** recent years some provinces have undertaken a re-design of their programs, and the federal government has initiated some experiments in income supplementation to test ways of facilitating the transition from welfare to work. It would be beneficial to have a wider sharing by governments of their experiences with such measures, and to seek a greater degree of integration between federal and provincial programs.

The Unemployment Insurance program has for over fifty years been one of the most important components of the Canadian social safety net, providing badly needed income support to several million individuals every year. One of its major weaknesses however is that it was originally designed to cover temporary interruptions in employment, and is ill-suited to deal with contemporary problems such as the growth of long-term unemployment. **In** addition, it includes a number of features that invite abuse, and others which --however desirable in themselves -- have little to do with an insurance system. Finally, some elements of its design such as the variable entrance requirement have provided an incentive for individuals to remain in high unemployment regions.

The growth in cost of the program is in itself sufficient cause for an extensive review and re-design to be undertaken. **In**

1970, U.I. expenditures were \$542 million. **In** 1972, the first full year after the legislation expanding and enriching the program, they were \$1.8 billion. They stabilized at about \$4 billion in the late 70s, doubled in the recession of 1981-82, and continued at a level of about \$10 billion per year through the rest of the 1980s. **In** the most recent recession they doubled again, and are still running at about \$20 billion per year. This represents a 36-fold increase in just over 20 years.

The deficiencies of the Unemployment Insurance program have been documented on a number of occasions by bodies such as the Macdonald and Forget Commissions. Governments have however found major reform too daunting a prospect, partly because changes would necessarily create losers as well as winners, but more fundamentally because of the complexity of designing and implementing a replacement program. **It** was the latter problem that made the Forget Commission an artistic success but a political failure. The Commission's proposals for drastic revisions created widespread alarm, particularly in Atlantic Canada, because they were not accompanied by a comprehensive set of replacement measures.

The development of such measures, tailored to meet the most pressing needs within fiscal exigences, together with an extensive public communication program to explain them, will be a key requirement of any future reform program. Quick fixes must be avoided. To design, test, and legislate a successor to the present U.I. system will require most of the life of the present Parliament. To be fully effective the new system will also have to be the product of a joint effort with the provinces because of the close relationship between federal and provincial programs.

Inter-Governmental Approaches

For Canada to keep its unemployment levels down to whatever minimum may be permitted by global competition and technological change in future years will require our federal system to attain levels of co-operation that have usually eluded it in the past.

An effective approach to employment creation will require a continuum of measures, spanning from education to training to unemployment insurance to welfare, plus some others such as new approaches to work-sharing and taxation. Constitutionally, education and welfare are provincial while unemployment insurance is federal. Training is a shared jurisdiction, but de facto the federal government is by far the dominant presence, with annual expenditures in the order of \$3.5 billion and a network of some 500 offices extending across every province and territory. For the most part, training is purchased from provincial and territorial educational institutions under agreements with the federal government.

While it may be tempting to think of simplifying matters by wholesale transfers of responsibility to the provinces, as was to have taken place under the ill-fated 1992 Charlottetown Accord, such a course is unlikely to yield satisfactory results. This agreement included a provision that, "at the request of a province, the federal government would be obligated to withdraw from any or all training activities and from any or all labour market development activities, except Unemployment Insurance". The logic of this approach was that training should be integrated with provincial education systems, which indeed is a sensible objective. The complete transfer of responsibility that was provided for however, together with the very weak wording about "national policy objectives", would have left the federal

government with virtually no ability to play any kind of national leadership role. Unemployment Insurance would likely have been reduced to a federal cheque-issue function, with all the instruments normally used to get the unemployed back into the labour force being in the hands of the provinces. Such a shift would have divested the federal government of virtually all means of facilitating industrial adjustment even in connection with matters in federal jurisdiction such as international trade agreements, the closure of defense bases, and the current problems of the Atlantic fishery.

A further problem inherent in this division of labour would have been what is delicately referred to as moral hazard. If the provinces had exclusive control of functions such as training, placement, and counselling, while the federal government was responsible for the financing of the U.I. program, the provinces would have little incentive to give priority to individuals on U.I. as compared with, for example, welfare recipients who are a 50% charge to provincial treasuries. The employers and workers who pay U.I. premiums would be among the first to see the disadvantages of such an arrangement.

Canada is already the only federation in the industrialized world which does not have a Department of Education at national level. Had the Charlottetown Accord passed, we would have become the only country in which the national government had given up all responsibility for labour market matters except for income support. Given that employment issues are likely to be at or near the top of the national agenda for the rest of this century and into the next, this is not a road that we should seek to go down a second time.

There is no reason why the different orders of government in Canada could not work out highly effective joint approaches

under the existing division of labour. The Canada-New Brunswick Youth Agreement, which provides for co-location of staffs and a high degree of co-ordination between the officials of the two governments, is one of many examples of what is possible. Some jurisdictional adjustments could also be contemplated, provide they were not all in one direction. If, for example, the provinces were prepared to accept, in deed as well as word, a federal role in the establishment of common industrial standards and in the reduction of inter-provincial barriers to labour mobility, it might be easier for the federal government to contemplate some transfers of funds and responsibilities in fields that were directly linked to educational systems.

The principal obstacle to effective federal-provincial action to deal with unemployment is of course the fiscal situation that has grown up since the mid-70s. Far from spending large sums to provide jobs, governments are faced with the necessity of taking actions that will leave many people worse off. In the current year, some \$30 billion will be paid out by the federal government alone in unemployment and welfare benefits. It is impossible to imagine how any program to bring the deficit under control could be implemented without some reductions in these fields.

Noone can take any satisfaction from such a prospect. As Canada's prosperity increased over the post-war period, it became possible to make progressively better provisions for the aged, the poor, the infirm, and others in need of help from our society. To have to undo some of what has been accomplished will be painful, but it is now also unavoidable. We need, as Richard Lipsey has put it, new means to old ends.

Given that extensive revisions to the Canadian social safety net must now be undertaken as part of a larger fiscal

program, it is important that the determination of these revisions not be left exclusively in the hands of Finance Ministers and Provincial Treasurers. Canada's social programs have come to be regarded by our citizens as one of the things that define us as a country. Their re-design should not be dictated solely by fiscal considerations. Finance Ministers must certainly define the limits of what will be affordable in the future, which will necessarily be less than we are spending at present, but the development of new measures should then become the responsibility of others who are highly knowledgeable about and sensitive to the social and economic needs of the future and particularly to the needs of the labour force.

Canada has changed a great deal since its major social and labour market programs were put in place. Our demographics are different, relations between the orders of government are different, our social structure is different. So is the nature of work. The last time a comprehensive approach to social programs was attempted was the federal Orange Paper of 1973, and its proposals in the end failed to gain approval. We have now had over 20 years of ad hoc measures. Kenneth Norrie has correctly pointed out that de facto constitutional change often results from decisions that seem on the surface to be purely technical adjustments, and that some recent federal actions to cope with budgetary shortfalls by limiting transfer payments to the provinces point us in the direction of changes at least as important as anything in the Charlottetown Accord. **I**t is not too soon for a joint federal-provincial attempt at comprehensive modernization to be mounted.

Conclusion

Let me summarize. First, the employment outlook in Canada is increasingly sombre. Last year, the number of

individuals actively seeking work, together with those who had dropped out of the labour force and those involuntarily working part-time totalled 3.2 million - a figure equivalent to 26% of those in the labour force. Nothing is certain, but there are very plausible reasons for believing that this figure could increase over the course of this decade.

Second, in view of the potential threat to social cohesion in the employment trends we have been witnessing, it is important to develop comprehensive and imaginative approaches to deal with them.

Governments to date have de facto been fairly passive on the subject of employment, tending in most cases to treat it as a by-product of overall economic policies. It is questionable whether the public will stand for this much longer. In August Gallup report that 41% of Canadians were concerned about losing their jobs as compared with 32% in the 1981-82 recession. Governments need now to consider an orderly retreat from their traditional positions before public opinion forces them into a fiscally imprudent rout.

Third, debt and deficit problems preclude measures such as huge public works programs. However, effective measures to deal with employment problems need not cost federal or provincial treasuries tens of billions of dollars. Useful results can, for example, be obtained by tax measures, work sharing, and actions to improve the results from what we spend on training and education.

Finally, it is the private sector, and not governments, that will determine the future of employment in this country. What is required is a joint approach by the two orders of government working in partnership with the private sector. The latter is

showing increasing awareness of the seriousness of the employment issues that are looming up. It is now up to governments to give a lead, and to come up with a set of practical proposals to begin the dialogue.

It is unlikely that any set of measures devised by the private and public sectors will be able to return us to very low levels of unemployment. There is however scope to do better than we are at present. The time has come to make a through assessment of what scope exists, and then to exploit it.