

UNEMPLOYMENT --
REAPING THE COSTS

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Unemployment -- Reaping the Costs

The one liner that there is a recession when your neighbour loses his job and a depression when you lose yours has worn a bit thin these days. The implicit message of this joke is instructive; as individuals we tend to consider a problem to be a problem only when we are personally affected. And so, for those who have jobs, the 1984 unemployment rate of 10.1% in Alberta really means that 89.9% of the labour force do have jobs. The fact that a 10.1% unemployment rate is in reality 140,000 unemployed Albertans somehow gets lost in the shuffle of monthly Statscan labour statistics ¹ (1983 was not much better with 134,000 Albertans out of work).

To use the jargon of politicians, 274,000 person years of economic production were lost in 1983 and 1984. This foregone production translates to \$6.6 billion and \$7.23 billion respectively. In just two years the economic cost of unemployment in Alberta alone totaled \$13.9 billion. As Figure 1 shows, Alberta lost the equivalent of the Heritage Savings Trust Fund through the involuntary idleness of a significant part of our labour force in just 2 years!

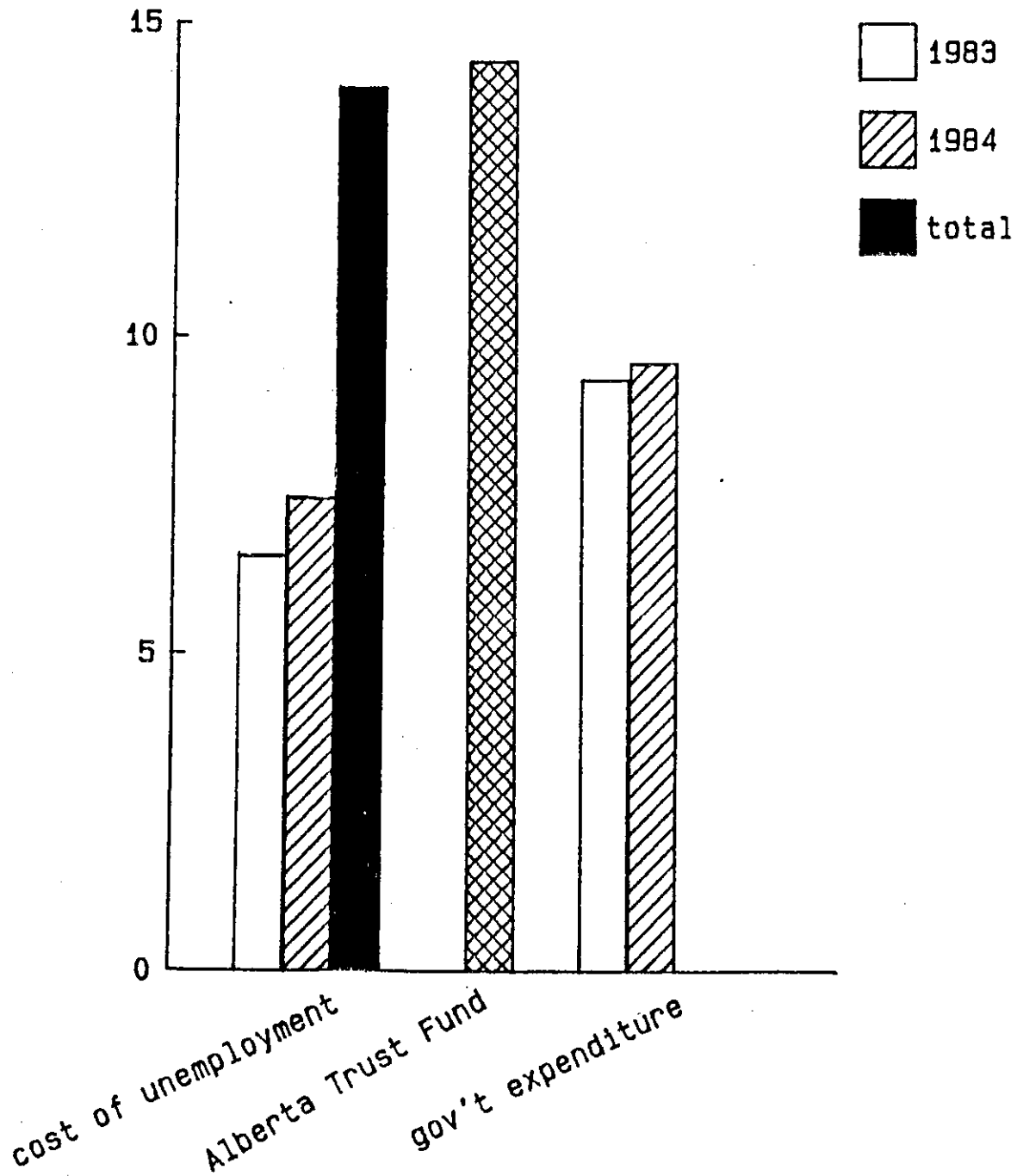
Figure 2 gives a partial breakdown of the costs of unemployment. Not surprisingly, the unemployed lose the most. In two years foregone wages totaled \$5.59 billion. The growing number of business bankruptcies, production cut-backs, and government concern over tax revenues attest to the fact that these sectors of the economy are also affected by the high levels of unemployment.

The costs cited above are based on traditional economic concepts which measure economic activity. Massive as these costs are, they represent only part of the costs of unemployment. As the number of jobless has increased, safety net programs have paid out increasing amounts of money. In 1983 and 1984, unemployment insurance benefit payments and social allowance payments to employables in Alberta reached \$1.85 billion. These payments are a transfer of income from the rest of society. As such, they represent a burden to those who are working and paying taxes. Moreover, these income transfers come at a time when government revenues are reduced, necessitating cuts or reductions in other government services and programs.

Since the depression of the 1930's, social programs such as universal medicare and unemployment insurance have become entrenched in Canadian society, so much so, that we have come to regard them as 'safety nets' to

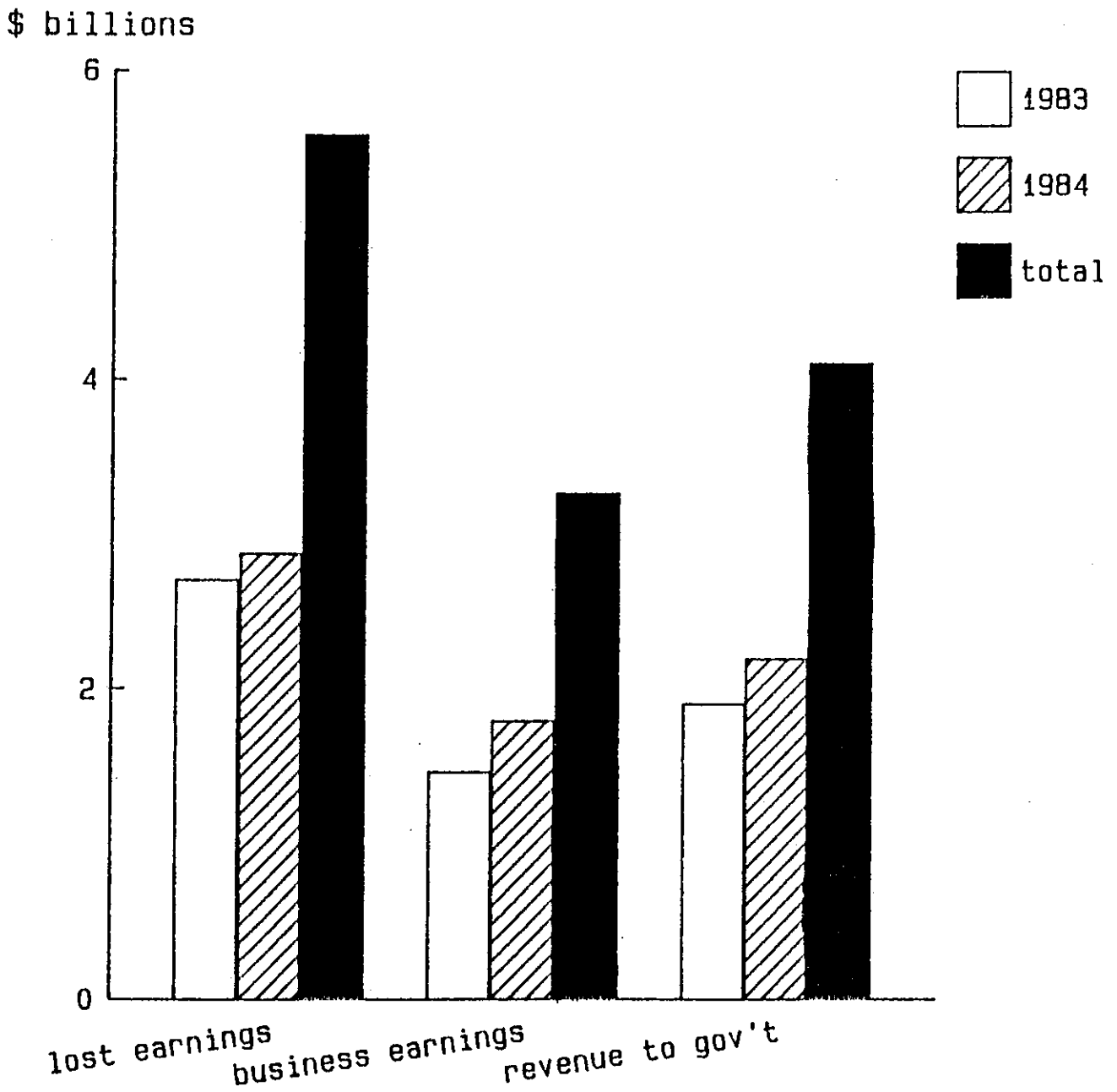
Figure 1
THE ECONOMIC COSTS OF UNEMPLOYMENT:
A COMPARISON

\$ billions



See Appendix 1 for sources of statistics

Figure 2
THE ECONOMIC COSTS OF UNEMPLOYMENT:
WHAT IS LOST?



See Appendix 2 for an explanation of statistics

protect us from the impacts of unemployment. There is a general feeling that while unemployment is bad, the unemployed worker of the '80's has it a lot better than his '30's counterpart. Social research of unemployed people and their families indicates that existing social programs are not sufficient to ease the stress of being unemployed. Researchers have linked unemployment with changes in mental health and physical health, suicides and family breakdowns. If the costs associated with these social impacts were added to the cost analysis, the true economic cost of unemployment would be much higher.

In the U.S., Dr. Harvey Brenner has found correlations between the unemployment rate, and the incidence of alcoholism, cardiovascular disease, mental hospital admissions and suicide (to name a few) and estimated the costs associated with unemployment.² Using the methodology developed by Dr. Brenner, Richard Deaton estimated the social-economic costs of unemployment in Canada at about \$78.3 billion in 1982 alone.³ This figure is roughly double the Federal government deficit that politicians seem to fret about so much these days. Brenner, Deaton and others argue that these social costs need to be included in any cost-benefit analysis of government economic policies.

As the recession has deepened in Alberta, Alberta government economic policies have been more concerned with reducing the size of the government deficit and maintaining the Heritage Savings Trust Fund than reducing the number of jobless. This preoccupation has cost us an amount equal to our much vaunted Trust Fund. Given the massive social and economic costs associated with unemployment, it is clear that government economic priorities and energies need to be directed toward getting unemployed Albertans back to work. The government cannot afford not to.

Notes

1. Statistics Canada data for March 1984 indicates 20,000 people in Alberta wanted work and were available but did not seek work in the reference week. These people are not included in the 'official unemployed' figures.
2. Deaton, Richard. "Unemployment's Social Costs" C.U.P.E.: The Facts 6 (5) June/July, 1984: 27-31.
3. See Joint Economic Committee, Congress of the United States. Estimating the Effects of Economic Change on National Health and Social Well-Being. A study prepared for the use of the Subcommittee on Economic Goals and Intergovernmental Policy. June 15, 1984.

APPENDIX 1

	<u>1983</u>	<u>1984</u>
Economic Costs of Unemployment ¹	\$ 6.66 billion	\$ 7.23 billion
Lost Earnings ¹	\$ 2.71 billion	\$ 2.88 billion
Lost Business Profits ¹	\$ 1.47 billion	\$ 1.80 billion
Lost Tax Revenue to Government ¹	\$ 1.91 billion	\$ 2.20 billion
Gross Domestic Product ² (at market price)	\$ 55.50 billion	\$ 57.55 billion
Employed Labour Force ³	1.115 million	1.114 million
Unemployed Labour Force ³	0.134 million	0.140 million
Population of Alberta ³	2.358 million	2.341 million
Regular U.I.C. Benefit Payments to Albertans ⁴	\$ 818.9 million	\$ 827.0 million
Social Allowance Payments to Employables ⁵	\$ 94.9 million	\$ 113.3 million
Alberta Government Budget Expenditure ⁶	\$ 9.34 billion	\$ 9.60 billion
Alberta Heritage Savings Trust Fund ⁷	1985 - \$ 14.422 billion	

1. Calculated from statistics in the Alberta Economic Accounts 1983, 1984. See Appendix 2 for an explanation on the calculation of economic costs.
2. Alberta Economic Accounts, 1984.
3. Alberta Statistical Review, Second Quarter, 1985.
4. Statistics Canada, Statistical Report on the Operation of the Unemployment Insurance Act.
5. These are April 1 - March 31 fiscal year figures. Alberta Government Estimates 1984-85; 1985-86.
6. 1984-85 fiscal year figure. Alberta Budget Address, 1985.
7. Forecast at March 31, 1985. Alberta Budget Address, 1985.

APPENDIX 2

Notes on the Calculation of the Economic Costs of Unemployment

Production "is the creation of goods and services on which members of the community, or the community as a whole, set a dollar value."¹ If the total production for Alberta is divided by the number of employed workers in the labour force, we then arrive at a rough dollar value of output for worker. If this amount is multiplied by the number of unemployed workers in the labour force, we then have an estimate of lost production, that is, the amount of production that could have been produced had the unemployed been working. The figure we arrive at is, by traditional economic concepts, the economic cost of unemployment. This calculation assumes that as the labour force increases, worker productivity will not decline.

Lost earnings, lost business earnings, and lost revenue were calculated by multiplying their proportion of the G.D.P. by the economic cost of unemployment.

1. Alberta Economic Accounts, 1983