

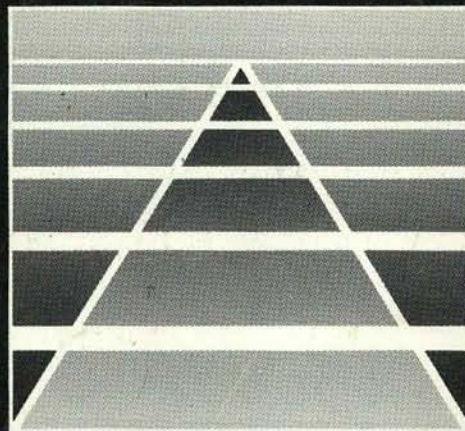


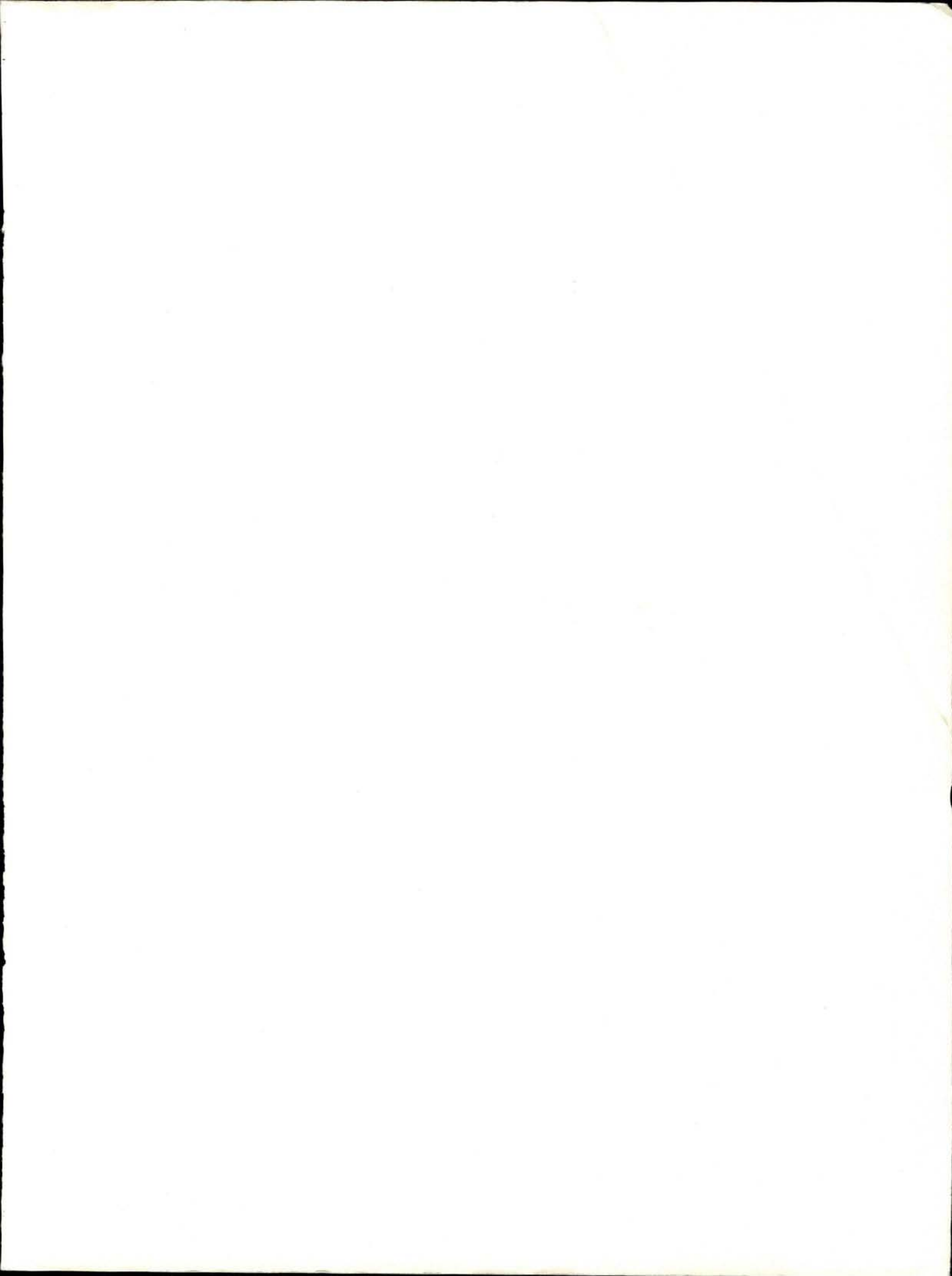
CANADA

Commission of Inquiry on

Unemployment Insurance

REPORT







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Commission of Inquiry on

Unemployment Insurance

REPORT

November 1986

Claude E. Forget, Chairman
 Roy F. Bennett
 M. O. Morgan
 Jack J. Munro
 Guylaine Saucier
 Frances J. Soboda

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Commission of Inquiry
on Unemployment Insurance



La Commission d'enquête
sur l'assurance-chômage

**TO HER EXCELLENCY
THE GOVERNOR GENERAL IN COUNCIL**

MAY IT PLEASE YOUR EXCELLENCY

We, the Commissioners appointed by Order in Council dated 4th July 1985 as revised and amended on 26th March and 30th September 1986 to inquire into the role of the Unemployment Insurance Program within the context of the Canadian social security system, as a means of improving the operation of labour markets in Canada, supporting more effectively Canada's economic development, ensuring the equitable financing of the program and providing new and better opportunities for Canadians experiencing temporary unemployment: Beg to submit to your Excellency this Report and Supplementary Statements.

Handwritten signature of Claude E. Forget in cursive.

Claude E. Forget, Chairman

Handwritten signature of Roy F. Bennett in cursive.

Roy F. Bennett

Handwritten signature of Jack Munro in cursive.

Jack Munro

Handwritten signature of Frances Soboda in cursive.

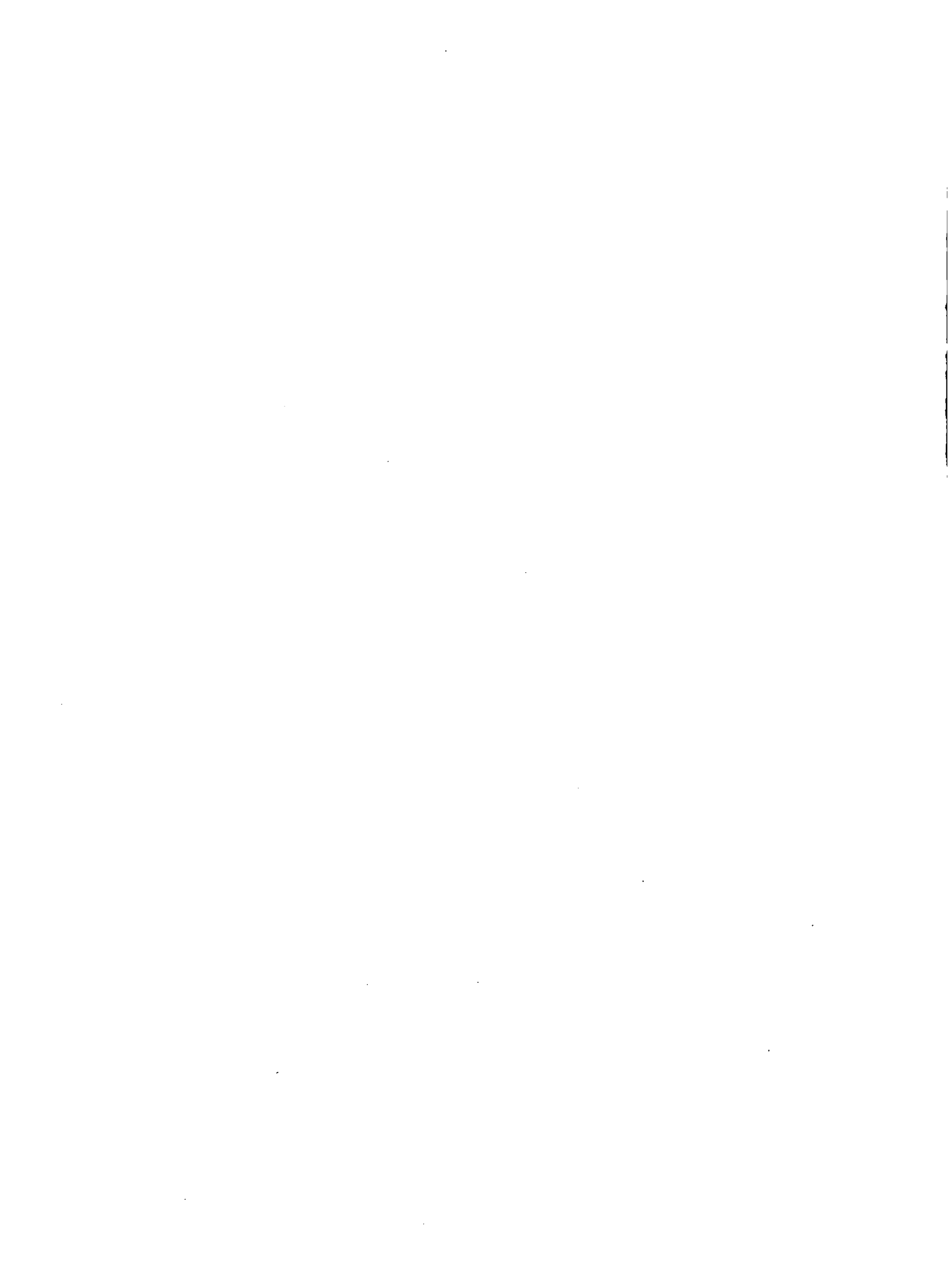
Frances Soboda

Handwritten signature of M.O. Morgan in cursive.

M.O. Morgan

Handwritten signature of Guylaine Saucier in cursive.

Guylaine Saucier



Contents

	Page
Preface	1
Prologue Challenge and Opportunity	3
<i>Leslie Parnwell</i>	8
Part I What Is the Problem?	13
<i>Dorothy Hall</i>	14
<i>Michael Broadhurst</i>	16
Chapter 1 What We Heard	19
The Context	19
The Changing Nature of Unemployment	19
Unemployment Insurance Will Still Be Needed	20
The Need for Reform	20
A Return to Basic Principles	21
Control over the Program	21
Fairness	21
Abuse	21
Program Administration and Delivery	22
Pensions, Severance and Vacation Pay	22
The Psychological Impact of Unemployment	25
Summary and Conclusions	25
<i>Unemployment Changing Views, Persistent Problem</i>	28
Chapter 2 Employment and Unemployment	31
Introduction	31
Defining Unemployment	31
Unemployment Results from Different Events	32
The Significance of Unemployment	33
The Dynamics of the Labour Market	34
A Reflection of Expectations: Participation Rates	39
The Increasing Participation of Women	39
Older Workers	41
Young Adults	43

Economic Achievement: Employment Growth	44
The National Frustration: The Risk of Unemployment	47
Seasonal Unemployment	48
Cyclical Unemployment	50
Structural Unemployment	50
The Occupational Distribution of Unemployment	51
The Regional Distribution of Unemployment	52
Characteristics of the Individual and the Risks of Unemployment	54
Education and Unemployment	56
Future Trends	56
The Unemployment Insurance Program	57
Summary and Conclusions	61

Part II What Are the Needs of the Unemployed? 63

<i>Has Canada Given Up on Unemployment?</i>	68
<i>Greg MacLeod</i>	70

Chapter 3 Jobs 73

Introduction	73
The General Economic Policy Context	74
The Need for Innovative Approaches	79
Economic Development Strategies	80
Community Economic Development	82
Job Creation: The Best of Intentions	87
The Impact of Job Creation Programs and Unemployment Insurance on the Labour Market	90
The Role of Unemployment Insurance in Job Creation: Projects under Section 38	92
Summary and Conclusions	93

<i>Serge Martineau</i>	96
<i>Belinda Mclean</i>	98

Chapter 4 Money: The Need for Income Security 99

Introduction	99
The Income Security System	99
Income Support: Social Assistance	102
Income Supplementation	105
Social Insurance Programs	107
Regionally Extended Benefits: Unemployment Insurance as Income Supplementation	108
A Canadian Earnings Supplementation Program	115
Social Insurance	119
The Role of Unemployment Insurance	119
Job Loss versus Earnings Interruption	120
Benefit Repayment by High-Income Claimants	121
Maternity, Parental and Sickness Benefits	122
Experience Rating	124

Summary and Conclusions	126
<i>Gail Bauman</i>	128
<i>4 Young People</i>	130
Chapter 5 Skills: A Choice of Futures	133
Introduction	133
The Need for Educational Reform	134
Attack on Adult Illiteracy and Innumeracy	138
Training and Retraining	140
Unemployment Insurance and Training	142
Youth Opportunities	144
Summary and Conclusions	146
<i>Gail Morriscey</i>	148
<i>5 Women</i>	150
Chapter 6 Options: Employment Flexibility	151
Introduction	151
Mobility Assistance	152
Flexibility in Work Arrangements	154
Alternative Work Arrangements	155
Part-Time Work	156
Compensated Work Sharing	161
Shorter Work Weeks and Work Years	163
Choices in Working Life	167
Flexibility in Retirement	167
Flexibility in Participation	169
Summary and Conclusions	170
<i>Lawrence Axe</i>	172
Part III The Solutions	175
<i>Tim Hannan</i>	179
Chapter 7 A Plan for Reform	181
Introduction	181
The Proposed Approach: Annualization	183
Eligibility	183
Level of Benefits	184
Reference Period and Base Period	184
Maximum Insurable Earnings	184
Replacement Ratio	185
Duration	186
Credit Banking	186
Cumulative Employment Account	187
Introduction	187
Building Up the Account	188

Drawing Down the Account	188
Phasing in the Account	189
Alternatives to the Cumulative Employment Account	189
The Consequences of Reform	191
Reallocation of Funds	191
Distributional Consequences	191
The Impact on Individuals	193
The Aggregate Consequences	194
The Impact on Premiums	196
The Impact on Provincial Government Expenditures	196
The Transition	198
The Impact on Individuals	199
Phase 1	199
Phase 2	199
Phase 3	199
Phase 4	199
The Aggregate Consequences	202
Summary of the Proposed Changes and Recommendations	203
Other Options for the Core Program	204
The One-for-One Option	204
The Impact on Individuals	204
The Aggregate Consequences	206
The Proposals of the Macdonald Royal Commission	208
The Impact on Individuals	208
The Aggregate Consequences	210
Enrichment of the Current System	212
The Impact on Individuals	212
The Aggregate Consequences	213
Summary and Conclusions	216

<i>John Mitchell</i>	220
----------------------	-----

Chapter 8 Immediate Steps: Other Program Reforms

Introduction	223
Treatment of Pensions	223
Treatment of Severance Pay, Vacation Pay and Lump-Sum Payments	226
Treatment of "Earnings on Claim"	227
Treatment of Part-Time Workers with More than One Job	228
Labour Disputes	229
Voluntary Quitters	231
Job Search and Availability for Work	232
Conclusion	234

<i>James Corcoran</i>	235
-----------------------	-----

Chapter 9 The Self-Employed: A Special Case

Introduction	237
The Needs of the Self-Employed	238

Fishermen and Unemployment Insurance	241
Fishing and Fishing Incomes	241
Unemployment Insurance for Fishermen	242
Problems with the Program	243
A Response	245
Summary and Conclusions	247

Rosemary Cairns 249

Chapter 10 The Reform of Program Delivery 251

Introduction	251
Power, Authority and Decision Making	253
The Need for Reform	255
The Structure of a New Commission	257
Redressing the Unequal Relationship	258
Information to the Public	259
Policies and Procedures: The Rules	260
Deadlines	261
The Onus of Proof	261
The Evidence Standard	262
The Balance Between Autonomy and Accountability	263
The Scope and Nature of the Unemployment Insurance Program	263
The Protection of Individual Rights	264
The Need for Simplicity	265
The Appeal Process	266
Helping Clients to Interpret the Act and Regulations	268
Limiting the Commission's Powers of Enforcement	269
Assuring Financial Accountability	270
Financing the Program	271
What the Program Costs and Who Pays	271
The Role of Government in Unemployment Insurance Financing	274
Premium Allocation Between Employees and Employers	276
Premium Rate Setting	277
Bankruptcy Act	277
Administrative Procedures and Organizational Structures	278
Functions and Responsibilities	278
Personnel	280
Performance Problems	282
The Record of Employment	282
Simplifying the Current Process	283
Converting to a Wage Record System	283
Benefit Control	284
Investigative Services	286
Summary and Conclusions	287

Noel Buxton 289

Part IV Summary and Conclusions 291

Chapter 11 Summary and Conclusions 293

The Impetus for Change	293
The Difficult Choices	294
The Need for Comprehensive Reform	294
An Overall Strategy	295
Growth, Full Employment and Jobs	295
Money	296
Education and Training	297
Flexible Responses to Change	297
The New Unemployment Insurance Program	297
Self-Employment and Fishermen's Benefits	300
Unemployment Insurance Administration	300
Getting from Here to There	301

Chapter 12 Compendium of Recommendations 303

Chapter 1: What We Heard	303
Chapter 2: Employment and Unemployment	303
Chapter 3: Jobs	304
Chapter 4: Money – The Need for Income Security	306
Chapter 5: Skills – A Choice of Futures	310
Chapter 6: Options – Employment Flexibility	312
Chapter 7: A Plan for Reform	315
Chapter 8: Immediate Steps – Other Program Reforms	317
Chapter 9: The Self-Employed	322
Chapter 10: The Reform of Program Delivery	323
Conclusion	330

Appendices 331

Appendix A Terms of Reference	333
Appendix B Where We Went	335
Appendix C List of Participants and Submissions	339
Appendix D Research Studies	365
Appendix E Projecting the Impact of Employment Policies on the Demand for Human Resources	371
Appendix F The Unemployment Insurance Program	377
Appendix G Statistical Appendix	381

Biographies of Commissioners	403
------------------------------	-----

List of Staff and Consultants	407
-------------------------------	-----

Part V Supplementary Statements 411

Supplementary Statement by Commissioners M.O. Morgan and C.E. Forget	417
Supplementary Statement by Commissioner Roy F. Bennett	421
Supplementary Statement by Commissioner Guylaine Saucier	425
Supplementary Statement by Commissioners F.J. Soboda and J.J. Munro	427

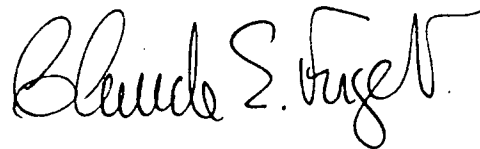
The Commission of Inquiry on Unemployment Insurance was first mentioned in the Budget Speech of 1985. Because of the general fiscal context of the time, the Commissioners agreed, and repeatedly confirmed at the hearings, that this Commission should avoid becoming a pressure group lobbying for either lower or higher public expenditures. Rather, we should concentrate our attention on ways to ensure that money now devoted to Unemployment Insurance and related programs would be more efficiently spent and fairly distributed. This report is evidence that we abided by that commitment.

The recommendations, taken together, would involve an extensive revision not only of Unemployment Insurance but of many other government programs, including income security programs, education and training and even the tax system. On grounds of equity as well as economic efficiency, Unemployment Insurance must be reformed. Because it is such an important program, however, it is impossible to make meaningful improvements to Unemployment Insurance without correspondingly large changes in other economic and social policies.

This report is not unanimous. Broadly speaking, its recommendations represent the views of four of the six members of the Commission. The other two members – both vice-presidents of the Canadian Labour Congress – have appended a long document and recommend a radically different course of action. Their recommendations imply an increase in total Unemployment Insurance benefits amounting to close to \$3 billion per year – a more than 30 percent increase over present costs. Employees' premiums would have to rise substantially to help make up the difference. Their recommendations would result in an enrichment of the current program, but would do nothing to improve the broader employment situation or to achieve greater social justice.

Canadians are thus presented in the majority report with a new vision of what should be done with regard to Unemployment Insurance and related programs. They are also confronted in the supplementary

statements with the political reality that change in this area is difficult and controversial. To the dissenting voice of the Canadian Labour Congress speaking through its two vice-presidents will be added the voices of many other interest groups. Those who hoped to find an easy route to Unemployment Insurance reform, with no hard choices to be made between conflicting philosophies, will be disappointed. The desire for a convenient and comfortable consensus has to be put aside. This is a sobering thought but, let us hope, not one that will condemn us to the status quo or sap the courage needed to ensure a better future.

A handwritten signature in black ink that reads "Claude E. Forget". The signature is written in a cursive style with a large, sweeping initial "C".

Claude E. Forget
Chairman

Challenge and Opportunity

Unemployment Insurance is at the heart of Canada's social security system and is, without question, a program about which Canadians care deeply. This Commission of Inquiry has faced both challenge and opportunity. Our challenge was to reconcile strong and contradictory opinions regarding its role in the economy. Our opportunity was to contribute to the development of responsible public policies aimed at improving social justice and economic efficiency.

This Commission of Inquiry was established by Order in Council on July 4, 1985. Its task was to examine how Unemployment Insurance can help Canada's economy to develop and its labour market to operate smoothly, how to make the system fair for everyone, and how to ensure that it offers the best possible help to Canadians who are temporarily unemployed.

We were asked to review all elements of the Unemployment Insurance program – the extent of coverage, the criteria for eligibility, the amount and duration of benefits, and the financing of the program. On all of these matters we were requested to make recommendations that would respond to deficiencies and improve the integrity of the program. These terms of reference are given in full in Appendix A.

The task has been enormous and the time frame short. To understand how Unemployment Insurance influences the way that Canadians live, work, plan, and make choices, we consulted widely. We sought the views of provincial and territorial governments. We tapped the wealth of expertise in the academic, labour and business communities. We drew upon the experiences of those who administer the program. We observed first hand the impact of Unemployment Insurance in various regions and communities. We heard the concerns of those in seasonal jobs, those in declining industries, and those with skills threatened by new technology.

The Unemployment Insurance program is so universally significant that we felt from the outset a responsibility to involve the public in the debate and discussion. Our participation guide, *Unemployment Insurance: Back to the Drawing Board?*, invited all Canadians to participate in the Inquiry. By sharing impressions of the issues that we had to examine and the questions that we were to pursue, we hoped to encourage members of the public to express their views. Over 10,000 copies of the participation guide were distributed.

The public hearings began in October 1985, and by March 1986 we had spent 60 days visiting 46 communities across Canada. In tiny villages and large metropolitan centres we heard a total of 475 presentations. The locations and schedule of the public hearings and consultations are provided in Appendix B.

During the course of formal public hearings, informal community meetings and round-table discussions, we heard compelling accounts of personal experiences. We visited work sites, Unemployment Insurance offices, job creation projects, unemployed action centres and single-industry towns. Those whom we met painted a picture of regional differences, but they made a common declaration of the need for insurance against unemployment. We probed and questioned. We wanted to know why people adopted their particular positions, whether they had considered all of the options and implications, and how strongly they were committed to their point of view. At every turn our assumptions were confronted and challenged.

We received handwritten letters as well as printed and bound volumes. All reflected thoughtful concern and effort. By the end of June 1986, we had examined almost 1,500 submissions, which are listed in Appendix C.

This has not been the first study of the Unemployment Insurance system. In our search for new ideas we reviewed an enormous amount of material on the program. We studied the five major reviews of the program since the independent report of the Gill Committee of Inquiry in 1962.¹ We examined the reports and recommendations on Unemployment Insurance and related issues by the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Royal Commission) and the Task Force on Program Review (the Nielsen Task Force). We also examined a myriad of internal studies by the Canada Employment and Immigration Commission. Our own program of studies was designed to look at this information in a new way, to document possible ways to meet present and future needs. More than 30 studies by private consultants and university experts were directed toward analysis of particular problems, attitudes toward Unemployment Insurance and work, and the relationship between Unemployment Insurance and other social security programs both in Canada and in other countries. A brief summary of each research paper is presented in Appendix D. We also made use of the computerized systems of Statistics Canada and the Canada Employment and Immigration Commission in our analysis.

Our views have been shaped by these written briefs, by the research of experts, and by searching discussions. The submissions, transcripts of hearings, and other materials generated by our work will be deposited for future reference in the Public Archives of Canada in Ottawa.

Our investigations, and finally this report, have been enriched by the thoughtful contributions of many people. We want to acknowledge those who gave so generously of their time and insights. Special thanks are due to the committed staff who assisted us through long hours of public consultation and complicated debates about the meaning of data and research findings, all within a very demanding schedule. They deserve public credit. A list of staff and consultants appears at the end of our report.

Ultimately, this report is the judgment of six Canadians.² We were determined to be more than just another inquiry. The study of Unemployment Insurance is a study about real people. We believe that people are

the most valuable resource that Canada has. We knew that the problems in the program could not be resolved by new research or knowledge alone. We had to respond to the breadth and depth of concern expressed by the public. We wished to go beyond present problems, to anticipate future events and integrate ideas in a new way in order to guide future policy.

The Unemployment Insurance program has, for understandable reasons, changed in shape and grown in complexity over the years. And today, a neat and tidy solution continues to be elusive. Our analysis of the problems of the current program and of the requirements of the future led us to conclude that a fundamental transformation of the design of the program and of the structure of the organization was essential. Minor adjustments are not enough. But fundamental changes cannot be made too quickly. We are a people and an economy in transition. The solutions that we propose recognize the need for major reform in the long term but allow time to adapt to change.

This report is not meant to be an academic treatise. Nor is it meant to be encyclopaedic in nature. It is meant to convey, in simple language, our sense of what is possible and desirable. We hope that it will capture the imagination and energy of those committed to improving the quality of life for working Canadians now and in the future. Throughout this report, quotations from transcripts of the hearings, along with correspondence and a number of interviews with individuals, have been used to convey to the reader the feelings, as well as the facts, presented to us. They convey the context of the report.

We began by talking to Canadians about the challenges confronting them – the challenge of unemployment and specifically the challenge of designing a responsive Unemployment Insurance program. Part I of our report presents the problem from two perspectives. It begins with a synthesis of the themes which emerged during the public hearings. Through the actual words of participants and the anecdotal material, the problems become very real. The problems are also apparent when we describe employment, unemployment and the unemployed in statistical terms.

What do the unemployed need? Part II answers that question by proposing a broad human resource development strategy which includes employment development, income supplementation, education and literacy upgrading, and greater labour market flexibility. In Part III an Unemployment Insurance program for the future is outlined, along with the need for new legislation and a new organization. Part IV summarizes our investigation and presents our conclusions.

The compelling stories of those we met across the country had an indelible impact on us. In preparing this report, we return again and again to their real experiences and their concerns. We remember vividly the Newfoundland fisherman and his wife who talked about their lives, showed us their account books, and worried about their son's future. We see the Whitehorse businessman who raged about the problems of filling out a Record of Employment. We chuckle over the wry humour of the woman in British Columbia who responded to our questions about work

incentives with “We may be unemployed but we’re not stupid.” And we relive the tension of talking on the phone to an unemployed man on the verge of suicide and our relief when the emergency squad arrived and he was safe.

We remember the people and their stories. And when we do, they make sense of the research. They clarify the issues. They point out our direction. They compel us to respond.

Notes

- 1 Beginning in 1962, the major reviews of the Unemployment Insurance program include:
 - Canada, Committee of Inquiry into the Unemployment Insurance Act (Gill Commission), *Report* (Ottawa: Queen's Printer, 1962).
 - Canada, Department of Labour, *Income Maintenance and Employment Adjustment Programme* (Ottawa: The Department, 1964).
 - Canada, Department of Labour, Interdepartmental Committee on Changes to the Unemployment Insurance Programme, *Report* (Ottawa: The Department, 1966).
 - Canada, Unemployment Insurance Commission (Cousineau Committee), *Report of the Study for Updating the Unemployment Insurance Programme* (Ottawa: The Commission, 1968).
 - Canada, Task Force on Unemployment Insurance (Gershberg Task Force), *Unemployment Insurance in the 1980s* (Ottawa: Minister of Supply and Services Canada, 1981).
 - 2 Supplementary statements by individual Commissioners regarding specific recommendations are noted following the recommendation. Because of the more wide-ranging dissent of Commissioners J. Munro and F. Soboda, no mention is made of specific aspects of their dissent. The reader is referred to their report in Part V: Supplementary Statements.
-

Leslie Parnwell, Hairstylist, Edmonton, Alberta

This letter was written by the sister of Leslie Parnwell to Mr. Jim Edwards, Member of Parliament for Edmonton South. A copy was sent to this Commission of Inquiry. It is included here because it illustrates the problems and frustrations of a claimant confronted with a complex administrative system.

Dear Mr. Edwards,

My name is Leslie Parnwell. I have asked my sister to write this letter for me as I do not write well enough or understand the system well enough to be able to express myself properly.

I have a problem with Unemployment Insurance and am at a loss as to what to do about it. I feel I am being unfairly penalized due to an error with the Unemployment Insurance system.

I would like to tell you a bit about myself so that you will have a better understanding of the magnitude of my problem. I am 23 years old and just recently married. My husband and I live in a small apartment and have just purchased a car with a loan from the bank. When I was attending school I did not have the understanding of the academic system to attend an academic school, so instead I went to a vocational school and became a licensed hairstylist. This is the field I have worked in since and although I have never cleared more than \$700 per month, I have always been able to manage. I moved out of home this spring, and as I said earlier, got married and bought a car. I am currently employed full-time for minimum wage, my husband is only working half-time for just above minimum wage and we are finding it nearly impossible to make ends meet. There is definitely nothing left over for the "finer things in life."

Just before I got married, I was laid off work and applied for unemployment benefits. When I applied I found the forms difficult to fill out and had no idea how much benefits I was eligible to receive. I collected benefits for approximately four months and then found work again as a hairstylist making minimum wage. Approximately four months after I stopped collecting benefits I received a statement from Unemployment Insurance indicating I had been overpaid by \$1,307. For someone in my position this is an overwhelming amount of money to be paid back.

My sister and I went down to our local office to discuss this issue. After waiting one and a half hours we spoke to a counsellor. We found this man to be both rude and obnoxious. He questioned the need for my sister to be present. When I explained to him that I did not understand why this problem had happened and that my sister was there to help me understand, he told me it was my fault.

His exact words were "anyone can tell when they are being overpaid by that much." He then showed me a piece of paper that indicated that the error had been made when the claim was punched into the computer and stated that I should be aware of this because this was a copy of a letter that had been sent to my home. When told that I did not receive this letter, he told me I must have because it had been sent to my correct home address. My sister asked him if I could have a copy of the letter and he replied with "it isn't necessary because she has already received one." My sister then asked him straight out whether or not he was going to give me a copy of the letter. With this he stormed into a back room and came back with a copy.

After I received the copy, my sister asked why it had taken over six months to find out that an error this large had been made on the part of Unemployment Insurance. The problem was that instead of basing my insurable earnings on a figure of \$3,641, someone made the mistake of keying in \$6,341. This error gave me \$91 more per week than I was entitled to. When asked why it had taken so long to discover this error, he asked another counsellor to come over.

By this time I was in tears and my sister was visibly angry. My sister asked the other counsellor why it had taken so long to find the error and was told she had no right to ask for explanations and that "Leslie should speak for herself and we should find out exactly what she wants." I told her that I wanted exactly what my sister had asked for and that I had asked my sister to speak on my behalf. The woman very huffily told us that the "variance report" for my period had just recently been generated and that was how and when the error had been found. My sister asked why it had taken more than six months to generate this report and was told that the office in Edmonton had no control over what they did down east and this is the way the system is.

The gentleman then stated that he wanted to work out a repayment plan for the overpayment. My sister told him that I was not prepared to work out a repayment plan until further information had been received. He then told us about the appeal process, gave us a pamphlet to read and told us that we could write to anybody we wanted to, but they would get the money back in the end. We then took the forms and left.

I am not writing this letter to try to get out of paying back all of the money I received. I chose not to go through the appeal process because there isn't really anything to appeal. I understand that I was overpaid. What I am writing for is to find out why the system is so inadequate that it took six months to find an error this large. I do not feel that I should have to pay the entire amount because of someone else's error and an inadequate tracking system. I cannot possibly afford to pay more than a token sum monthly and it could take years before all of this money is recovered.

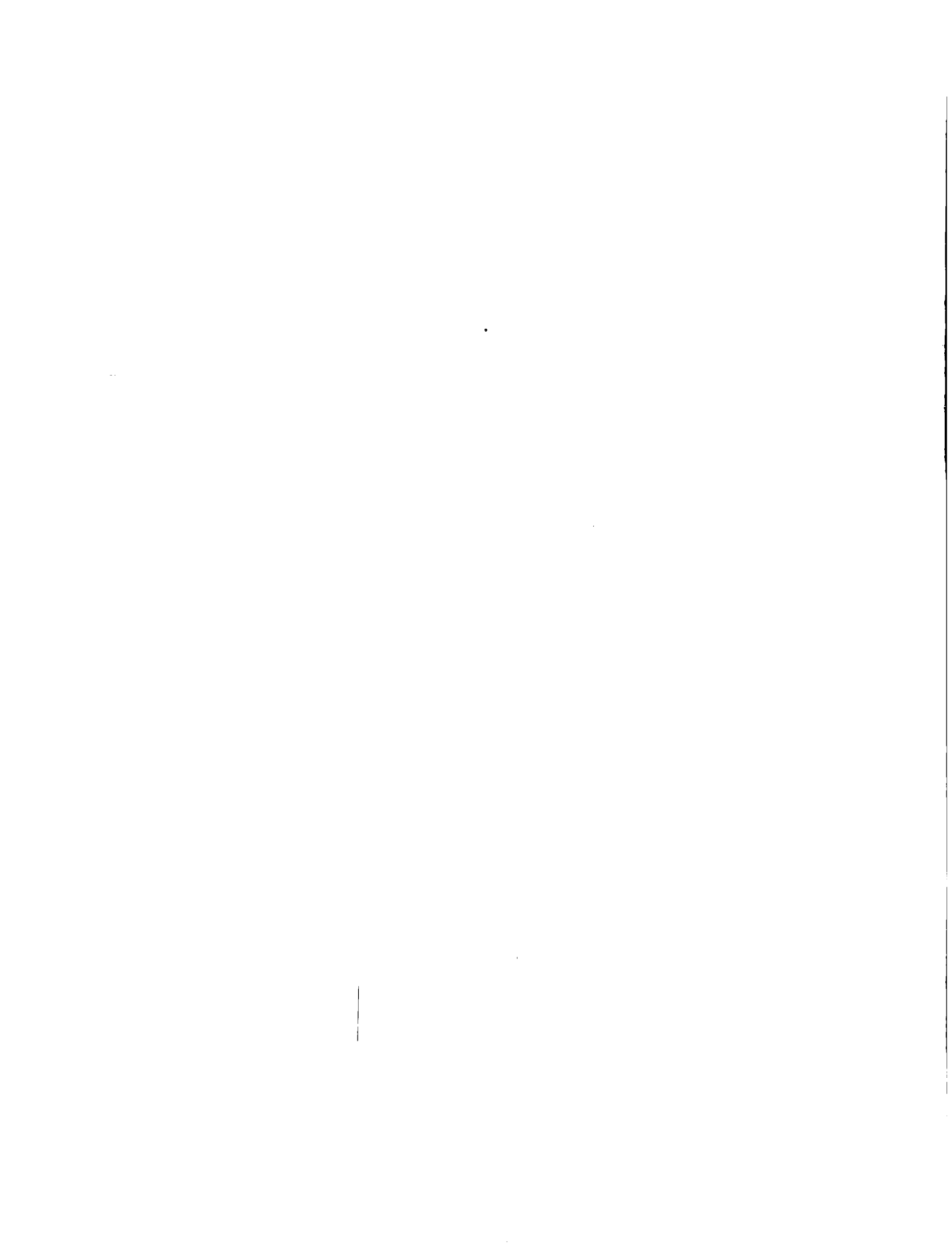
Over the years I have known people who have been able to use the system to their advantage and get away with it. If I had made the error totally on my own then I would have to accept full responsibility for it. Somehow there is something wrong when a little person has to pay the full costs of a mistake of a large government organization. I feel that the UIC has to have some obligation to account for their errors, not only to the little person such as myself but to the Canadian public at large. Is there no accountability?

I have forwarded a small amount of money to the Canada Employment Centre Collection Office and advised them that I am pursuing this matter further. I have also sent a copy of this letter to a number of other persons . . . in hopes that someone will take action in this matter.

I look forward to a reply.

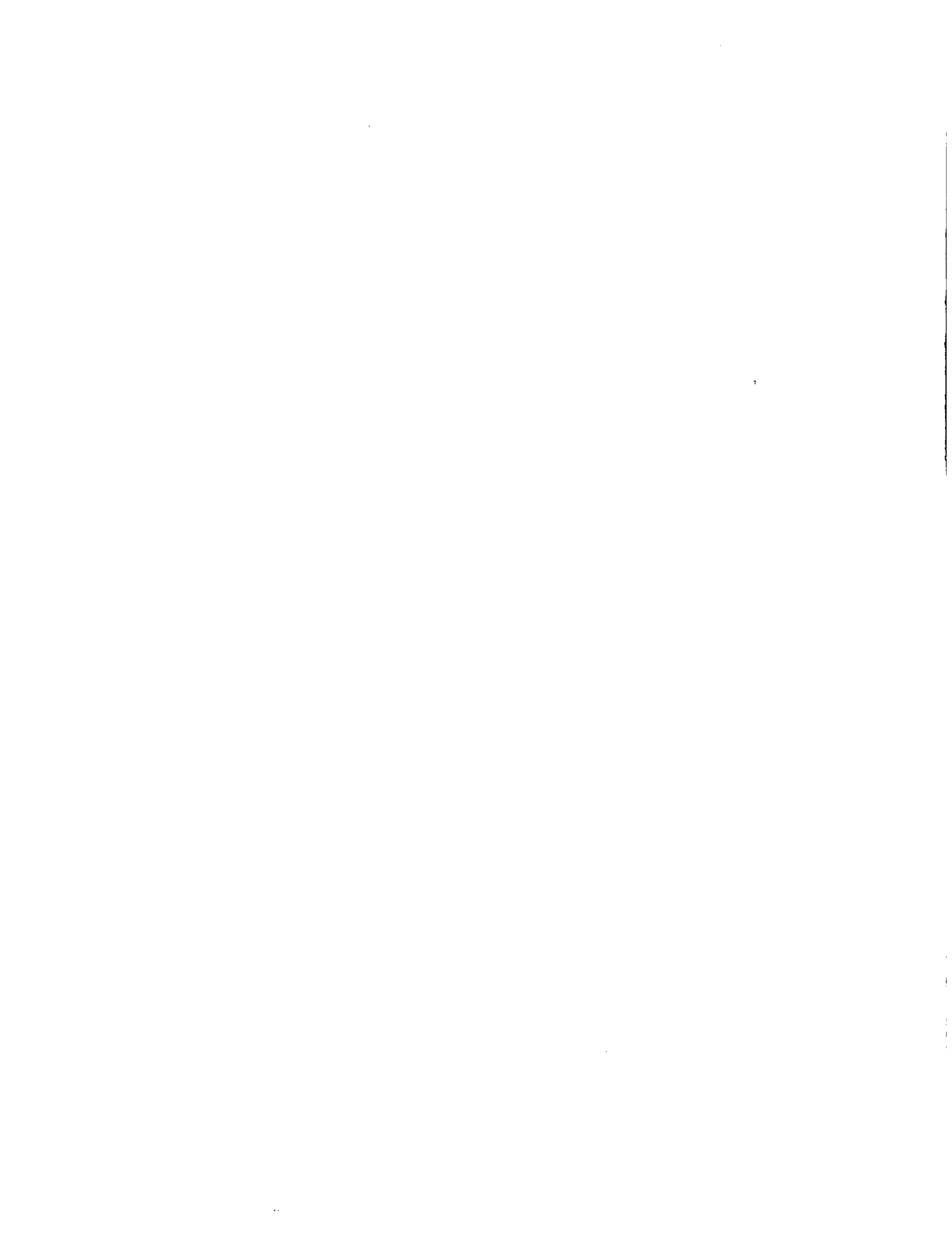
Sincerely,

Leslie Parnwell



Part I

What Is the Problem?



What Is the Problem?

Unemployment Insurance is everyone's program. In 1984, 11.5 million Canadian workers paid into the program and more than a quarter of them collected benefits at some time during the year. Their employers also contributed premiums and an additional share of the program cost was paid by every taxpayer. The assurance that benefits are available to those who lose their jobs or to those who are temporarily unable to work and are without pay makes a significant difference in the way that workers and employers make decisions.

Unemployment Insurance is a fundamental part of Canada's social security system. Throughout the consultation process a strong consensus emerged that Unemployment Insurance is needed and will continue to be needed in the future. At the same time, the program is subject to widespread criticism. Canadians have passionate views about what Unemployment Insurance should provide, who should be protected, and how the system should work. They care about how well or how poorly their own needs are met and how efficient and fair the system is for all Canadians.

It is important to start by telling what we heard. Ours was not just another inquiry and this is not just another report. In Chapter 1 it is the plain talk of Canadians that sums up what we heard about the problems of unemployment and the Unemployment Insurance program. Each individual sees only part of the problem and part of the solution. Yet the personal is the most universal. By first presenting some of the stories we heard, we trust that we will convey our respect for the importance of Canadians' feelings about these issues.

In Chapter 2 we present an overview of unemployment. We describe its nature and scope, and the interplay between people's rising expectations about jobs and the growth in the number of jobs available. We explore the extent of unemployment, presenting a dynamic rather than a static picture. Although the threat of unemployment exists for all working Canadians, we point out that some are at greater risk of more frequent spells of unemployment or are more likely to be unemployed for longer periods of time. The emerging importance of unemployment resulting from structural changes in the economy is described as well.

Our task in dealing with this wealth of material was to distill from it the nature of the problem. If the nature of the problem is known, then the most responsive solutions can be developed. Is the real problem unemployment or is it Unemployment Insurance? This part of our report focusses on defining the problem.

Dorothy Hall, Assembly-Line Worker, Burnaby, British Columbia

Mrs. Hall's situation illustrates the problems faced by many older workers affected by technological change and structural unemployment in Canada.

I'm 57 years old and I worked for 25 years on the assembly line at Vancouver Plywood until I was laid off in December 1983. Before that I worked nine years for BC Tel. VanPly was a very old plant, the machinery was very old. The owners, MacMilan Bloedel, said they were running in the red all the time. They levelled it about a year ago . . .

When things were good, well over 1,000 people worked there. Whereas at one time I had a lot of seniority and a pretty good job, as they laid people off I ended up taking the work that was available . . . The last job I had was on the dryer chain. They shut the plant down in stages, and when they finally shut it down, there were only about 350 of us left. When I got laid off, everyone got laid off. We had an awful lot of shut-downs in the last five years . . . three weeks here and three weeks there. Some years I collected UI for twelve, fourteen weeks through layoffs. But I didn't have any trouble getting my full benefits when the plant closed for the last time.

Last year I worked for 21 weeks on a make-work project in Port Moody, putting in a heritage museum. That qualified me for UI again, but it will be running out next month. I don't know what I'm going to do then . . . The job prospects in Burnaby are about zero.



You see I'm not really qualified for very much of anything . . . a plywood plant doesn't qualify you for anything else. But there really isn't anything out here anyway. I've applied to stores as a sales clerk, but most places are not hiring. Of course my age doesn't help any . . . And there are so many plywood-plant workers out of work. Ours was not the only plant . . . There were quite a few shut down. The ones that are operating have all new machinery and what have you, so they hire far fewer people. And there are people with far more seniority than I had still out of work.

As for the future . . . I won't be getting a pension for eight years. I'm not optimistic about those years. I do have some money saved, but not enough to last me for eight years, that's for sure. I have a son, so I'm not going to starve to death or anything like that . . . It's just that I have been independent all my life and I really hate the thought that some day he may have to look after me. But he may have to, despite my working for over 30 years.

I think I have gotten a fair deal from UI. It's just that I don't know what they can do for me. They interviewed me when I applied for Unemployment Insurance, asked me what skills I had, and of course my skills are in plywood. If I were younger, possibly I could have taken a course in computers . . . I would love that.

If I could collect my Canada Pension at 60 it would make all the difference in the world, because I know that I have enough money to get by

those extra years until I'm 60 . . . Or if they could train me in something . . . but I understand that I'm really too old for retraining. I realize that now. If the training took one year or two years, then really it's pointless for them to train me, isn't it? I'm realistic about it. I know of quite a few people who are in the same situation as me.

I would like very much to have worked at least until I was 60, then I could have taken early retirement. I'm very sorry that I lost my job, but I don't blame anybody. I can understand that the company was losing money and you can't run a business if you're going way in a hole every year as they told us they were doing . . . and I have no reason to doubt the fact, because they weren't the only one that closed down. There just weren't sales out there . . . and this was prior to the United States putting the tariff on shakes and shingles . . . It must be really awful now.

I'm worried about the next few years. I wish there were some way to bridge the gap . . . perhaps extend UI and bring down Canada Pension. I don't know if it's feasible but I think it would be just wonderful if there was some way that the government could bring the Canada Pension down to age 60 . . . to know that someone is thinking about our situation.

Michael Broadhurst, Hotel Manager, Calgary, Alberta

Mr. Broadhurst's comments reflect many of the concerns raised by employers during the consultations.

What I have to say about UI is the result of many years of experience in the hotel business in Canada, but I want to emphasize that it's my own opinion.

For the past two and a half years I have been managing a luxury 400-room hotel in downtown Calgary. Because we cater to business people our busiest times are in the spring and fall, although we certainly get a lot of summer business thanks to the Stampede.

We need 250 to 350 staff over the year. What we look for in job applicants is a good attitude, someone who is cheerful and service oriented . . . That's more important to us than experience. We'll train anyone who is eager to learn. We usually have no trouble recruiting people to work for us. The Canada Employment Centre has always referred people when we've needed them and I have no complaints at all about the service.

The strong opinions I have about UI stem from what can happen after people are hired. Employees have come to my personnel manager and said they want to leave and asked to be laid off so that they can collect UI. Once an employee has said that kind

of thing you have serious doubts as to whether their work will be as good as it should be, so some managers think there's no harm done in doing them the favour. But I do . . . I say that's my money. It's not the government that pays UI, but working Canadians.

I wouldn't get rid of UI. I think it's a good program for people who have lost their job and who need help until they find another one. But I don't think dishonest people should get away with living off other people's money for as long as they can. UI Commission workers should be tougher in applying regulations. Even if it cost quite a bit to police the system more closely, it would save money in the long run if it discouraged people from collecting UI when they shouldn't.

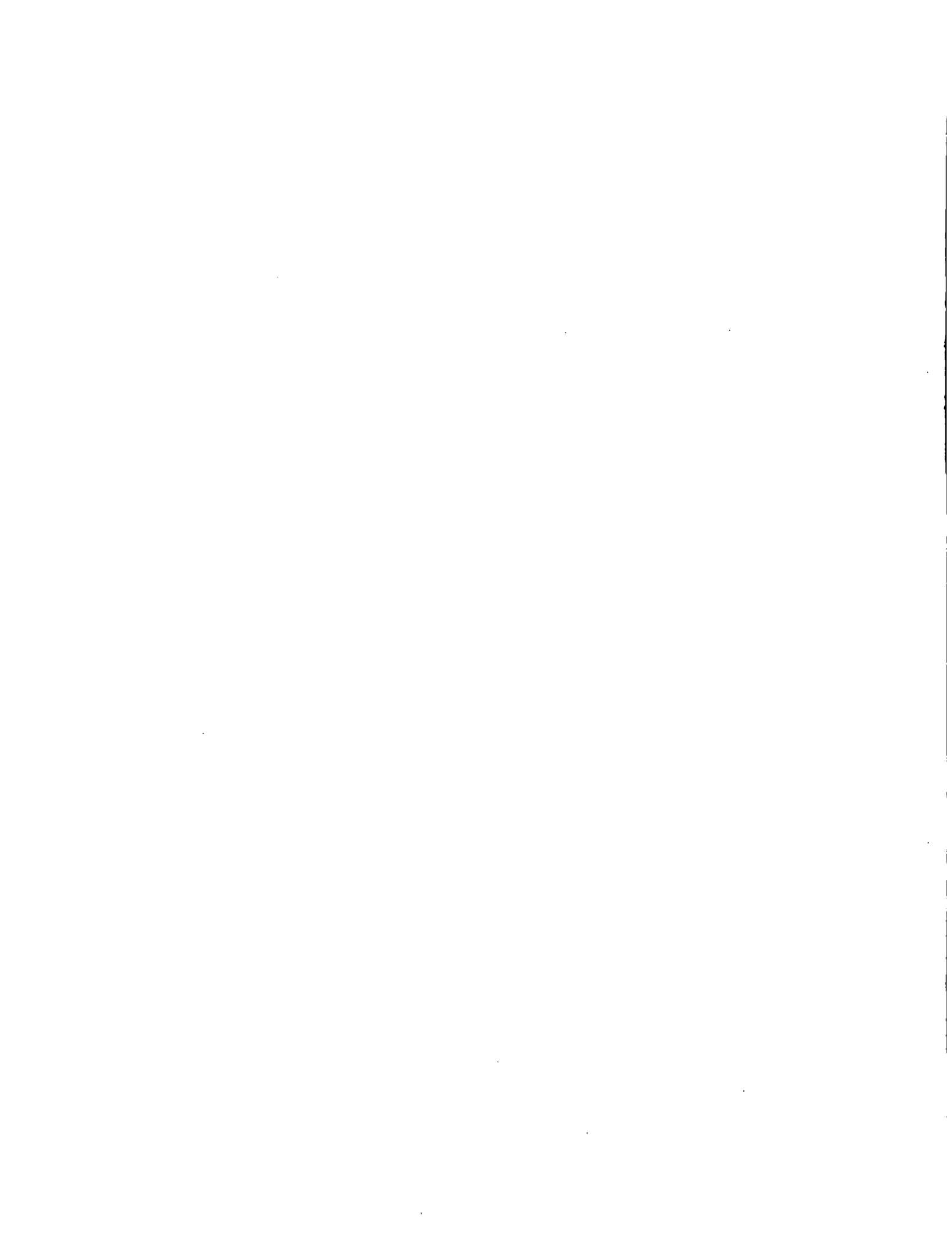
UI should be an umbrella to protect people from extreme consequences, not a huge blanket that covers everything. People who are out of work shouldn't have the luxury of refusing available work just because it's not quite in their field. I've been out of work too, and I strongly believe that you take whatever job you can get and look for something better while you're working. I think UI could work better as a top-up system, to bring your wages up to the level of your previous earnings, rather than stopping as soon as you get any kind of job . . . That would encourage people to look for work instead of hanging on to poge as long as they can.

I think it would be a good idea if the government sent a statement of account for the UI pro-

gram to everyone at tax time. That way people could see what the deficit is and they would understand that UI is their program – that they pay for it. I'm amazed at the number of people who think the government pays all those benefits. If people had more of a sense that UI was their program, they wouldn't put up with dishonesty and people hanging on to UI instead of looking for a job. UI doesn't encourage good work habits. People quit their job when they don't like it and give up looking when jobs aren't easy to find, because it's easier to draw UI.

If people want to stay in towns where there are no jobs, no industry, they shouldn't expect the Canadian people to keep them there. It's a luxury to live where you can't support yourself. I think UI should say you have to go where there are jobs to be found or you're on your own. I believe that in an urban area anyone who's really trying can find a job in a month. I know it's hard for people to leave their home . . . But if there's no work and no money where you live, then you move to a place where there is work and money. It's happening all over the world – people moving from poor countries to places where there's a better chance. That's how Canada was built, by immigrants who worked hard trying to get a better life than the one they left.

UI has undermined that work ethic – especially in the young, but in older people too.



What We Heard

The Context

The stories presented here and in other chapters, the briefs and correspondence from which we quote, and the comments that we received at round-table discussions and during visits to work sites and employment centres indicate a strong consensus and widespread concern about unemployment and Unemployment Insurance. This is what we heard.

The Changing Nature of Unemployment

Throughout the consultations, many Canadians expressed concern about the availability of jobs and about their income security. They foresaw massive structural change in the economy in response to technological change, international competition and free trade. They feared permanent job loss in dying industries and single-industry towns, and a lack of employment opportunities in poorer regions of the country.

At the same time, they expected the labour force to continue growing as those previously outside the labour force sought entry into the job market. With varying degrees of emphasis, they believed this Commission of Inquiry should take into account the following changes:

- the shift in employment away from resource and manufacturing jobs;
- the trend towards increased part-time work;
- the growth of jobs in the service sector;
- the need for periodic retraining to meet new skill needs arising from technological change;
- the shift towards information-based industries;
- the greater importance of entrepreneurial activity and small business;
- the possibility that there will not be enough work in the future for everyone who wants to work, given current work arrangements and patterns;
- the impact that the Unemployment Insurance program itself has on attitudes toward work and employment.

Participants pointed out that unemployment used to be seen as a short-term experience, generally arising as a consequence of business downturns. Employment patterns and consumer behaviour were generally stable and predictable. In hard times, people reduced their spending on non-essential goods and businesses contracted and laid off workers. As times improved, spending increased, businesses expanded and employment picked up. In contrast, unemployment today is seen as much less predictable and much longer lasting.

Canadians realize that unemployment today stems from far more complex causes than simply the ups and downs of "the business cycle." Participants were acutely aware of the dramatic changes in the economy

"With fewer and fewer import and export restrictions, why should multinationals produce anything in Canada? Labour costs in the Third World, particularly in the newly industrialized countries, are far lower than in Canada. Why produce textiles or automobiles here when they can be produced in Brazil or South Korea at a fraction of the cost and then shipped here for marketing? The long-term prognosis is that the Canadian auto industry is slowly going to disappear, unable to compete with cars produced by Korean workers earning \$1.36 per hour in total wages and benefits." (Alberta Federation of Labour, Calgary hearings)

"We can take a piece of equipment into the woods and with six people, replace 80. So remember that, and the forest industry is the strongest industry in Canada, with the biggest number of people." (Miramichi Pulp and Paper, Newcastle hearings)

"There are many different types of unemployment, with many sub-categories within those types. They all need customized programs to address their unique needs. For example: unemployment created by a business closing down is quite different from unemployment created in the off-season by a logging operation. Taking this example even further would be the effective difference in a business, employing 300, closing down in Toronto and the same size of business closing down in the Village of Haliburton. There is also a difference between the unemployment of two people, one with portable skills and the other with skills useful only to the job which no longer exists." (Berwick Ferguson Payroll Canada Ltd., written brief)

"Benetech believes . . . that high unemployment will not go away, and in consequence we are all condemned to live most of the remainder of our working lives with uncertain employment and income prospects."

(Benetech Canada Inc., written brief)

"We think Unemployment Insurance is an excellent idea. We want to reaffirm our support for the concept and for the programs that would flow from the spirit behind Unemployment Insurance." (Greater Moncton Chamber of Commerce, Moncton hearings)

"In recent years UI has kept us out of a full-scale depression. The Commission of Inquiry must ensure that the positive aspects of UI – maintenance and distribution of income – are not only maintained but strengthened. The integrity of UI as a pooled-risk insurance program for those who become unemployed involuntarily must be maintained." (British Columbia and Yukon Territory Council of the Canadian Federation of Labour, Vancouver hearings)

"Our position on the Unemployment Insurance program is that, as you have stated, it is a safety net. The safety net should be restricted to those people who are temporarily unemployed, are actively seeking employment and are employable. It should not be used as a cure-all for the various other social problems that are persistent right now." (Calgary Personnel Association, Calgary hearings)

"The federal government must continue to play a major role in pursuing social and economic directions. We do not believe the UI program is the appropriate means or that UI premiums should be used to fund these ends." (Western Grain Elevator Association, Regina hearings)

over the last few decades – not just here in Canada, but around the world. They recognized that they will continue to face pressures to adapt to the new realities of a much more interdependent global economy. Those who lose a job cannot assume that when times improve, their skills will be in demand again. The call for a "full employment policy" – for some form of government intervention to assure that there will be enough jobs for all who want to work – was loud and clear. With both optimism and anxiety, Canadians challenged us to look to the future, not to the past, in reforming Unemployment Insurance.

Unemployment Insurance Will Still Be Needed

Unemployment Insurance is regarded as the core of Canada's income security system, as important to working Canadians as Old Age Security and government pension plans are to the elderly and as Medicare is to all of us.

A strong consensus is evident among labour, business, advocacy groups and political organizations across the country that the need for Unemployment Insurance will continue. Canada is seen as a wealthy country with a social conscience. With few exceptions, those who came to our hearings or wrote briefs and letters believe that this country should be able to provide for the basic needs of every citizen. While there is universal agreement that no one should be left to starve, there is debate about the level of financial security that would be adequate, about whether Unemployment Insurance is the proper way to provide it, and about who should be eligible for what kinds of income protection. Whether or not to have Unemployment Insurance is not in question. What is in question is how the program should be designed and what needs it should meet.

Most Canadians strongly support Unemployment Insurance as a short-term income security program for those involuntarily out of work, but there is considerable debate about the specific meaning of *short-term, income security, involuntarily* and *out of work*.

Canadians make a clear distinction between welfare and Unemployment Insurance, and they want that distinction to be preserved. Unemployment Insurance is perceived as more acceptable than welfare because benefits are seen as a matter of right earned by contributions rather than as a public charity.

The Need for Reform

While we found solid agreement on the continued need for Unemployment Insurance for those temporarily out of work, questions were raised and dissatisfaction expressed about other uses of the program, about the need for greater equity, about abuse, and about unnecessary complexity.

The program has grown like a weed. New elements have been added to meet emerging needs, with complex adjustments to control undesirable side effects. The result, we were told, is a program that tries to meet diverse and sometimes contradictory objectives and that has become almost impossible to administer.

A Return to Basic Principles

We heard repeated calls for a return to the basic principles of social insurance. Controversy centred on those aspects of the program that some thought diverged from social insurance. Some noted that regionally extended benefits, which pay benefits for a longer period to the unemployed in high unemployment regions, are a system of income supplementation or redistribution. Some questioned the provision of benefits for maternity and sick leave. Others questioned the use of Unemployment Insurance funds for training programs or for job creation purposes. Debate about which risks should be insurable focussed on the issue of providing benefits to seasonal workers and those who leave their jobs voluntarily.

Control over the Program

There was widespread criticism about the lack of autonomy of the current Canada Employment and Immigration Commission. Employer groups and labour unions both expressed a strong desire for the program to be returned to the control of employers and workers. Greater freedom from government control was seen as necessary in order to re-establish the integrity of the program as a social insurance program.

Fairness

Many individuals and groups expressed concern about inequities in the program. Questions were raised regarding why some part-time workers are not covered and why some short-term workers are eligible to receive benefits for as long a period as full-year workers. Many found it unjust that a person who has worked a full year may receive lower benefits than someone who earns at a higher rate but works for a much shorter period. They noted the absence of special provisions for older workers who have contributed to the program for many years and are laid off. Those older workers find it difficult to retrain or compete with younger workers on the job market.

While some suggested special provisions for special groups, briefs and presentations stressed again and again that those in similar situations should receive similar benefits.

Abuse

We expected to hear a lot about abuse of Unemployment Insurance and we did. Although it was generally believed that the vast majority of Canadians are solid, honest people who want to work, it was also conceded that a small percentage is unwilling to work. Overall, however, the cause of unemployment was seen, not as lack of motivation, but as lack of jobs.

Some abuse was seen as stemming from problems embedded in the Unemployment Insurance system itself. In particular, there was criticism of aspects of the program that weaken the incentives to work. Many participants noted that the present system may discourage individuals from accepting a new job at lower pay. Concern was expressed about the diminishing returns from working more than the minimum number of weeks needed to qualify for benefits, and about disincentives for

"The UI program, as it now stands, is the greatest redistribution program in the country and it bears virtually no resemblance to an insurance program except in name. There is virtually no industry in any region of the country that is really getting the actual value of its contribution paid out to members over any length of time one wants to consider. So it is basically an earnings-related social assistance program." (St. John's Status of Women Council, written brief)

"We believe that the administrative connection of UI with other programs, particularly social welfare schemes, should not be allowed to confuse or alter the primary objective of the program. UI is social insurance, not social welfare." (Labourers' International Union of North America, written brief)

"The Railway Association of Canada knows of no other national, federally run program where the location within the country in which you live determines your entitlement to a benefit." (Railway Association of Canada, written brief)

"Anyone who is covered by the plan pays premiums into the plan and should be treated with equity rather than being used as an exception." (Alberta Teachers' Association, written brief)

"Canadians want to work. Canadians are unemployed because there are no jobs for them, the claims of certain business groups notwithstanding." (United Steelworkers of America, written brief)

"The system invites numerous abuses which are, in fact, perfectly rational responses to a perverse system which encourages a dependency syndrome and gives credence to the notion that there is a right to public assistance." (Chambre de commerce du Québec, written brief)

"As for using and abusing UI, there are always going to be a few who do it, but I believe the majority of the people on UI use it because that is their life blood." (Women's Centre - Chatham, Newcastle hearings)

"The concept that the person who pays the freight should have some influence in how the goods are delivered applies here, and our membership would feel that way. If you take the last two years' experience, employers – and by and large our membership are employers – will be contributing nationally somewhere in the range of \$4.5 to \$5 billion to the Unemployment Insurance program." (Saskatchewan Chamber of Commerce, Regina hearings)

"Humanize the administration of Unemployment Insurance: humiliating interviews, lengthy delays in processing, incomprehensible benefit structures, meaningless job search requirements, inadequate appeal procedures and lack of funding for unemployment centres do absolutely nothing to improve the situation, but only increase alienation from government and government agencies." (Canadian Union of Public Employees, written brief)

"Working in Unemployment Insurance or the employment side is not a very happy job. Dealing with the unemployed day in and day out is something very soul-destroying. The stress of the job is becoming increasingly worse for our members, and it is a subject which both management and union have to deal with very, very quickly." (Canada Employment and Immigration Union, British Columbia and Yukon Territory, Vancouver hearings)

"A major concern is the Record of Employment form. It has been a problem for our members and for the public ever since it came into existence. Nobody understands that form. There are people employed by the Commission who do nothing but try to interpret it to employers." (Canada Employment and Immigration Union, Alberta and Northwest Territories, Edmonton hearings)

accepting temporary work while on claim. Some were concerned that the system makes it easier for employers to lay off workers rather than to share work. We were told about the "10-week syndrome" – the way that employers and employees in some areas cooperate to ensure that as many in the community as possible get 10 weeks of work in order to qualify for 42 weeks of benefits.

Despite these concerns about abuse, we were particularly impressed by statements from many unemployed people about their strong desire to work and "get off" Unemployment Insurance. The strength of the work ethic in Canada was further confirmed for us by a Decima survey (see box).

Program Administration and Delivery

Many spoke of their frustrations in dealing with the Unemployment Insurance system as recipients, as staff within the system, and as employers.

The need to accept Unemployment Insurance benefits is an unhappy experience for most individuals. Their unhappiness mounts when their needs and feelings are ignored, when they find the system confusing, when decisions about their eligibility for assistance seem arbitrary, when cheques are delayed, when errors are made and appeals are difficult.

The difficulties of those working in the system were also apparent. Regional staff saw the headquarters office in Ottawa as overstaffed and the front line as understaffed. Employees of Canada Employment Centres spoke of the long lines of clients waiting to be served by too few officers, of complex and changing legislation and policies, of continuous auditing of each other's work and of the many tasks that they must perform under impossible deadlines. Many stressed that they wanted to provide more personal assistance to beneficiaries but were unable to do so.

Employers also found the system troublesome. They, too, complained about the complex and confusing nature of the legislation, regulations and policy directives. Many noted the lack of coordination between various parts of the system (particularly between the Department of National Revenue and the Canada Employment and Immigration Commission). The Record of Employment was identified as a significant source of errors and delays. For many employers it was a symbol of the complicated definitions (of insurable earnings and weeks) and confusing procedures (allocating vacation and severance pay to weeks) which characterize the program and consume a disproportionate amount of the time of both staff and employers.

Pensions, Severance and Vacation Pay

The January 1986 changes to the Unemployment Insurance regulations, which treated pensions as earnings while on claim and reduced benefits for many claimants, generated far more response from the general public than any other single issue. Hundreds of letters were received and many formal presentations dealt with pensions either as part of a more general presentation or as a single topic. The strongest feelings were expressed by workers who had retired before the age of 65 (either by choice to take advantage of an early retirement offer or because they were required to

Attitudes Toward Work

A Decima Research Ltd. poll conducted for this Commission of Inquiry in February 1986 examined Canadians' reasons for wanting to work, attitudes about their present and potential work, and willingness to work at an unsatisfying job rather than be unemployed.

While the vast majority (98%) said that work was important, almost twice as many (65%) said they worked to live rather than lived to work (35%). Seven out of ten thought they would continue working even if they won a lottery.

Respondents ranked four aspects of work in the following order:

- 1 the challenge and interest of work;
- 2 the feeling of contributing to something important;
- 3 the opportunity to make friends;
- 4 the prestige and respect associated with a job.

The first two factors were more important overall to anglophone respondents with higher incomes and education; francophone respondents and those with lower incomes and education tended to place greater value on the last two factors.

Most respondents (56%) said they would rather take a boring, low-paying job than be unemployed. This tendency increased with age and was more prevalent among low-income respondents and anglophones, especially in the Prairie provinces. Only 31 percent of respondents thought that jobs are more boring today than in the past.

Two-thirds of respondents – young and old – believed that this generation is less motivated to work than previous generations. Few (5%), however, believed that they themselves were less motivated than other Canadians. Most (80%) maintained that they would willingly work overtime to get a job done. Just under half (41%) said they would be willing to work three-

quarters of their current hours for three-quarters of their current pay. Men were less likely to opt for the cut in time and pay than women (62% of men and 54% of women said they would not). Higher-income respondents, anglophones, and Ontario residents in particular displayed the strongest work ethic according to the survey.

Satisfaction with one's job increased with education and was greater among anglophones living in large cities, especially Ontario residents. More people (56%) thought it harder to get ahead in a job now than it was 20 years ago (44%). Opportunity for promotion was very important to Canadians aged 18–24 (43%) and to those aged 55–64 (40%). The importance attached to this opportunity increased with education. Respondents who were most satisfied with their career advancement tended to be anglophone men, in particular Ontario residents.

Almost half of respondents (49%) tended to be optimistic about future employment prospects and believed the unemployment rate will go down. When asked whether Unemployment Insurance had beneficial or detrimental effects on the unemployment problem, 47 percent thought it had both, 33 percent thought the effects were mainly detrimental, and 20 percent thought they were mainly beneficial.

Sample size and composition: 1100 Canadians; proportionally by province; equal number of men and women; included subsample of 100 unemployed.

Accuracy: These results will be accurate to within 3 percent 95 times out of 100.

Source: Decima Research Ltd., "Work and Income Security: A Survey," research study prepared for the Commission of Inquiry on Unemployment Insurance, 1986 (unpublished).

"People who receive their vacation pay with each pay get benefits after the waiting period is over, while people who receive vacation pay in a lump sum after or with final pay have UI benefits deducted. This is not equitable. People in seasonal jobs – i.e., construction, tourism – should pay higher premiums. This should be an insurance program based on likelihood of using UI – those who use it more should have to pay more instead of having those people in relatively secure jobs subsidize everyone else." (Corporation of the City of North Bay, Department of Social Services, Sudbury hearings)

"If it's not insult or injury enough that a worker loses his job, he must also be cut off UI for the time severance pay continues. It's divided by how much you normally were making and the workers are penalized." (Unemployed Workers' Union, Bathurst hearings)

retire early as a matter of public policy) and had expected to receive benefits or to start a new career which would be covered by Unemployment Insurance.

The overwhelming consensus was that pensions should not be treated as earnings while on claim. It was argued that pension incomes are in fact deferred earnings. The inequity of relating Unemployment Insurance to pension income while ignoring income from stocks, bonds and other savings was mentioned. The fact that changes in regulations have removed protection for people already committed to early retirement plans was of particular concern. For some, such as persons in the RCMP and the military, who may be starting a second career, the inclusion of pensions as income may make it impossible for them ever to take advantage of Unemployment Insurance, even though they are required to pay premiums during that second career.

The stated preference on this issue was to see the January 5, 1986 policy on pensions reversed. If this were impossible, an alternative would be to allow people on pensions to be exempt from paying premiums on future earned income, since depending upon the level of their pension the regulation may prevent them from collecting benefits if they should lose their new employment.

Although regulations regarding severance and vacation pay did not generate as much criticism as the pension issue, the complaints were similar. Unions in particular objected to these monies being treated in such a way as to decrease or delay benefits.

The Psychological Meaning of Unemployment

Jahoda describes the psychological meaning of unemployment as follows:

"There are latent consequences of employment as a social institution which meet human needs of an enduring kind. First among them is the fact that employment imposes a time structure on the waking day. Secondly, employment implies regularly shared experiences and contacts with people outside the family. Thirdly, employment links an individual to goals and purposes which transcend his own. Fourthly, employment defines aspects of status and identity. Finally, employment enforces activity.

"... Nobody prevents the unemployed from creating their own time structure and social contacts, from sharing goals and purposes with others, or from exercising their skills as best they can. But the psychological input required to do so on a regular basis, entirely under one's own steam, is colossal." (Marie Jahoda, "The Psychological Meanings of Unemployment," *New Society* (6 September 1979), pp. 494-95.)

The Psychological Impact of Unemployment

The emotional impact which unemployment has on individuals and their families should not be overlooked. Many described their intense feelings of helplessness and hopelessness. For many, a job is the axis along which the pattern of life is organized. Work is viewed as a yardstick for measuring a person's social worth. A job is more than simply a means of earning money. It is a means of structuring one's time and providing social contacts, as Marie Jahoda observes (see box).

How do the unemployed survive their period of joblessness? Do all people respond in the same way? The answers given at the public hearings seemed to confirm the picture of the emotional extremes documented by social scientists. Job loss leads to an emotional roller coaster, moving through three stages: grieving (characterized by anger, bargaining, depression, and acceptance); job search (accompanied by enthusiasm); and finally, if the job search is unsuccessful, a stage of burnout (characterized by stagnation, frustration, and apathy). Some of these reactions are reflected in the interviews, letters and quotes that are used to illustrate this report, as well as in the group discussions which precede Chapters 5 and 6.

Many asserted that the effects of unemployment on individuals and families add up to serious costs to society as a whole. The social and economic costs of boom and bust cycles were identified and several briefs cited studies which establish the fact that physical and mental health deteriorates with prolonged economic hardship, especially when it is not anticipated. But it was the anecdotal evidence which was compelling. The stories told left no doubt of the significance of unemployment.

Summary and Conclusions

The presentations of workers, Unemployment Insurance recipients, employers and many community groups helped to focus this Inquiry on the issues about which Canadians are most concerned. We were asked to examine the ways in which the program has changed; to look at the underlying principles of a social insurance scheme, the organizational structure and the delivery of services. And we were urged to look beyond these immediate issues, to the problems of unemployment not only now but in the future.

Canadians know that they face a future that will be very different from the past, and that many social and economic changes will undoubtedly result in a new set of needs – and a new definition of financial security. Most working Canadians will continue to depend on Unemployment Insurance to protect them from the full impact of economic forces beyond their control. Employers will continue to depend on it to mitigate the human consequences of difficult business decisions. Both workers and employers will continue willingly to make contributions to support the program.

"Here it is now, I am in this situation. I feel like I am useless. You feel like you are worthless. You are not a human being any more. You wake up in the morning; you get out of bed; you go and have something to eat; you go back to bed and watch TV. You have nothing to look forward to. You are literally humiliated." (Colin Elias, Toronto hearings)

"Countless studies have shown that people who are unemployed are often plagued by feelings of guilt, humiliation, and uselessness. Physically, they suffer from sleeplessness, mental distress, and a variety of other serious, and potentially fatal, disorders." (Canadian Union of Public Employees, written brief)

"Yet it is not altogether surprising that a scheme created some 40 years ago to deal with cyclical unemployment cannot cope today with what is in large measure massive structural unemployment." (*Calgary Herald*, July 9, 1984)

"What direction is our country going in? Where are we going to be in 10 or 15 or 20 years from now? I think only by projecting the kind of image out that we are going to then find the solutions to the problems as we come to them over the years." (Moncton and District Labour Council, Moncton hearings)

"I got laid off in June. It wasn't only me, there were approximately 15 of us. I went on Unemployment Insurance. It took me a year and a half to get back on the job. Thank you to the Unemployment Insurance Commission, because I had a subsidy." (Edmond Roy, Calgary hearings)

“Over the years, the program was enlarged to cover deficiencies in our society that were not directly linked to short-term work dislocation. It has been used to help correct regional economic variations, to redistribute income, and to provide social benefits not directly linked to loss of employment because of job market disruptions. In attempting to meet such a variety of goals, Unemployment Insurance has become a multi-layered, fragmented, and often negatively perceived program.” (Canadian Pulp and Paper Association, written brief)

This central role of Unemployment Insurance in the income security system, the sense of ownership of the program on the part of employers and workers, and the anxiety of Canadians about the future provide the context within which a review of Unemployment Insurance must be placed. Unemployment Insurance has an immense impact on the lives of individual Canadians and their families. It has become an integral part of the economic structure of communities, regions and provinces and because of this, changing the present system will require courage and caution.

Lutte au chômage: 21 pour cent n'y croient guère...

'55 Business Up, But More Jobless

MORE JOBS AS WELL AS MORE GOODS HOPED FROM 'AUTOMATION'

... IS ACCEPTED BY U.S. TEACHERS

TORONTO DAILY STAR

THE INSIGHT PAGE

Hopelessness of part-time unemployed

They don't show up in the jobless figures, and their ranks are growing

Charlie's TEMP

A division of...



Layoff stress equal to that of death or divorce, study says

Push-button Factory Seen Bringing New Era of Plenty



High unemployment rate is attributed to profound social changes

Couple who 'had it made' face layoff with 1,400 at AMC



Jobless toll worst since '40

Encore des pertes d'emplois

... The story is part of a continuing inquiry by The Globe and Mail into unemployment and job distribution.

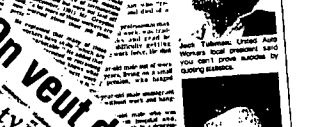
Society's Duty To Unemployed

Tough times Windsor's battered economy throws 30 lawyers on the dole

... On veut nos jobs

8 Metro suicides linked by coroner to unemployment

... «On veut du travail»



Search for work stalls at the soup line

... 400,000 now out of work

Unemployment to rise unless inflation licked

... Trudeau tells Ontario

White-collar workers feel the pinch of layoffs

... LE CHOMAGE DES JEUNES

Les vraies victimes ont plus de 50 ans

... L'instruction paie toujours

Globe and Mail

CANADA'S NATIONAL NEWSPAPER

PLACE LOUIS RIEL
1101 R. BUREAU
WINNIPEG
FRIDAY, APRIL 9, 1955

Soup lines growing longer as middle class joins queue

... 1,228,000 seeking work, jobless rate high

125 autres salariés de CSF mis à pied

« Mais où trouver de l'emploi ? »

Les vraies victimes ont plus de 50 ans

... L'instruction paie toujours

... L'instruction paie toujours

... L'instruction paie toujours

... L'instruction paie toujours

... L'instruction paie toujours

... L'instruction paie toujours

... L'instruction paie toujours

... L'instruction paie toujours

... L'instruction paie toujours

Unemployment: Changing Views, Persistent Problems

World War II lifted Canada into boom times that almost, but not quite, made people forget how poor and desperate many Canadians had been during the Great Depression of the 1930s, when no worker's job was safe. Unemployment Insurance – introduced in 1940 – was the federal government's response to the lingering fear of a return of unemployment.

Nonetheless, the postwar years were difficult for some. Many women who had held factory jobs in the war effort returned to the home to make room for veterans. Soldiers trying to pick up the threads of their lives in civilian occupations made up the bulk of the unemployed. Their job prospects improved in the postwar boom, as factories switched to civilian production to meet the demands of people hungry for consumer goods.

Unemployment continued to be low into the 1950s as the Canadian economy expanded rapidly to meet the rising demand for houses, appliances, cars, entertainment and other aspects of the good life. When unemployment did occur, it tended to be seasonal and expected: layoffs in fishing and construction off-seasons or annual retooling in the auto industry were prime examples. There was also some cyclical unemployment resulting from a downturn in the business cycle, but it was normally short term.

Typically, the unemployed worker of the 1950s was a man who worked in a resource-based industry or a factory. While unemployment was a serious problem for these men and their families, their numbers were too small to make a major impact on public consciousness.

Automation was such a new word in 1954 that newspapers mentioned it in quotes. As a concept, it was hailed by business as a creator of jobs, employment and wealth, and feared by labour as a destroyer of jobs, establishing battle lines that still exist today.

The composition of the labour force began to change noticeably in the 1960s. Growing numbers of women, attracted by the rewards of a career, moved from the home into factories and offices. The economy was healthy and expanding, and there were plenty of jobs.

The typical unemployed worker of the 1960s resembled that of the 1950s. But for the first time, women made up a significant proportion of the unemployed.

Other economic trends were apparent that would affect the labour market. Japan and other previously minor producing/exporting nations began to compete seriously in international industrial markets. North American manufacturing started losing jobs to low-wage areas of the world. Huge amounts of federal funds were spent and protective legislation was introduced to maintain operations in specific parts of the country.

In the late 1960s, federal politicians and fiscal planners began to advocate fighting inflation at all costs. For many people, the price of this policy was increasing unemployment. The issue of jobs became increasingly important to more and more Canadians.

Concern about inflation became an obsession in the early 1970s – as did the growing numbers of unemployed, especially among the young. The energy boom created many jobs for Canadians in the oil and gas industries early in the decade, but by the early 1980s, the energy industry was in crisis and by the mid-1980s, thousands in the industry were out of work.

Computer technology was no longer new. It enabled more accurate assembly and greater productivity at a much lower cost, and its use became essential in almost every aspect of manufacturing.

Japan and the European Common Market finally shattered the North American dominance of international manufacturing markets, largely by means of superior technology. Factories cut production or wheezed to a halt. Male blue-collar workers began to be unemployed more often and for longer periods, and white-collar workers and middle managers also began to be laid off in large numbers. Under the rule of "last hired—first fired," more women and young people joined the unemployed, because they were less established in the work force. Suggestions were made that unemployment might be the result of "profound social changes."

The service sector and a growing government bureaucracy created more jobs. Women began to compete more directly with men. Where experience was less valuable than a modern education, young people had an edge. These are some of the reasons women and young people participated in the labour market in larger numbers than ever before, and men held an accordingly smaller proportion of it.

The 1981–82 recession affected everyone – man and woman, young and old, single parent and executive. Everyone knew someone who was directly hurt.

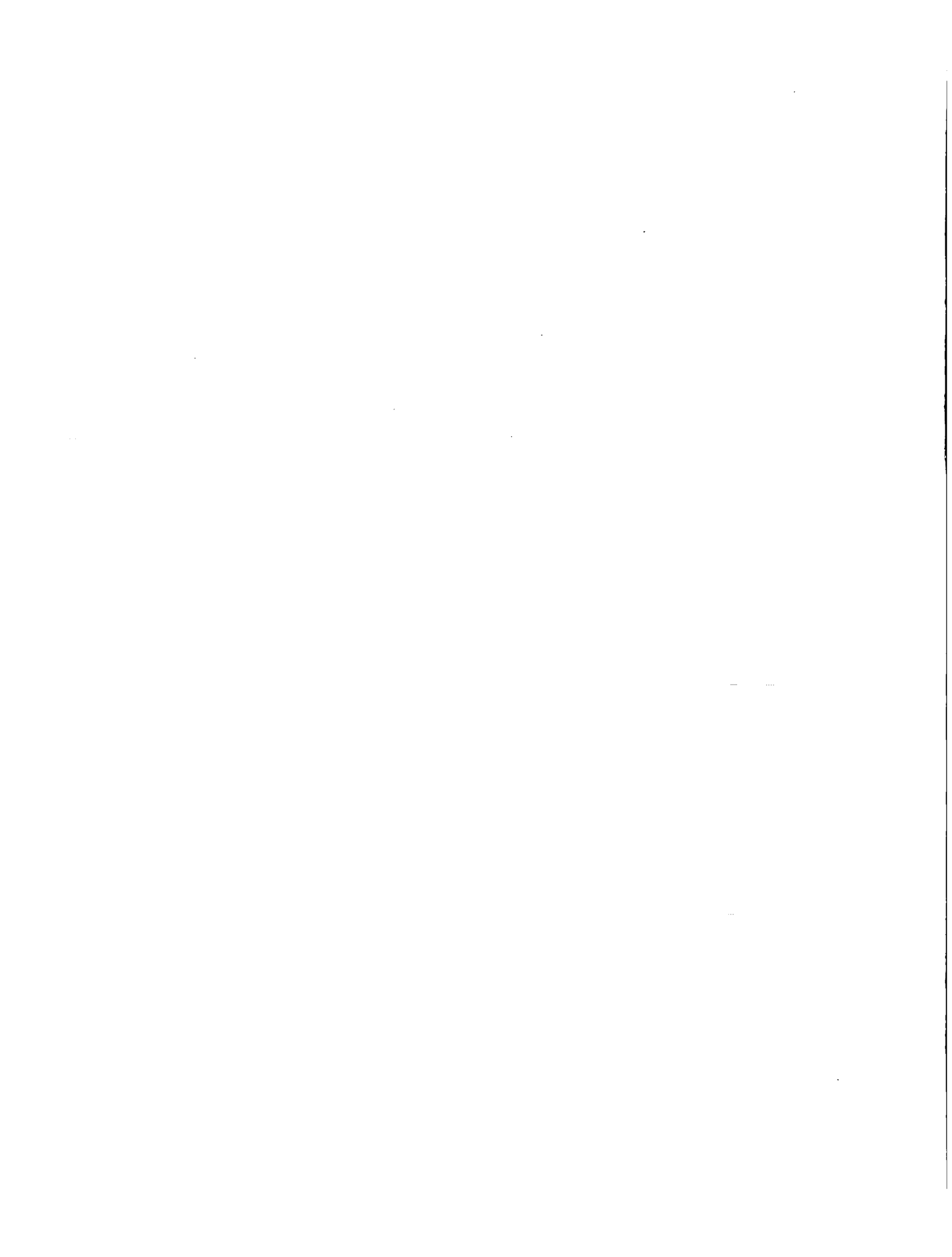
Young people found themselves out of work and, with little education and experience, at the bottom of a very large heap. They might be able to get casual work, but it was hard to get anything that lasted or offered a future. Parents enjoying the new-found freedom of an "empty nest" suddenly found themselves with adult children to support again. Workers aged 50 years and older who had thought themselves secure until retirement found

themselves laid off or "redundant." With years of experience that were no longer relevant, they too had trouble getting anything but short-term jobs. The recession aggravated a trend in many industries to trim labour costs in order to maintain profits and remain more competitive.

Everywhere, dreams were shattered. Young couples with a house, a dog, a car and a baby on the way suddenly no longer knew how they would keep up the mortgage payments. Ambitious executives no longer knew what to do with their lives as their careers ground to a halt. A university education or a job in the civil service was no longer a guarantee of a secure job.

Four years after the worst economic crisis since the Great Depression, large numbers of workers are still unemployed. Many have compromised: they may not work the number of hours they would like or in their chosen profession, but they do have jobs. They are called "underemployed." Others have been less resilient or fortunate. They have not found any kind of steady work. In many cases, they have given up and dropped out of the labour force – and out of the unemployment statistics. They are called "discouraged workers." They include not only older workers who have lost their niche in the labour force, but also young people who never had the chance to find one.

Now, in 1986, it is obvious that the Canadian economy has gradually recovered from the worst of the recession. But we cannot say that "happy days are here again." Prosperity is sporadic; there are relapses. Once again, just as half a century ago, no worker is safe from the threat of unemployment. There is no one typical unemployed worker in 1986. Many are at risk.



Employment and Unemployment

Introduction

Being unemployed or out of work is fraught with difficulty – for those studying it as well as for those experiencing it. What does the average Canadian mean when he says that he is unemployed? What does she think when she sees the latest statistics on the unemployment rate? Is a construction worker unemployed when he has no work in December? How is he different from a farmer? Does a factory worker on layoff and awaiting recall have a job or is he unemployed? Is a woman unemployed when she is on maternity leave?

In order to assess the Unemployment Insurance program in Canada and recommend changes to improve it, one needs to define unemployment and understand how it affects people and the economy.

Defining Unemployment

Canadians, like most people around the world, define themselves and their contribution to society by the work that they accomplish. The importance of work in their lives was made clear by many individuals during the process of the consultations. “Work” is activity that creates something of value for the individual or society. But many different activities fit that definition, and only some of them are equated with earning income. These activities include:

- working for pay for an employer;
- working in a self-employed activity – e.g., working for fees in a profession or trade, running a business or farm, performing a service for fees;
- working in the “informal economy” under some barter arrangement;
- working at volunteer activities;
- working in or around the home, caring for children, doing housekeeping work, gardening; and
- working as a student in school or in a training program.

Not all these types of work generate purchasing power. In general, when persons in our society talk about work they mean working for pay for an employer or earning income in a self-employed capacity. The significance of becoming unemployed, then, is the loss of access to purchasing power. The unemployed may also lose their sense of importance – of contributing to their own support or that of their family or community.

When the focus is on the relationship between working (or not) and pay, it is important to recognize that a person may be:

- employed or self-employed and earning income;
- temporarily without earnings but expecting to return to a job;
- unemployed with no earnings and with no job to return to; or

“Well, I need the job, firstly for self-dignity, to feel that I am still worth something. And secondly, I need the money.” (Albert Kaminski, Vancouver hearings)

“It is through work that the individual can make plans for his life style and future and can provide for his family. Moreover, the individual relies, to a very large extent, on work-related income to meet all his responsibilities.” (Fédération des syndicats du secteur aluminium inc., written brief)

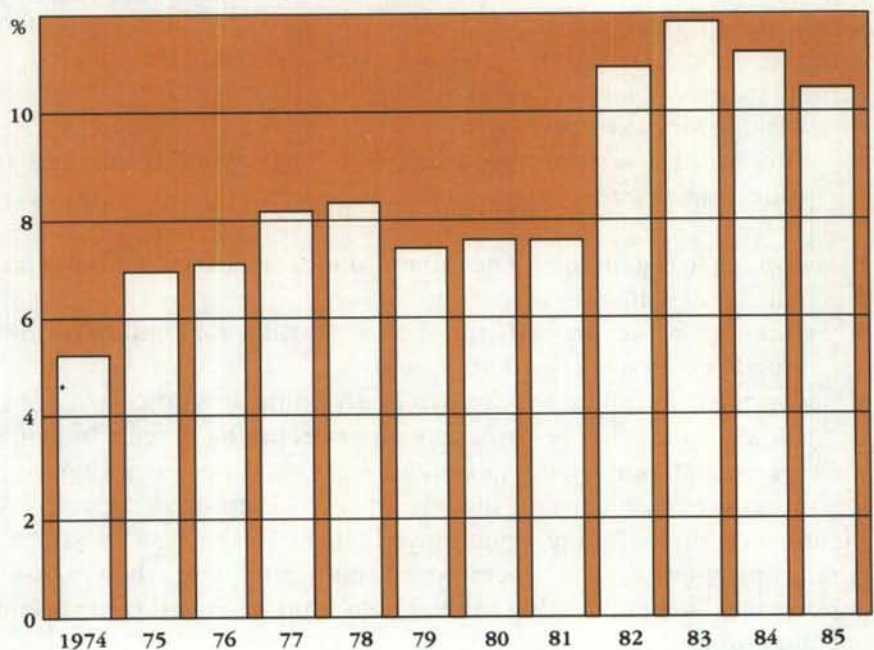
"Most people today relate 'work' to a 'job,' 'employment' to a job with an 'employer' and 'unemployment' to 'being out of a job'."
(Government of Prince Edward Island, written brief)

- outside of the labour force (retired people, homemakers, people unable to work, students) and living on pensions, student grants, savings or income from others.

Throughout most of this report, "work" means working in paid jobs. Within this context Unemployment Insurance is concerned with earnings which arise from an employer/employee relationship. Unemployment involves an interruption or cessation of those earnings.

Unemployment may result from different kinds of events. Some events, such as the closure of a plant, the bankruptcy of a business, or a cutback in staff, lead to permanent severing of the relationship between a particular employer and employee. This is the job-loss situation which is generally regarded as unemployment.

Figure 2.1
Unemployment Rates in Canada, 1974-85



Source: Statistics Canada, *Labour Force Annual Averages 1975-1983* (Cat. no. 71-529), 1984; and *The Labour Force, December 1985* (Cat. no. 71-001), 1986.

There are other events, however, which result in a temporary interruption of employment earnings. When a plant lays off part of its work force because it has reduced production, workers become unemployed although their relationship with their employer has not been broken – in fact, they may have a recall notice which gives them continued rights to their job. Women on maternity leave, workers who are away from their jobs due to illness, and workers in seasonal industries also experience a temporary interruption in their earnings and are unemployed.

In Europe, benefits to workers on temporary layoff with recall are usually covered by collective agreements, and benefits for maternity and sickness are paid by other parts of the social security system. In many American states, premiums paid for Unemployment Insurance are higher in industries with a record of frequent layoffs. The Canadian Unemployment Insurance program covers unemployment regardless of its cause. That fact has been the subject of considerable debate over the years and will be discussed later in the context of the income security system in Canada. (A brief description of the Unemployment Insurance program in Canada is included in Appendix F.)

The Significance of Unemployment

Unemployment has a significant impact not only on individuals but also on the economic and social life of a country. Although economists debate the exact cost of unemployment in terms of lost production, they agree that, with unemployment in Canada in the past year hovering near 10 percent, the extent of the forgone output of goods and services represents a significant loss to everyone, both to society and to individuals. That loss can never be recovered. It makes everyone poorer today and, to the extent that some of the lost output would have been invested, poorer in the future as well. The loss of this potential output (that is, of the goods and services that could have been produced with existing resources) is not simply an abstraction. Individuals experience it as a personal loss through a reduction in their employment earnings and in their purchasing power.

Even more disturbing is the rising trend of unemployment. In the early 1970s, national unemployment rates hovered just above 5 percent; in the last few years – a period of economic recovery – the unemployment rate has dropped from nearly 12 percent to 9.5 percent. These statistics support other evidence presented throughout this report that the economy is undergoing a fundamental restructuring. It becomes increasingly important, therefore, to understand the dynamics of the labour market and the ways in which both employment and unemployment are measured.

“We happen to pay out a lot of money in welfare in Manitoba for those beyond the Unemployment Insurance system. But the real loss is the loss of goods and services that are not being produced by the unemployed. I mean, we are all losers.” (Government of Manitoba, Department of Employment Services and Economic Security, Winnipeg hearings)

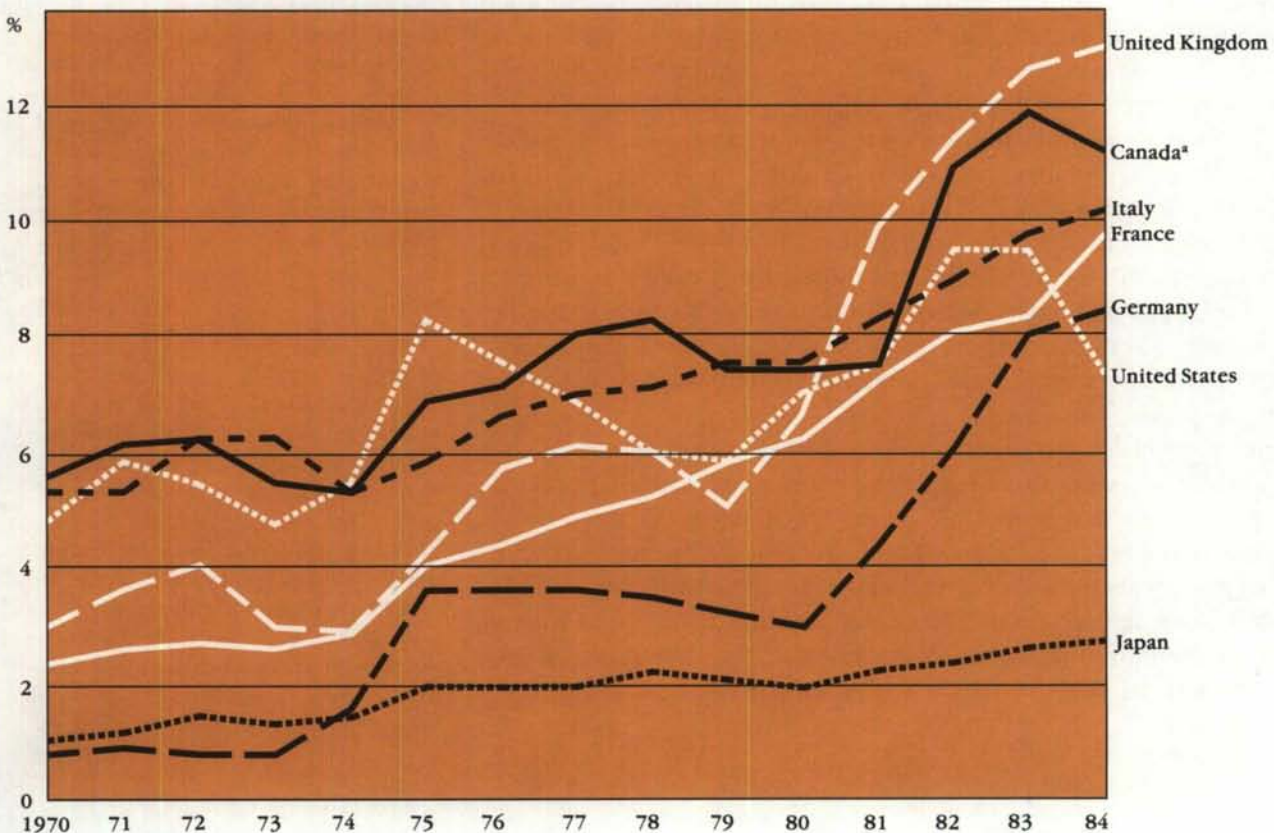
“Our society pays a very large cost for high rates of unemployment. In 1982, the estimated cost was \$78.3 billion. There may be tremendous costs involved in creating sufficient work for all the people who want it, but they are obviously less than the costs we incur as a society under current circumstances of lost training outlay, lost production, lost earnings, lost taxes, increased social welfare costs and UI benefits as well as the costs of increased mental and physical stress.” (National Action Committee on the Status of Women, written brief)

The Dynamics of the Labour Market

The official unemployment rate reflects the proportion of the labour force who are out of work at a specific moment in time (see Figure 2.1). That rate is one of the most frequently cited indicators of economic performance in Canada. Most Canadians are so familiar with the unemployment rate that it is referred to as if it were a thermometer showing the health of the economy. The measured unemployment rate is used to compare our past and current performances, and to compare ourselves with other countries (see Figure 2.2).

The main problem with concentrating on this single number to the virtual exclusion of all others is that it provides only a snapshot of the economy at one moment in time. But the economy is always in a state of flux and unemployment is too complex to be described adequately by a single figure. There is continual turnover in the labour market as workers change jobs, lose jobs and search for new ones, or leave the labour force

Figure 2.2
Standardized Unemployment Rates in Selected OECD Countries, 1970–84



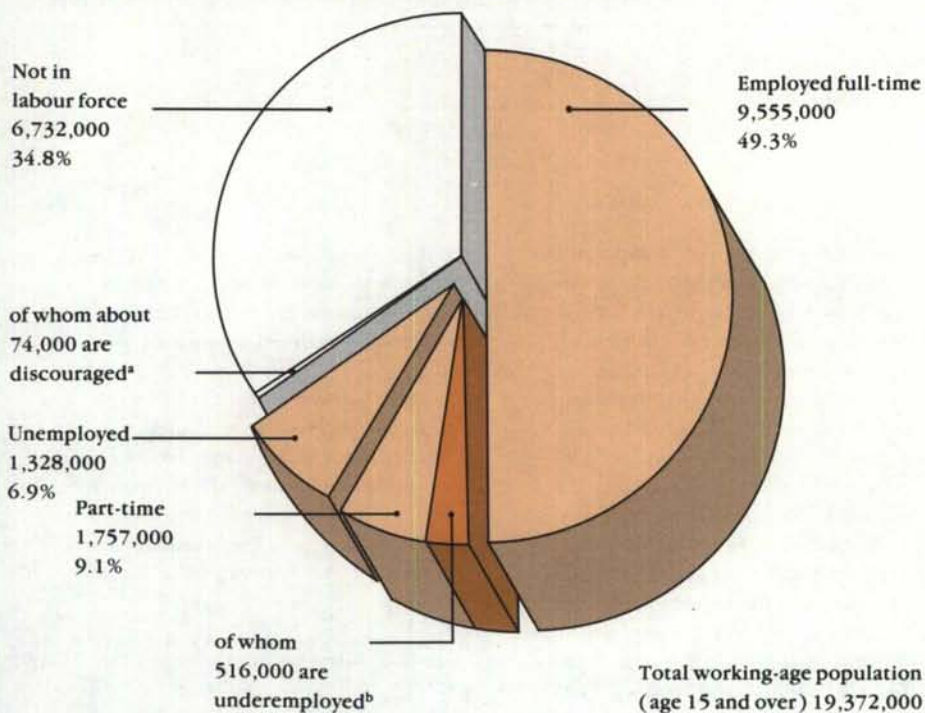
a Canadian unemployment rates have historically been close to those in the United States. In terms of unemployment, Canada's recovery from the recent recession has lagged behind.

Source: Organisation for Economic Co-operation and Development, *OECD Employment Outlook 1986* (Paris: OECD, 1986).

altogether, while new people enter. Similarly with employment opportunities, firms and whole industries expand and contract, relocate and restructure to meet technological change, market competition and shifting demand patterns.

In 1985, 58 percent of the working-age population (aged 15 and over) were employed full time or part time, 7 percent were unemployed, and 35 percent were not in the labour force (see Figure 2.3). However, when one examines the extent of movement between these various employment situations, it becomes apparent that many more persons are affected by unemployment than suggested by the annual unemployment rate. In 1985, of those who were employed at some time during the year, only 63 percent were employed for the entire year. The other 37 percent – over five million people – changed their employment status at least once during the year. Even among the 63 percent who were employed all year, many changed jobs without spending any time unemployed. During

Figure 2.3
Composition of the Canadian Population of Working Age, 1985



^a Persons who did not seek employment because they believed no job was available.

^b Persons who worked part time but would have preferred full-time employment.

Source: Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.

Unemployment Statistics

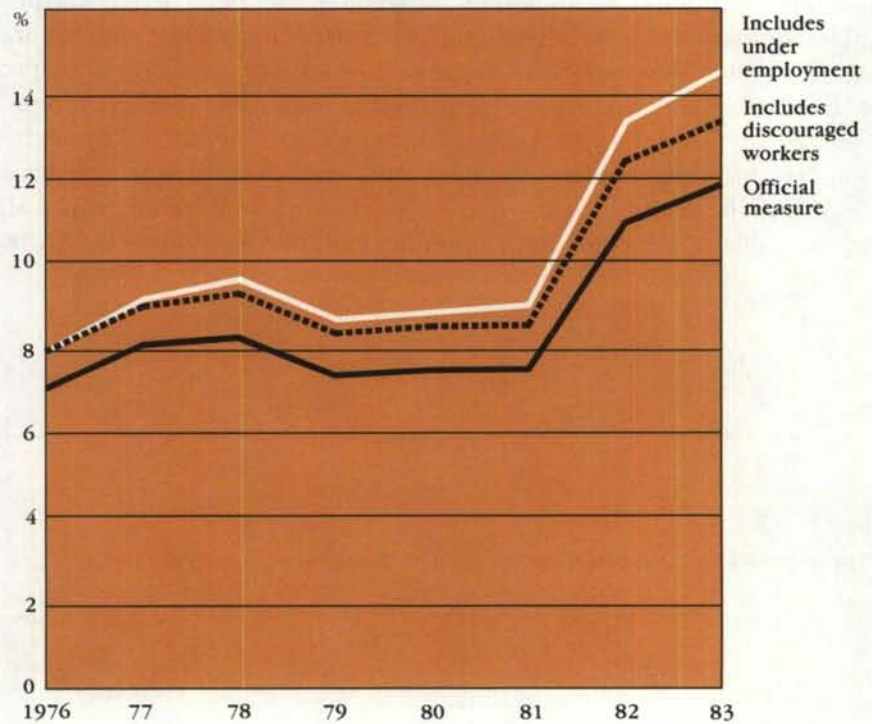
Statistics Canada estimates the size of the labour force on the basis of a monthly survey. The Labour Force Survey is addressed to 48,000 households in the ten provinces and represents the responses of approximately 100,000 individuals of working age (15 years and over). (The survey does not include the two territories, native people living on reserves, or inmates of penal institutions.) The "official" rate of unemployment is based on a definition of unemployed persons as those who:

- were without work, had actively looked for work in the past four weeks, and were available for work; or
- had not actively looked for work in the past four weeks; but had been on layoff and were available for work; or had a new job to start in four weeks or less from the reference week, and were available for work.

The total labour force is made up of those employed as well as unemployed, and the unemployment rate is the number unemployed as a proportion of the labour force.

The official definition of unemployment provides a standard reference point for labour market comparisons, but it must be recognized that no single measure can adequately reflect all facets of the unemployment problem. Some considerations include: the underestimation of average duration of unemployment because the survey measures incomplete spells of joblessness; the omission of jobless individuals not engaged in active job search because they believe no work is available ("discouraged workers"); and those who work part time because no full-time work is available (the underemployed). The accompanying graph illustrates alternative measures of unemployment rates.

Various Measures of Unemployment



In 1984, an average of 480,000 persons withdrew from the labour force each month, more than half of whom were previously unemployed. A 1982 study by the Economic Council of Canada estimated that as many as 20 percent of the withdrawals from unemployment represent discouraged workers. Their presence blurs the official distinction between "unemployment" and "non-participation in the labour force," and their inclusion in the numbers of unemployed would change the estimates of both the incidence and duration of unemployment. This figure shows the Statistics Canada definition of discouraged work-

ers: those jobless who looked for work in the previous six months, but did not do so in the four weeks prior to the survey because they believed no work was available.

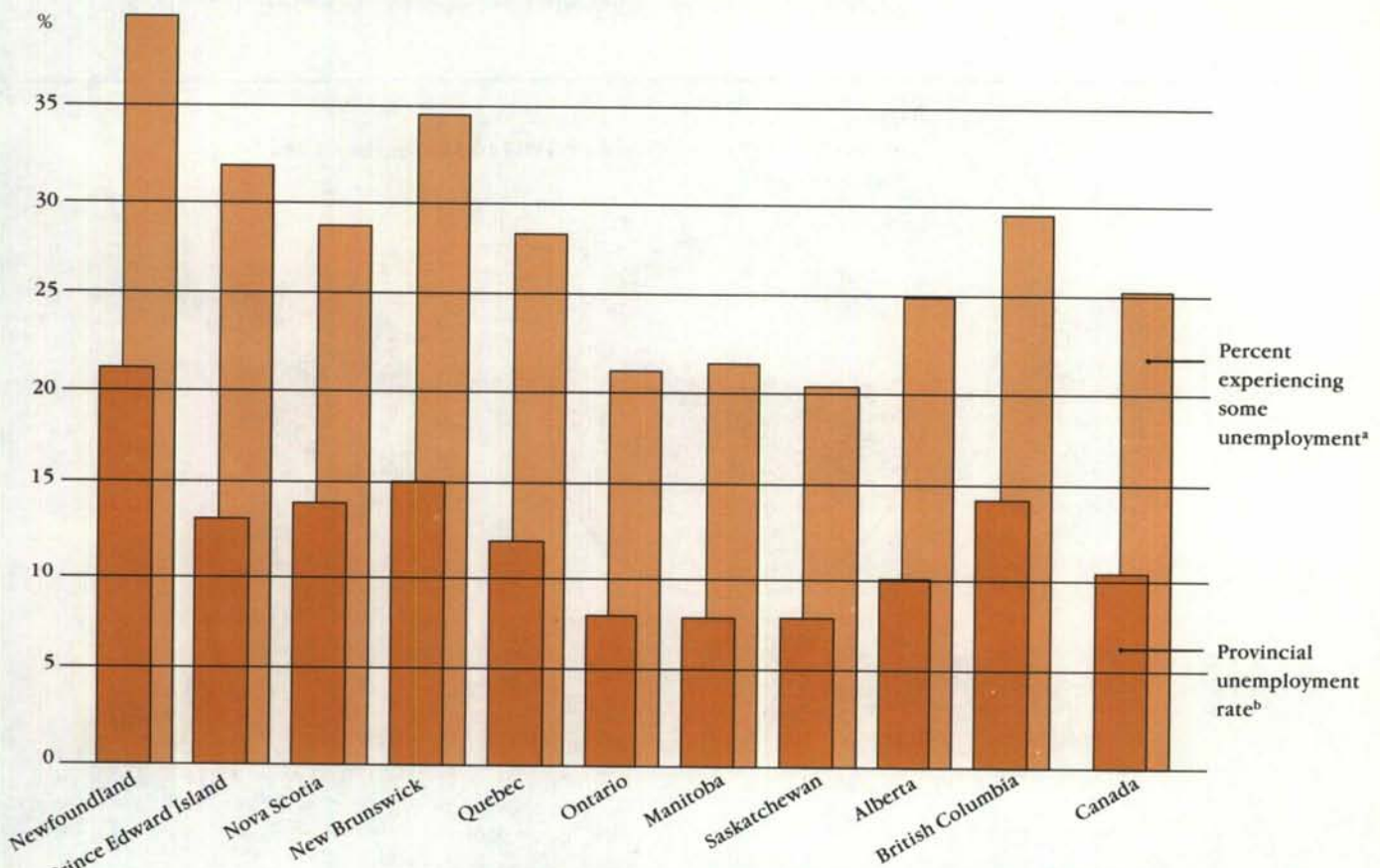
The third estimate includes an attempt to account for the degree of "underemployment" in the economy by portraying employment, and unemployment, in terms of hours lost and hours worked. It also includes those part-time workers who would prefer to be working full time.

Source: Statistics Canada, *Supplementary Measures of Unemployment: An Update* (Cat. no. 71-X-512), 1984.

1984/85, 6 million Records of Employment were issued by employers, each indicating a cessation or interruption of employment. With 13.7 million employed at some time in the year, this number indicates considerable change in employment situations – from employment to unemployment or to a different employer, or to being out of the labour force. In 1985, when the unemployment rate averaged 10.5 percent, the number of persons unemployed at some time during that year was 25.4 percent of the population in the labour force (see Figure 2.4).

"There were, in September 1985, officially 1.2 million Canadians unemployed. Best estimates of the real numbers of unemployed annually run about 36 percent higher than the official rate. So it can be reasonably assumed that there are about 1.6 million Canadians actually out of work. Furthermore, there are a growing number of people working part time, not as a matter of choice, but rather because there is no full-time work available. In the last month alone, the number of part-time workers increased by 2.7 percent, to a total of 1,785 million members of the work force." (Alberta Federation of Labour, written brief)

Figure 2.4
Provincial Unemployment Rates and Incidence of Unemployment, 1985



a Percent of persons in the labour force who were unemployed for part of the year.
b Annual average of monthly rates.

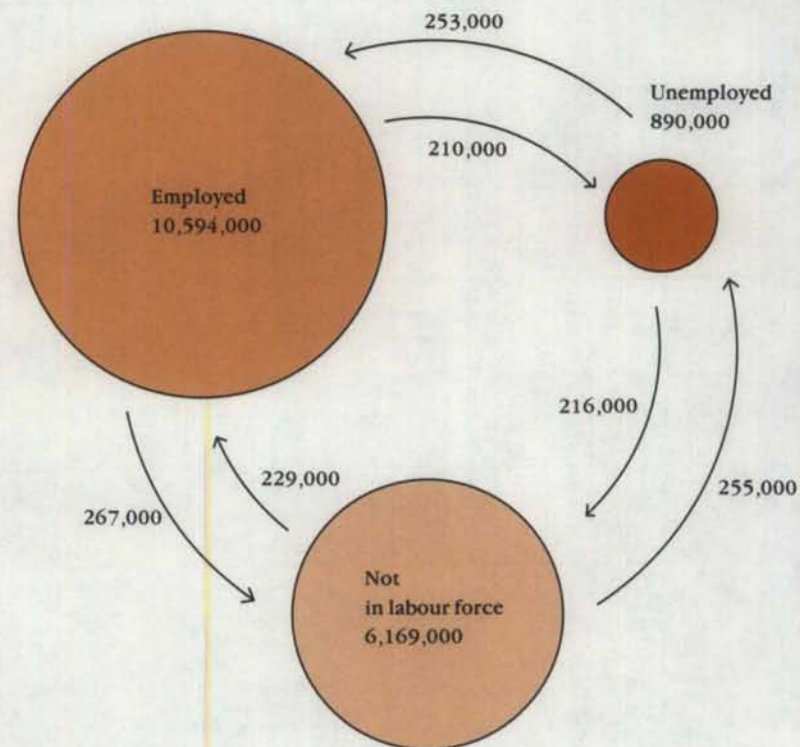
Source: Statistics Canada, *Historical Labour Force Statistics* (Cat. no. 71-201), 1986; and "Annual Work Patterns Survey," *The Labour Force, March 1986* (Cat. no. 71-001), 1986.

"The Unemployment Research Group conducted a rigorous telephone survey of households in the Vancouver-Kingsway electoral riding during a three-week period in July and August 1985. This survey discovered that 30.5 percent of the respondents were unemployed. At the same time, the official unemployment rate for Vancouver was given as 11.9 percent. This survey also discovered that the rate of underemployment was 17.2 percent and that the combined unemployment and underemployment rate was 47.4 percent." (Vancouver and District Labour Council, written brief)

Figure 2.5 illustrates the discrepancy between the official rate and the actual number of unemployed workers in another way. On average, between October 1983 and September 1984, the total number of unemployed remained almost constant at about 1.35 million. There was, however, substantial movement of individuals. Each month, one half of the unemployed either found jobs or left the labour force and were replaced. Of those who ceased to be unemployed, 216,000 on average left the labour force altogether (some being "discouraged" workers), while 229,000 who had been non-participants in the labour force found employment without first being counted as unemployed. This illustrates that unemployment is a much more widespread occurrence than is indicated by the official unemployment rate. Little of its pervasiveness is conveyed by that one static figure. Ignoring this "churning" of the labour market can mislead policy makers.

Clearly, unemployment is a significant problem – a problem which annually affects one in four Canadians who want to work. It is a problem that will continue. No one can predict with certainty that he will never need Unemployment Insurance. In fact, it is more likely that at some time he will. One of the participants in the public hearings summed this up rather well when she quipped "UI stands for 'you' and 'I'."

Figure 2.5
Labour Force Flows, October 1983 to September 1984
(Annual averages)



Note: Figures within the circles represent the average of the monthly number of persons who did not change their labour force status.

Source: Statistics Canada, unpublished data.

A Reflection of Expectations: Participation Rates

The rising trend in unemployment results from the interplay of two important developments in the labour market: first, a strong and steady growth in the number of jobs in the economy; and second, an even stronger growth in the number of Canadians who want jobs.

The participation rate is defined as that proportion of a particular population who are active in the labour force – that is, who are employed or would like to be employed. Despite Canada's strong record of employment growth in the last few decades, the number of persons entering the labour force has outstripped the increase in jobs.

The most significant changes in the labour force in recent decades have been the result of three factors: the increasing participation of women; the impact of technological and structural changes on older workers; and the maturing of the "baby boom" generation. Each of these changes has policy implications for employment and for the Unemployment Insurance program.

These changes reflect changing social values and heightened economic pressures. Among the new patterns are:

- Non-traditional families. A growing number of men and women, single or married, with children or childless, are now members of various kinds of "families" or households. In fact, only 62 percent of the population now belong to a traditional nuclear family.
- Two pay cheques. Fully 57 percent of husband-wife families count on two (or more) pay cheques to provide housing, food, education and other necessities. The average worker is no longer predictably a male, head-of-family wage earner.
- Non-traditional work. Increasingly, men and women are stepping outside their traditional roles, both at home and in the workplace.
- Flexible work hours and job structures. Work sharing, more part-time work, flexible schedules and independent contracting have become increasingly common occurrences.
- Flexible places of work. Rapid expansion of the information industry is providing opportunities for workers to perform their work without leaving home.

The Increasing Participation of Women

The participation of women, especially married women, in the labour force has increased steadily and rapidly since the 1950s. The decision of more women to become part of the work force and to remain in it throughout most of their adult lives reflects new economic and social realities. Women are revising plans and expectations, and are questioning traditional assumptions and choices. These changes show no signs of reversing themselves. In fact, in some countries with which Canada has the most affinity – the United States and countries in northwestern

"As the Wallace Commission has pointed out, women over 25 years old who work part time contribute approximately one-fourth of total family earnings; 70.2 percent of female part-timers earned less than \$5,000 in 1981. When this contribution of less than \$5,000 actually represents one-fourth of a family's earnings, we can calculate that the husbands of part-time workers are earning \$10,000 to \$15,000 a year, on average. These then are not rich housewives dabbling in the labour market. The income these women earn is necessary to keep the family out of poverty. The lower the family income exclusive of the wife's contribution, holding all other factors constant, the higher the participation rate of women." (National Action Committee on the Status of Women, written brief)

"The composition of the labour force is changing. Women are increasing their participation in occupational fields traditionally held by men. As economic and family patterns change there are more families with single parents or with two working parents. This makes families more vulnerable to unemployment and in greater need of flexible work patterns." (Canada Employment and Immigration Advisory Council, written brief)

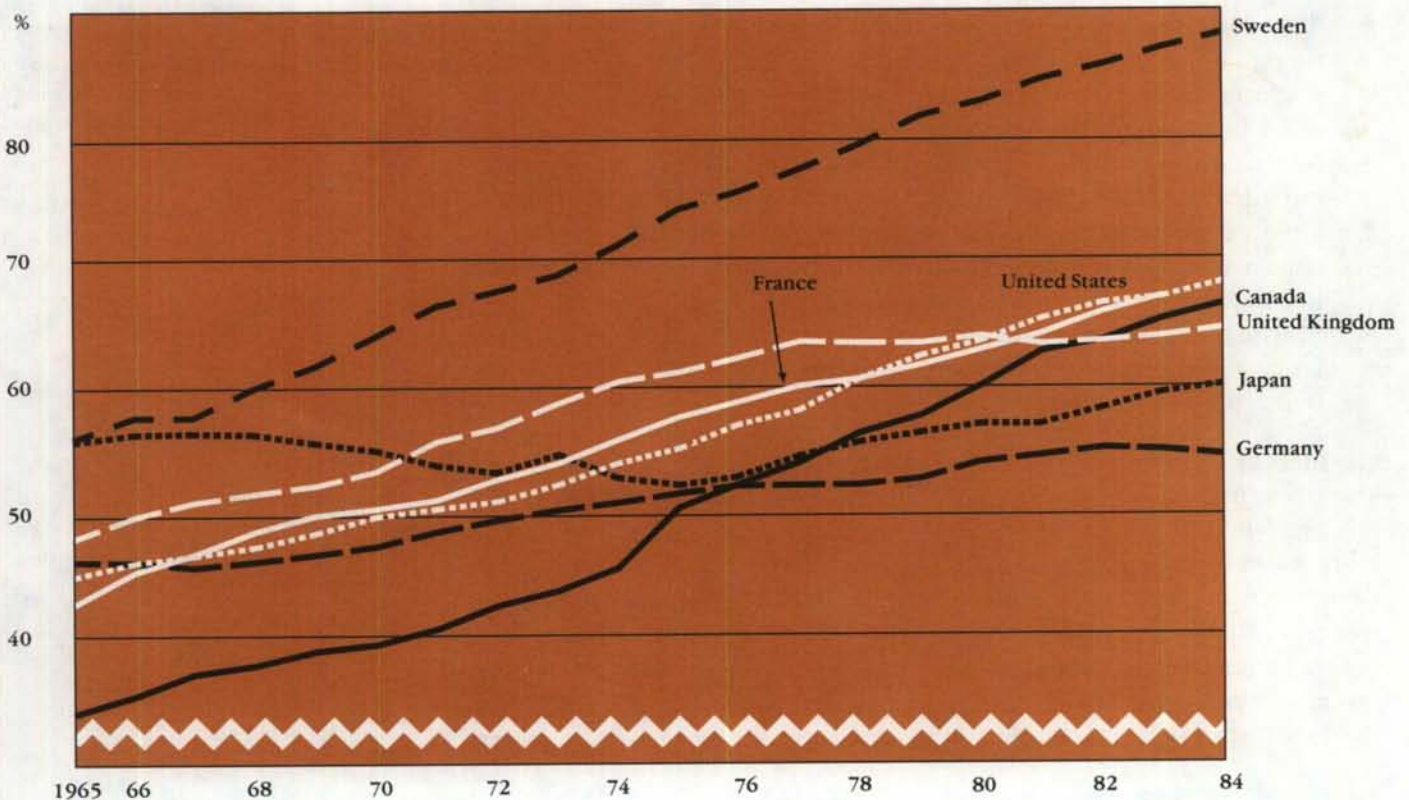
"In the next ten years, seven out of ten of the persons entering the labour market will be women." (Canadian Congress for Learning Opportunities for Women, Regina hearings)

"In Canada and other industrialized countries today, women no longer automatically drop out of the work force when they have children. Most take a brief period of maternity leave and then return to work. In the United States in 1982, more than 41 percent of mothers were back at work before their child was one year old. In 1975, only 35 percent of mothers with preschool children worked outside the home. By 1983, 52 percent of mothers with preschool children participated in the work force. In fact, 69 percent of all Canadian women in their prime childbearing years, that is, between the ages of 20 and 44, participated in the work force in 1983." (Ontario Coalition for Better Day Care, written brief)

Europe – female participation rates are higher than in Canada (see Figure 2.6). In Sweden, a country which has made great progress in the areas of employment and pay equity and in the provision of daycare services, the participation rate of women aged 25 years and over exceeds 85 percent.

In Canada, however, the responsibility for child care still falls mainly upon women, and labour force data show that women in households with preschool children experience both lower participation rates and higher unemployment rates than women with older children (see Figure 2.7). It is not known to what extent this lower participation rate reflects a preference for staying at home during the preschool years and to what extent it stems from difficulties in reconciling labour market participation with child-care arrangements. Nonetheless, it is likely that the participation rate of Canadian women will continue to rise.

Figure 2.6
Labour Force Participation Rates of Women Aged 25–54 in Selected OECD Countries, 1965–84



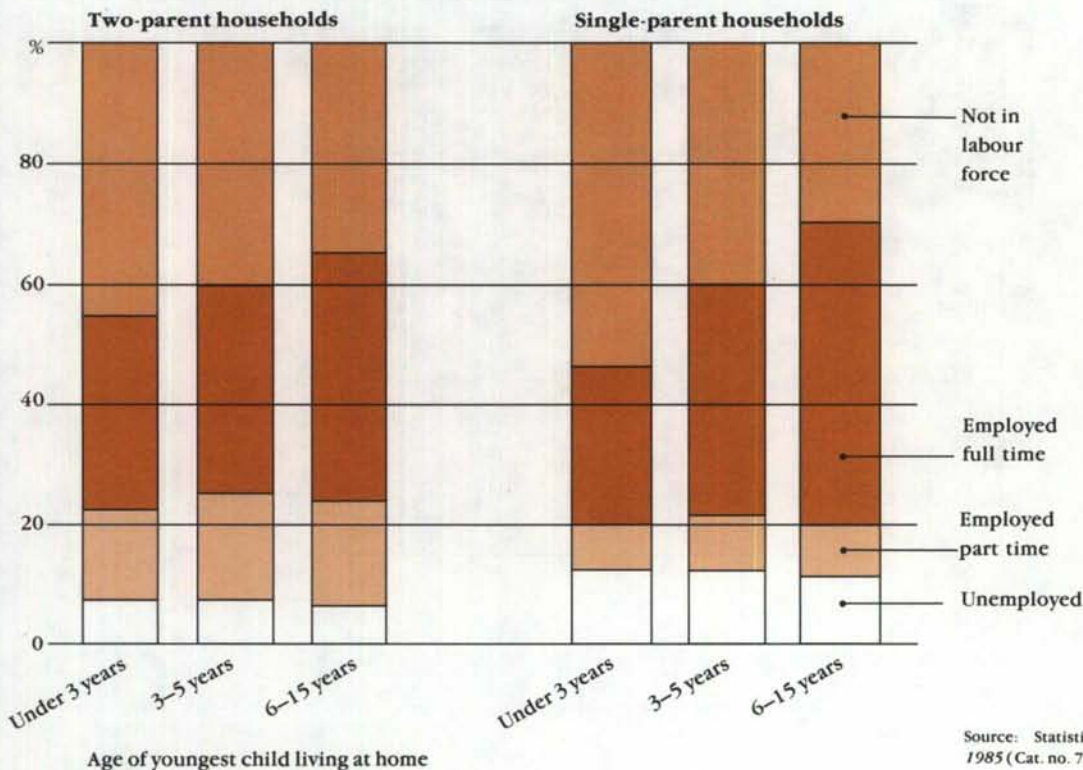
Source: Organisation for Economic Co-operation and Development, *Labour Force Statistics 1963–1983* (Paris: OECD, 1985).

Older Workers

There has been a dramatic shift in the employment patterns of older workers. The participation rate of men aged 55 to 64 has declined by more than 10 percentage points (from 81.9 percent in 1961 to 70.2 percent in 1985) while that of women in the same age group grew by almost 10 percentage points (from 24.4 percent to 33.8 percent). Over the period 1966 to 1985, the number of those aged 55 to 64 outside the labour force grew twice as rapidly as the number who stayed on the job. Older workers remain unemployed much longer than those in other age groups. In March 1985, the average duration of unemployment for older female workers was 23.4 weeks, 2.1 weeks longer than the average for all unemployed women, and older men were unemployed for 31.8 weeks, or 7.8 weeks longer than the average for all unemployed men.¹ Those affected by these changes are mostly men in blue-collar occupations and in industries with a declining share of employment. Older workers who are displaced as a result of technological changes are likely to experience more difficulty in retraining or relocating than their younger counterparts, and employers may be more reluctant to hire them. Older workers form a substantial proportion of those who drop out of the labour force because of discouragement.

"Fifteen to 20 years ago we had 135,000 non-operating railway workers. We are now down to almost half of that. I think it is 55,000 to 60,000. That is half in 20 years. Where are people going to work? High tech jobs? I know our industry is being transformed. Right now, if I am away from work for two or three months, when I come back, I say, hey, what's going on here? I don't even know what's going on anymore. That is one of the reasons why our older workers want to get out. Quite truthfully, a lot of our older workers want to get out because they can't cope with it."
(Brotherhood of Railway and Airline Clerks, Thunder Bay hearings)

Figure 2.7
Labour Force Status of Women with Children Under Age 16, 1985



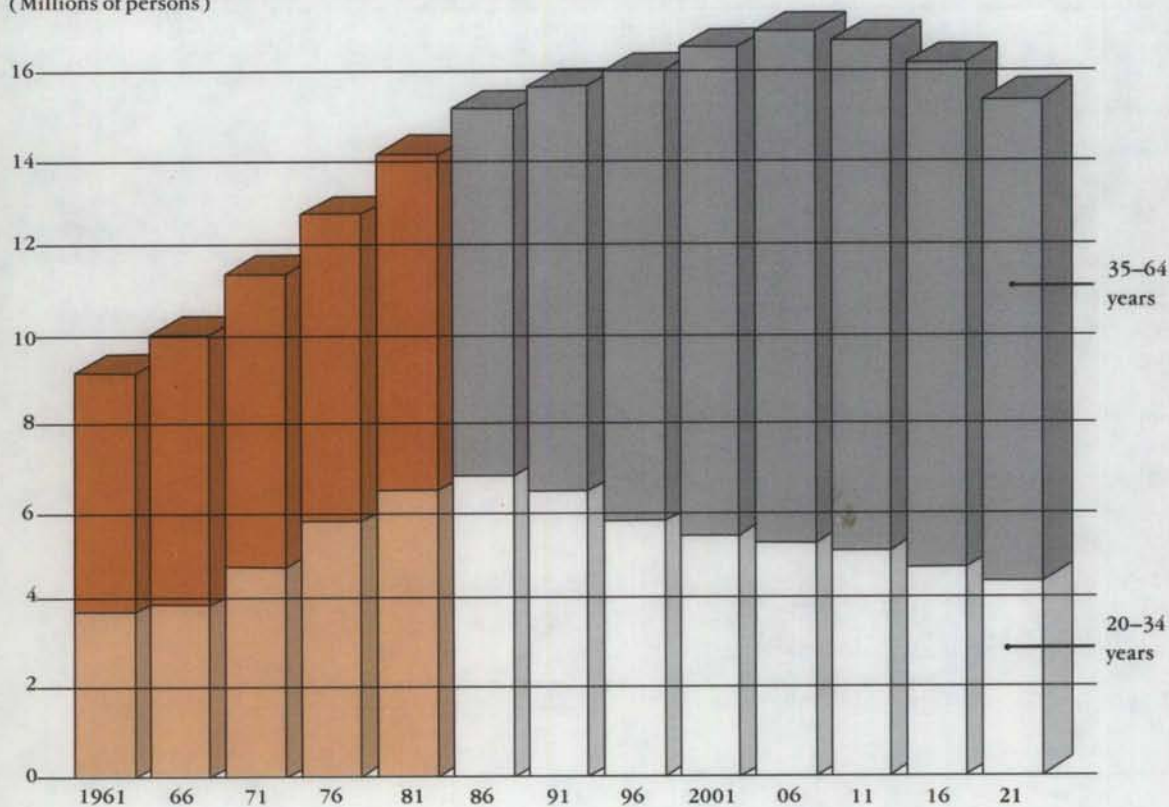
Source: Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.

"You have to realize that people get burned out about age 55. Sometimes their employability is compromised. As anybody at 55 who is marching for a job would attest, it becomes very difficult." (Southern Alberta Building and Construction Trades Council, Calgary hearings)

As can be seen from Figure 2.8, the population aged 20 to 64 will continue to grow until the first decade of the next century. Even if future participation rates remain the same as current rates, there will be a need for strong employment growth to accommodate these workers. By the year 2020, between 20 and 25 percent of the Canadian population will be aged 65 or over. This "aging" of the population means that over the next three decades or so the number of dependent persons relative to the working-age population will be somewhat lower than has been the case historically, but the dependent population will be made up increasingly of elderly persons.²

The factors that determined retirement practices and preferences in the past are changing. Mandatory retirement is being challenged by provisions for non-discrimination in the Canadian Charter of Rights and Freedoms. The federal government has expressed a commitment to

Figure 2.8
Actual and Projected Number of Canadians Aged 20–64, 1961–2021
 (Millions of persons)



Note: Projection is based upon a relatively low total fertility rate of 1.5.

Source: Statistics Canada, *Current Demographic Analysis, Fertility in Canada* (Cat. no. 91-524E), 1984.

facilitate flexible pension arrangements. The greater availability of part-time jobs and the introduction of partial retirement may increase the attractiveness of prolonged labour force participation. The available empirical evidence from the United States (where the retirement age has been pushed back to 70) and from Quebec (where the usual retirement age was legislated away in 1982 and where the Quebec Pension Plan has been made more flexible) suggests, however, that these measures may have a very small effect on retirement decisions. Finally, beyond the turn of the century, there may well be an increase in overall demand for labour relative to supply and this may lead employers to increase incentives for continued full-time and part-time employment for older workers. This may reduce or even reverse the trend to earlier retirement.

Young Adults

The "baby boom" generation of the 1950s has had a profound impact on our society. It sparked growth in the retail market, affecting sales of everything from disposable diapers to records and stereos and to houses and furnishings. The size of this group was responsible for the construction and subsequent depopulation of elementary schools, secondary schools, and even colleges.

Traditionally, young people entering the labour market tend to experience higher unemployment rates than older, established workers. But the rates during the period when the baby boom generation reached working age were exceptional. In 1963, the unemployment rate for youth (aged 15 to 24)³ stood at 9.3 percent, while the rate for those aged 25 and over was 4.3 percent. In 1983, the youth rate had reached 19.9 percent and the adult rate 9.4 percent. The adverse effects of experiencing unemployment at the outset of their working lives may accompany the baby boomers into the future. To the extent that competition for jobs is significantly concentrated among those of similar age (who are likely to have similar kinds of skills and experience), it can be expected that this group will continue to have somewhat higher rates of unemployment. There is also the possibility that the baby boomers, now over age 30, will hold on to jobs traditionally held by younger workers, raising the threat of continued employment problems for those born after the baby boom.

All of these demographic trends show clearly the need for foresight in developing economic and social policies to respond to changes in the age structure of the population and, especially in the near term, the need for growth in employment.

"There were two age groups in our local union most affected by the continuous high unemployment; namely, the young members between the ages of 18 and 28 – that group is mainly made up of apprentices, and we have massive unemployment among our apprentices – and the 50 and older age group."

(United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada, Local Union 170, Vancouver hearings)

"The postwar work force has rapidly expanded on the labour market if it is realized that between the 1970s and 1982, the number of people employed in Canada increased by 50 percent." (Fédération des syndicats du secteur aluminium inc., written brief)

"There are available some quite reliable projections from Statistics Canada concerning first-time job seekers entering the labour market over the next five years. Those projections seem to indicate that the number of young people entering the job market will decline rapidly as time goes on and as the demographic profile of Canada shifts toward an older population. So the problem of youth employment may be mostly a short-term priority . . . Structural unemployment will, however, remain a serious concern in the form of a large group of mid-career baby boomers unable to move along career ladders due to competition from their peers and an entrenched upper echelon of individuals not much older than themselves." (Canadian Hospital Association, Ottawa hearings)

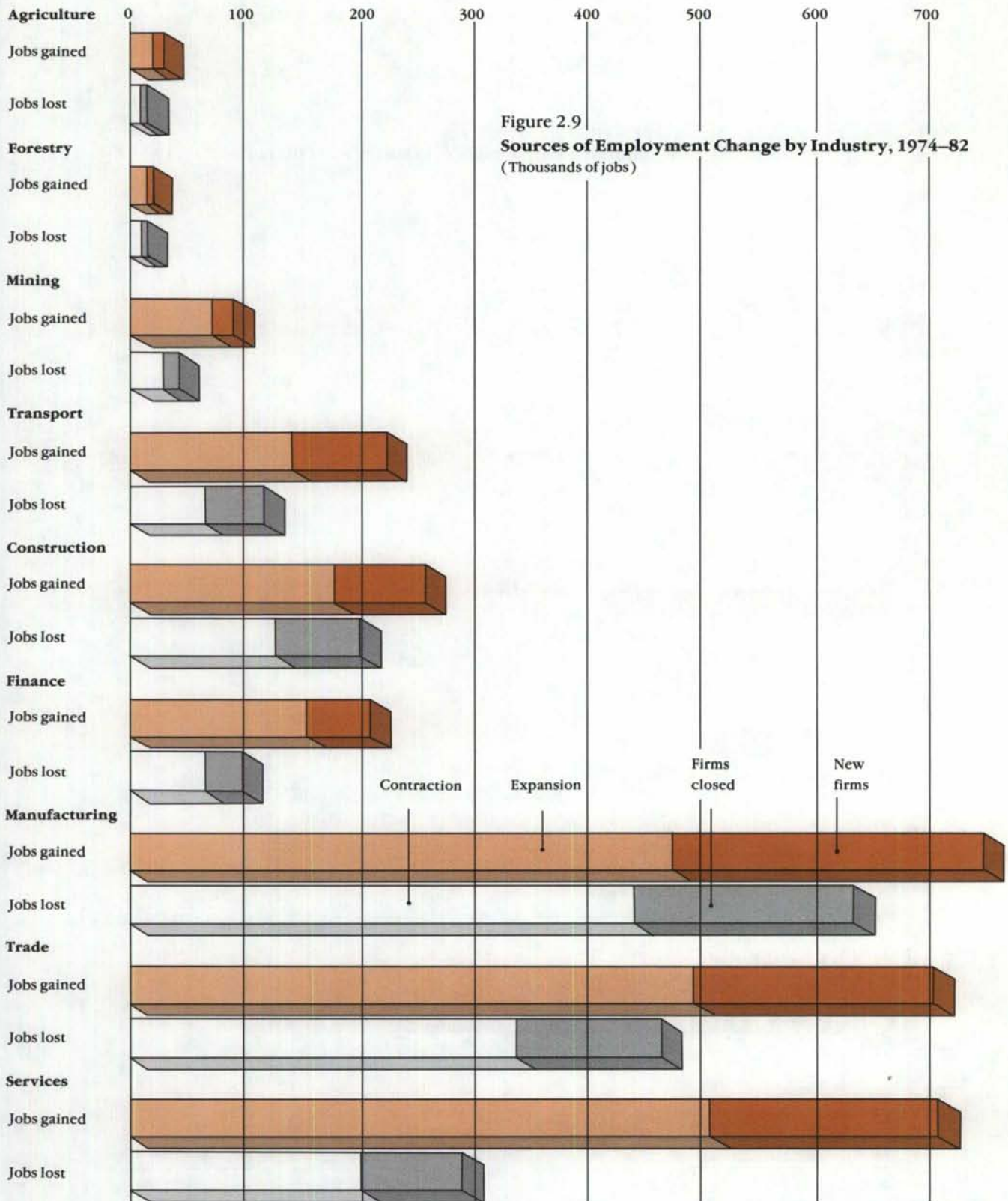
Economic Achievement: Employment Growth

Canada's record of employment growth in recent years has been strong – stronger, in fact, than that of all other Western industrialized countries. Over the period 1974–82, more than half of the 1.1 million net increase in jobs were in the financial and service sectors, and more than half of these were created in businesses with fewer than 20 employees. Both statistics reflect the shift in employment away from the traditional sources of jobs – blue-collar employment in resource-based industries and jobs in medium-sized businesses. Two-thirds of all jobs created were in new firms rather than in the expansion of existing firms (see Figures 2.9 and 2.10). The growth of employment holds true even in light of the shift from full-time to part-time jobs. Since 1975 the relative importance of part-time jobs has increased by 50 percent, from 10.6 to 15.4 percent of all jobs.⁴

A comparison with the growth in employment for selected OECD countries shows how dramatic the growth in employment in Canada has been, particularly since the mid-1970s (see Figure 2.11). In fact, employment growth in Canada has been positive in all but two of the last thirty years, in spite of five recessionary spells over that period. The ratio of employment to the population aged 15 and over (Figure 2.12) is equally revealing; it shows that Canada's employment ratio now exceeds that of most industrialized countries.⁵ These statistics illustrate that Canada's record of high unemployment over the past decade cannot be attributed to weak employment growth, nor to any fundamental breakdown in the economy.

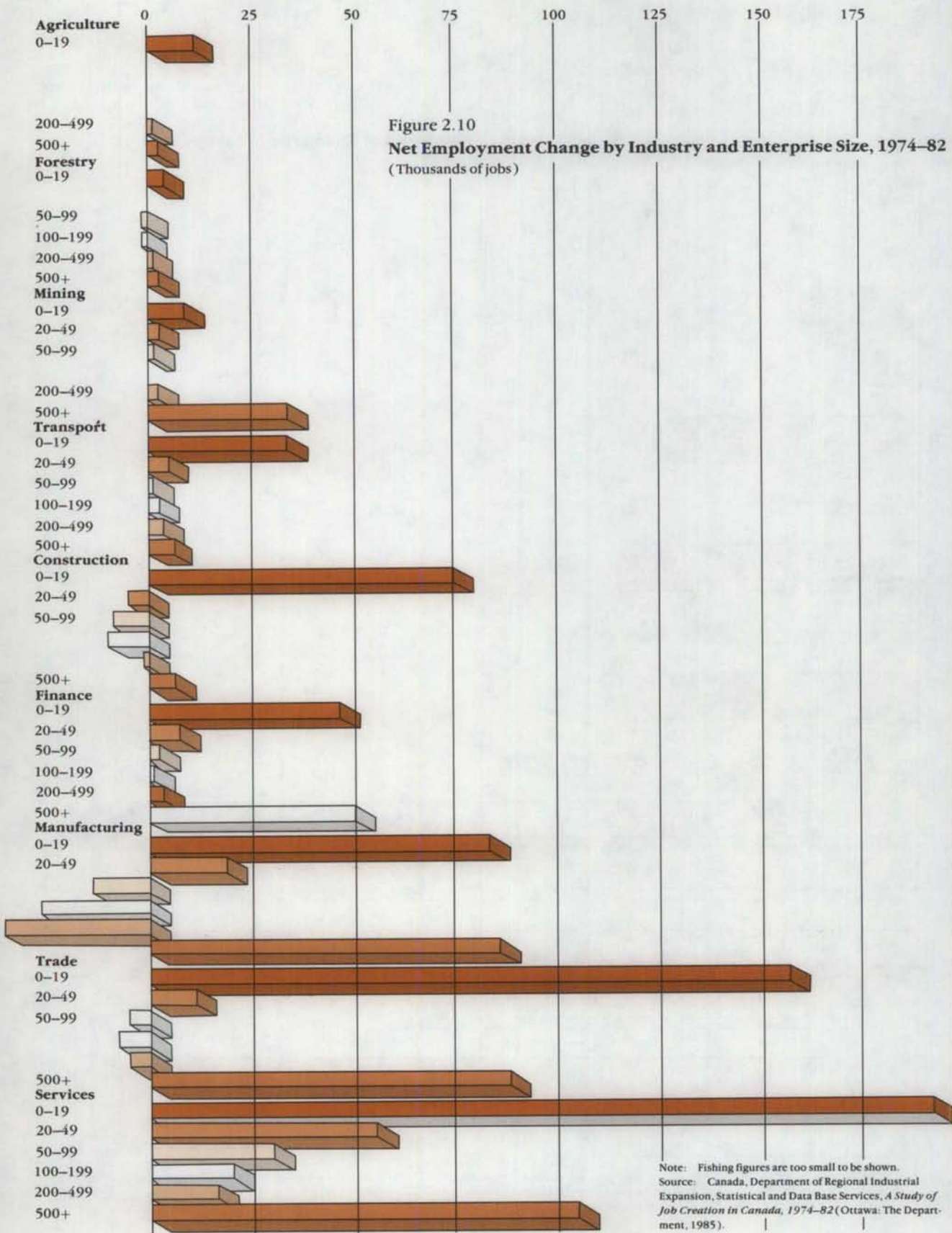
Structural transformation is occurring in virtually all industrial sectors, where machines are replacing workers. Forestry, mining and manufacturing are particularly at risk in the Canadian economy. In addition, the impact of the global economy and our lack of international competitiveness have resulted in the permanent restructuring of industries such as steel, agriculture and oil. From the point of view of an employment strategy and an Unemployment Insurance program, these changes represent a fundamentally different reality from the economic environment of Canada from the 1940s to the 1970s. This evidence of structural transformation within industrial sectors coexisting with rising unemployment levels in each of these sectors is another reminder that the “creative destruction process” at work in a competitive economy is not without costs – particularly in terms of employment disruption.

“Given the kinds of structural changes currently occurring in the economy, it is going to become of considerable importance that this country adopt policies to facilitate the transition of workers from one type of work to new types of work.” (Social Planning Council of Metropolitan Toronto, Toronto hearings)



Note: Fishing figures are too small to be shown.
 Source: Canada, Department of Regional Industrial Expansion, Statistical and Data Base Services, *A Study of*

Job Creation in Canada, 1974-82 (Ottawa: The Department, 1985).



Note: Fishing figures are too small to be shown.
 Source: Canada, Department of Regional Industrial Expansion, Statistical and Data Base Services, *A Study of Job Creation in Canada, 1974-82* (Ottawa: The Department, 1985).

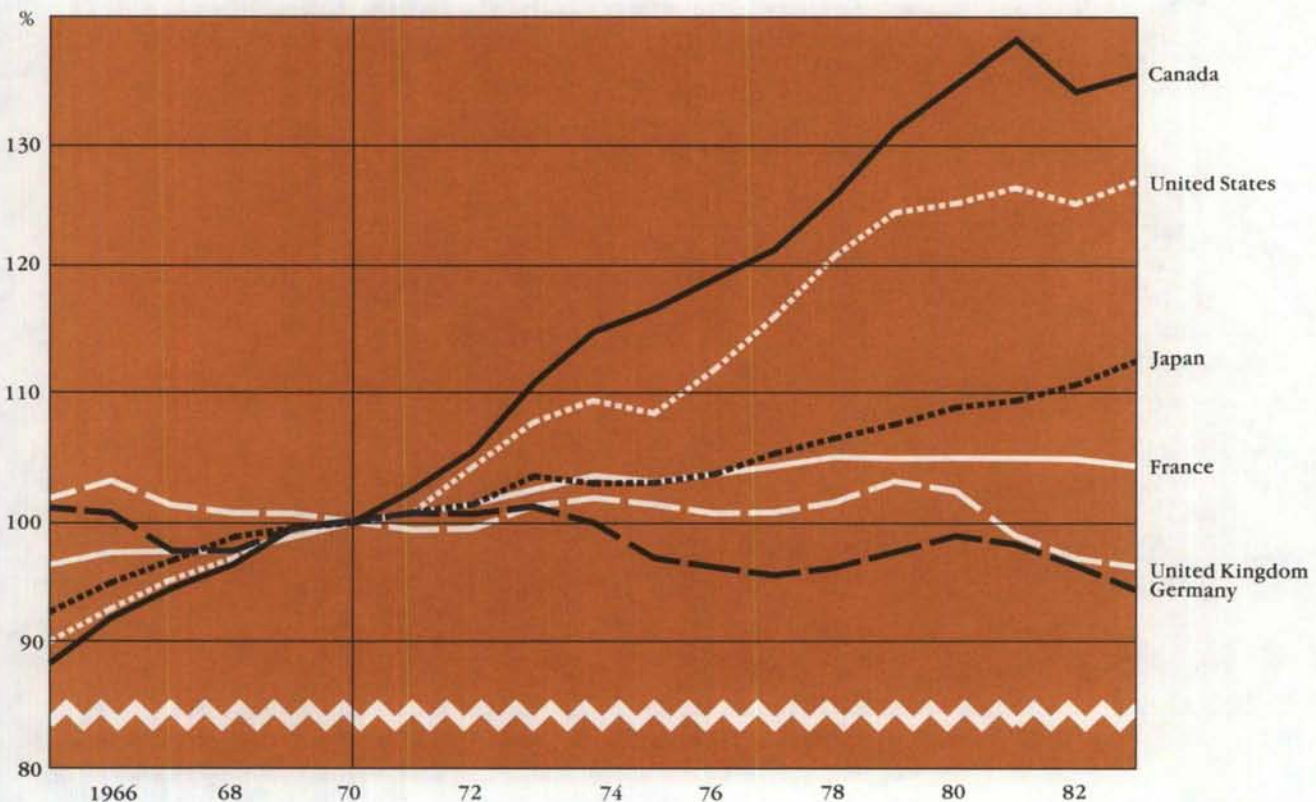
The National Frustration: The Risk of Unemployment

There is now a fairly comprehensive and consistent body of information about several dimensions of unemployment in Canada. It confirms that, although all working Canadians must live with the heightened possibility of becoming unemployed, some are more susceptible than others to long spells of joblessness. Although most people are not unemployed for long, the national unemployment rate is strongly affected by the few who remain unemployed for long periods. The longest 10 percent of unemployment spells in 1982 accounted for 40 percent of total unemployment.⁶ In 1985, the average duration of unemployment was 21.6 weeks – a substantial increase from the 1980 average of 14.7 weeks.

A relatively small number of workers – the long-term unemployed – bear a substantial portion of the total burden of unemployment. Some of these individuals are “chronically” unemployed: they suffer repeated spells of joblessness and are unemployed for a large portion of their adult

“The kind of unemployment that we have today and will have in the next few years is really ‘chronic unemployment’. What we are facing is technological unemployment.”
(Fédération des syndicats du secteur aluminium inc., Québec hearings)

Figure 2.11
Employment Indices in Selected OECD Countries
(1970=100)



Note: The employment index for a year is employment in that year as a percent of employment in a base year (here 1970).

Source: Organisation for Economic Co-operation and Development, *Labour Force Statistics 1963-1983* (Paris: OECD, 1985).

"The costs and burdens of unemployment are not equally shared and some groups are affected far more than others. Managers, professionals and executives are generally spared the direct effects. The worst impacts fall on the economically weak and marginal – youth, women and workers in resource communities." (Newfoundland and Labrador Federation of Labour, written brief)

"For instance, this year in our area we started in June; we worked July; August we didn't work at all; we worked September, part of October and now we are finished for the year. We might have another week's work and that is about the size of it (Kent North Truckers Association, Moncton hearings)

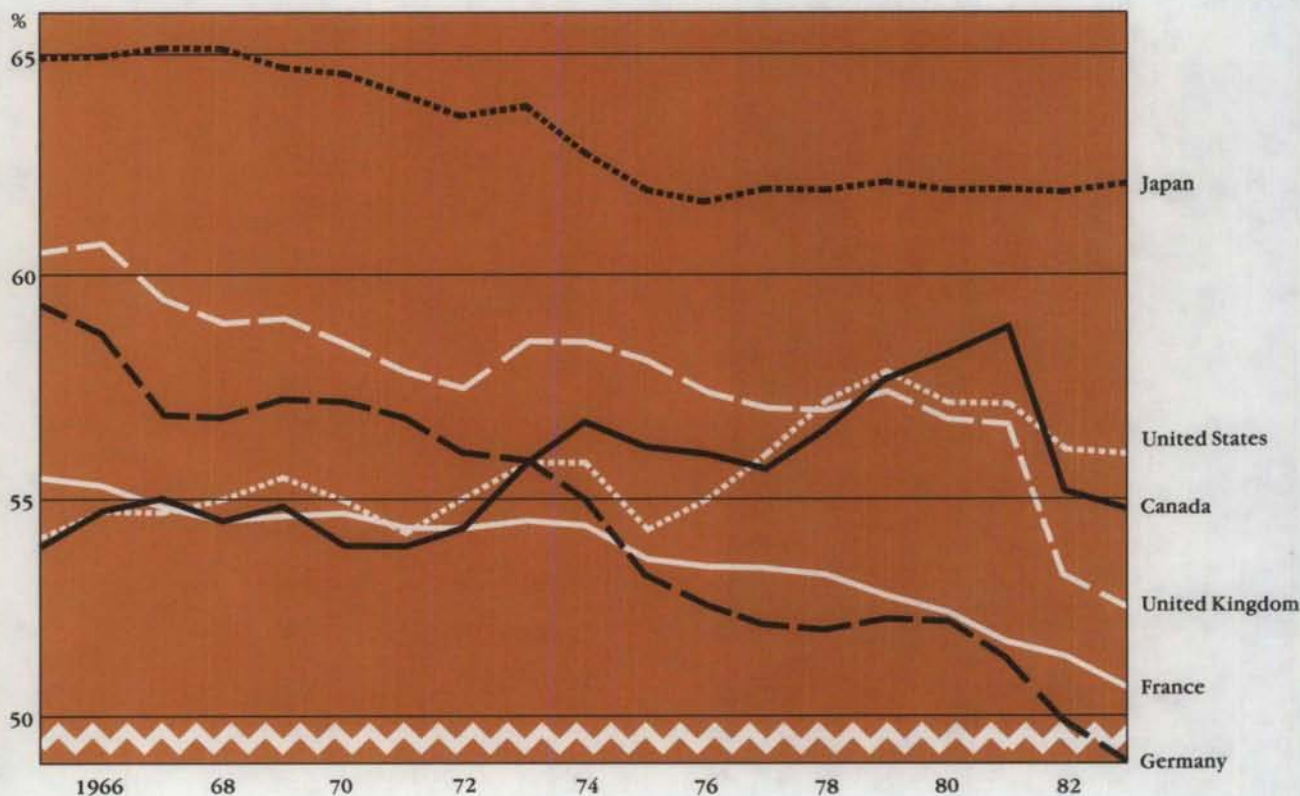
lives. A 1982 study of Unemployment Insurance claimants from 1975 to 1979 shows that 25 percent of claimants represented 43 percent of claim weeks. These claimants typically had four to six claims within the five-year period.⁷

The industry and occupation in which a person works are important factors influencing the probability and duration of unemployment.⁸ Industries may be classified according to whether they are sensitive to seasonal or cyclical factors, and by what they produce – goods (cars, lumber, or a manufactured product) or services (financial, medical, legal or public services).

Seasonal Unemployment

Economic activity fluctuates over time for a number of reasons. Some fluctuation is unpredictable, such as that caused by natural disasters, while some is more predictable, such as that linked to the business cycle. As well, fluctuations in economic activity occur in regularly identifiable

Figure 2.12
Employment Ratios in Selected OECD Countries, 1965–83



Note: The employment ratio is the ratio of the employed population to the total population aged 15 years and over.

Source: Organisation for Economic Co-operation and Development, *Labour Force Statistics, 1963–83* (Paris: OECD, 1985).

annual patterns. These "seasonal" influences may be the result of climatic or institutional factors. Winter slowdowns in agricultural and construction activity, high pre-Christmas levels of retail activity, and the entry of large numbers of students into the labour force each summer are a few examples. Overall, about 16 percent of employment and 22 percent of unemployment in Canada is seasonal in nature (see Figure 2.13).

Seasonal patterns themselves change over time. During the 1970s, seasonality in employment declined somewhat, particularly in primary industries. This was mainly due to the decline in the relative importance of the agricultural sector. Seasonal variability in *unemployment* has declined even more. In 1966, the difference between unemployment in the highest and lowest months was 46 percent. By 1980, this difference had declined to less than 26 percent.⁹

"Outrageous levels of unemployment exist in this province; outrageous levels of unemployment at all levels, young and old; levels of unemployment hovering consistently around the 20 percent range, generally twice that of the national average." (Tom Lush, MHA, Bonavista North, St. John's hearings)

Figure 2.13
Employment and Unemployment in Seasonal Industries, ^a 1985

Industry	Employment			Unemployment		
	Average	Percent of total	Percent of seasonal employment	Average	Percent of total	Percent of seasonal unemployment
Agriculture	488,000	4.3%	27.2%	38,000	2.9%	12.8%
Forestry	68,000	0.6%	3.8%	25,000	1.9%	8.4%
Fishing & trapping	34,000	0.3%	1.9%	7,000	.5%	2.3%
Other primary	19,000	0.2%	1.1%	N/A	N/A	N/A
Food & beverage	247,000	2.2%	13.8%	39,000	2.9%	13.1%
Tobacco products	8,000	0.1%	0.4%	N/A	N/A	N/A
Rubber & plastics	79,000	0.7%	4.4%	9,000	.7%	3.0%
Leather products	25,000	0.2%	1.4%	3,000	.2%	1.0%
Wood	110,000	1.0%	6.1%	17,000	1.3%	5.7%
Furniture & fixtures	65,000	0.6%	3.6%	8,000	.6%	2.7%
Non-metallic mineral products	54,000	0.5%	3.0%	5,000	.4%	1.7%
General contractors	221,000	2.0%	12.3%	70,000	.5%	23.5%
Special trade	360,000	3.2%	20.1%	76,000	5.7%	25.5%
Storage	15,000	0.1%	0.8%	1,000	.1%	0.3%
Seasonal industries	1,793,000	15.9%	100.0%	298,000	22.4%	100.0%
Non-seasonal industries	9,518,000	84.1%		1,030,000	77.6%	
All industries	11,311,000	100.0%		1,328,000	100.0%	

N/A = not available.

^a Seasonal industries for our purposes are defined as those in which the difference in employment between peak and low months exceeds 30 percent.

Note: Totals may not add due to rounding.

Source: Special tabulation, Statistics Canada.

Cyclical Unemployment

A large proportion of unemployment in Canada still occurs in cyclical industries. Cyclical industries are those that produce durable goods the purchase of which can be deferred when money is tight. Industrial machinery, cars and household appliances are all examples of goods for which demand is sensitive to the ups and downs of the business cycle.

Many of the industries that are particularly sensitive to the business cycle are those that are now being radically restructured because of changes in the global economy. Heightened competition from other countries which are producing the same goods as Canada has accelerated the trend of big businesses to “downsize” – to streamline their operations, laying off large numbers of workers in the process. Some of these industries have been in a state of decline for some time. Demand for their products is falling and workers who are laid off may never be recalled. Other industries are taking advantage of the technological revolution and installing labour-saving machinery which can be operated with fewer workers (in particular, primary metals, metal fabricating machinery and transportation equipment industries). Within the cyclical sector, most spells of unemployment (58 percent) still end in recall and are shorter than unemployment spells in other sectors.¹⁰

The stability of the service sector in the face of recessions is significant. It is the popular perception that service sector jobs are mainly in the poorly paid and less secure fast-food or retail sector, but the service component includes jobs in government services, medical care and health services, financial and legal services. Whereas spending on such items as cars and dishwashers can be deferred when money is tight, life insurance and dentists’ bills are not as easy to postpone. Since these expenditures tend to be non-discretionary, they are less affected by cyclical economic fluctuations.

Structural Unemployment

The importance of seasonal and cyclical factors in the level of overall unemployment is declining relative to the impact of structural causes. Structural unemployment arises from fundamental changes in the requirements of firms and the skills, experience and/or location of unemployed workers. Among the causes of these mismatches are:

- developments in the energy field – fluctuations in oil prices as well as changes in the relative cost of energy and changing patterns of its use;
- the emergence of low-cost producers of some manufactured goods in the newly industrialized countries; and
- technological changes, including computer-aided manufacturing and robotics.

There are a number of indicators which show that the relative importance of structural unemployment in the total unemployment picture has changed considerably over the last two decades. In the 1960s, most unemployment was held to be either frictional – that is, unemployment arising from the normal movement of people between

“Canadian production of textiles declined by 18.5 percent in 1982. By contrast, textile production in all developed countries declined by 5.5 percent and in all developing countries by only 1.5 percent.” (Canadian Textiles Institute, written brief)

“There are an increasing number of structural changes in our economy that displace workers and cause periods of unemployment. An Unemployment Insurance scheme must keep abreast of these structural developments and be altered to react to them if the program is to have value.” (Community Service Employment Co-operative of Regina, written brief)

“What we would want to see is an effective Unemployment Insurance program to deal with short-term unemployment. We think it is ineffective in terms of dealing with structural unemployment.” (Canadian Pulp and Paper Association, Ottawa hearings)

jobs – or cyclical in nature. Both the C.D. Howe Institute¹¹ and the Economic Council of Canada¹² offer strong evidence on the changing structure of employment. Over the period 1974–82, net job creation in different industries and regions of the country varied greatly. Particularly striking is the difference in growth rates between service and manufacturing industries. By and large, the new jobs which are being created are not the same as the jobs lost through technological change or those lost during the recent recession. Canada has experienced substantial shortages in specific skills in the midst of high unemployment levels.

The Occupational Distribution of Unemployment

The construction trades are greatly overrepresented among claimants of Unemployment Insurance in relation to their shares of total employment, while white-collar employees – managerial, professional and clerical – are underrepresented even in industries which otherwise generate more than their proportionate share of unemployment weeks (see Figure 2.14)

“With an aging population and increasing numbers of people who seem to be requiring more and more services, maybe we’re just looking in some of the wrong areas with respect to job creation. We expect it to be in the manufacturing industry, when in fact the human service industry is a very integral element and maybe we could use many, many more people in human services than are presently employed.” (City of Halifax, Social Planning Department, Halifax hearings)

Figure 2.14
Number of Unemployment Insurance Claimants by Occupation and Employment by Occupation, 1984

	Number of claims terminating in 1984	Paid employment in 1984	Ratio of claims to employment
Fishing, hunting and trapping ^a	26,200	13,000	2.02
Construction	364,700	488,000	0.75
Forestry and logging	39,900	58,000	0.69
Material handling	114,600	260,000	0.44
Machining	88,200	216,000	0.41
Processing	117,100	364,000	0.32
Transportation	112,000	354,000	0.32
Mining	19,900	64,000	0.31
Agriculture	45,600	171,000	0.27
Product fabrication	228,000	897,000	0.26
Clerical	390,300	1,841,000	0.21
Social sciences	31,000	162,000	0.19
Service	245,400	1,298,000	0.19
Natural sciences	60,200	370,000	0.16
Sales	128,500	865,000	0.15
Crafts	19,000	140,000	0.14
Teaching	62,100	462,000	0.13
Artistic and recreational	18,000	138,000	0.13
Medicine and health	61,500	501,000	0.12
Managerial, administrative	65,200	1,152,000	0.06
Religion	600	33,000	0.02
Others	106,800	N/A	N/A
All occupations	2,345,600	9,847,000	0.24

N/A = not available.

^a Unemployment Insurance covers self-employed fishermen as well as paid workers.

Note: The ratio of claims to employment indicates relative utilization of Unemployment Insurance. It does not measure the probability of claiming because claim data refers to all claims terminating in 1984, and the employment data is the average of monthly figures.

Source: Special tabulations by the Commission of Inquiry on Unemployment Insurance based on Canada Employment and Immigration Commission data and *The Labour Force, December 1984* (Cat. no. 71-001), 1985.

Although the white-collar trade and service sectors generate unemployment with less frequency than other sectors, unemployment in these sectors is more often the result of job loss and a complete break with the employer than of a temporary layoff. The implication is that more unemployed white-collar workers must search for new jobs and experience a correspondingly longer duration of unemployment. Since the trend is to service sector employment, the problems presented by longer duration, non-recall unemployment are likely to intensify.

In summary, different ways of classifying economic activity may produce different emphases, but the broad picture remains the same. Workers in certain industries and sectors (for example, construction, fisheries and forestry) are more susceptible to unemployment than others. While these represent a minority of the Canadian work force, their importance in the overall structure of unemployment stems in large part from the regional concentration of these industries.

“Long-term unemployment among workers in primary and construction occupations was four to ten times higher than that of high-level managerial and administrative workers. One notes that the average duration of unemployment increases with age, as older workers experience significantly more difficulty finding new employment than younger workers. Youth, older workers and female workers appear to be especially susceptible to these problems.” (Social Planning Council of Ottawa–Carleton, Ottawa hearings)

The Regional Distribution of Unemployment

It is almost a commonplace that unemployment in Canada is a regional phenomenon. Since 1975, all provinces east of the Ottawa River have had unemployment rates above the national average, and the same higher rates have recently existed in British Columbia (see Figure 2.15). In many cases the higher unemployment rates of certain provinces still underestimate the economic difficulties found there. Provinces with higher unemployment rates tend to have lower participation rates, because more discouraged workers are withdrawing from the labour force and because fewer new people are entering it. Had participation rates in the Atlantic provinces, Quebec and British Columbia been at the

Figure 2.15
Unemployment Rates by Province, 1975–85

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Newfoundland	14.0%	13.3%	15.5%	16.2%	15.1%	13.3%	13.9%	16.8%	18.8%	20.5%	21.3%
Prince Edward Island	8.0%	9.6%	9.8%	9.8%	11.2%	10.6%	11.2%	12.9%	12.2%	12.8%	13.2%
Nova Scotia	7.7%	9.5%	10.6%	10.5%	10.1%	9.7%	10.2%	13.2%	13.2%	13.1%	13.8%
New Brunswick	9.8%	11.0%	13.2%	12.5%	11.1%	11.0%	11.5%	14.0%	14.8%	14.9%	15.2%
Quebec	8.1%	8.7%	10.3%	10.9%	9.6%	9.8%	10.3%	13.8%	13.9%	12.8%	11.8%
Ontario	6.3%	6.2%	7.0%	7.2%	6.5%	6.8%	6.6%	9.8%	10.4%	9.1%	8.0%
Manitoba	4.5%	4.7%	5.9%	6.5%	5.3%	5.5%	5.9%	8.5%	9.4%	8.3%	8.1%
Saskatchewan	2.9%	3.9%	4.5%	4.9%	4.2%	4.4%	4.7%	6.2%	7.4%	8.0%	8.1%
Alberta	4.1%	4.0%	4.5%	4.7%	3.9%	3.7%	3.8%	7.7%	10.8%	11.2%	10.1%
British Columbia	8.5%	8.6%	8.5%	8.3%	7.6%	6.8%	6.7%	12.1%	13.8%	14.7%	14.2%
Canada	6.9%	7.1%	8.1%	8.3%	7.4%	7.5%	7.5%	11.0%	11.9%	11.3%	10.5%

Source: Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986; *Labour Force Annual Averages 1975–1983* (Cat. no. 71-529), 1984.

level of, say, Ontario, the number of people looking for the available jobs would have been much higher and provincial unemployment rates would have been higher as well (see box).

Provincial economic disparities result not only from different levels of unemployment but also from a number of other factors. These include the relative importance of seasonal activities and of the mix of industries (i.e., whether or not the industries present have other spinoff effects); different levels of productivity (i.e., whether those industries result in high or low earnings for both workers and entrepreneurs); and ultimately different levels of income (i.e., whether there are enough people with enough purchasing power to warrant supplying their needs with locally produced goods and services). Therefore differences in levels of economic development are much more complex than would appear from looking at unemployment rates.

Unemployment rates give a general idea of the relative difficulty of finding a job in the area. For this reason they are used under the current Unemployment Insurance program to trigger regionally extended benefits. If unemployment rates simply reflected the duration of unemployment, one could argue that their use as a trigger for extended benefits may be justified. Interregionally, however, there is much less variation in the duration than in the incidence of unemployment (see Figure 2.16). Thus, while both factors play a role, the higher rate of

"In single-industry towns or in some regions of the country, unemployment is not a temporary phenomenon, but a structural or chronic problem. The need to retrain and possibly encourage members of the labour force to move is apparent." (Retail Council of Canada, written brief)

Regional Unemployment

The higher unemployment rates in certain provinces actually underestimate the economic difficulties faced in those areas. The table shows, for each province, what the unemployment rate would have been if the number employed had stayed the same but the participation rate had changed to the Ontario rate of 68.0 percent. In all cases, unemployment rates would be higher than actually recorded, except in Alberta, where participation rates are higher than in Ontario.

Provincial Unemployment Rates Assuming Ontario's Participation Rate, 1985

Province	Provincial participation rate	Unemployment rate	Unemployment rate at Ontario's participation rate
Newfoundland	53.0%	21.3%	38.7%
Prince Edward Island	61.9%	13.2%	21.0%
Nova Scotia	58.8%	13.8%	25.5%
New Brunswick	56.8%	15.2%	29.2%
Quebec	62.2%	11.8%	19.3%
Ontario	68.0%	8.0%	8.0%
Manitoba	65.8%	8.1%	11.1%
Saskatchewan	66.4%	8.1%	10.3%
Alberta	71.9%	10.1%	4.9%
British Columbia	64.3%	14.2%	18.9%
Canada	65.2%	10.5%	14.2%

Source: Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.

unemployment in Newfoundland compared with Ontario, for example, is *more strongly* influenced by a greater proportion of Newfoundland's work force experiencing unemployment over the year than by the longer duration of their unemployed spells. The significance of regionally extended benefits in the Unemployment Insurance program is discussed further in Chapter 4.

"Women expect to bear the brunt of the job displacement which is resulting from massive technological changes, particularly in the clerical, communication, retail, transportation, insurance and banking sectors. And that is only the newest, if most dramatic, development. Women have already confronted growing unemployment in the public sector and industries such as clothing/textile/footwear and light manufacturing." (National Action Committee on the Status of Women, written brief)

Characteristics of the Individual and the Risks of Unemployment

Just as industry and occupation are important in determining the risk of unemployment, so are the characteristics of the individual, such as age, sex and educational level. These personal characteristics are correlated with industry and occupation. For example, seasonal and cyclical industries have higher unemployment rates. Men make up 85 percent of workers in the cyclical sector and 83 percent in the seasonal sector but only 53 percent in the other sectors.¹³ As the result of structural changes, unemployment spells are likely to be longer. Many jobs likely to be eliminated because of structural unemployment are now filled by older workers. Historically, male unemployment rates are generally somewhat

Figure 2.16
Unemployment Incidence and Duration, 1985

	Incidence of unemployment ^a	Average number of weeks unemployed in the year ^b
Newfoundland	39.9%	20.8
Prince Edward Island	31.8%	19.8
Nova Scotia	28.9%	20.2
New Brunswick	34.7%	20.2
Quebec	28.3%	20.1
Ontario	21.3%	14.5
Manitoba	21.5%	15.3
Saskatchewan	20.1%	15.9
Alberta	25.2%	15.9
British Columbia	29.7%	20.3
Canada	25.4%	17.7

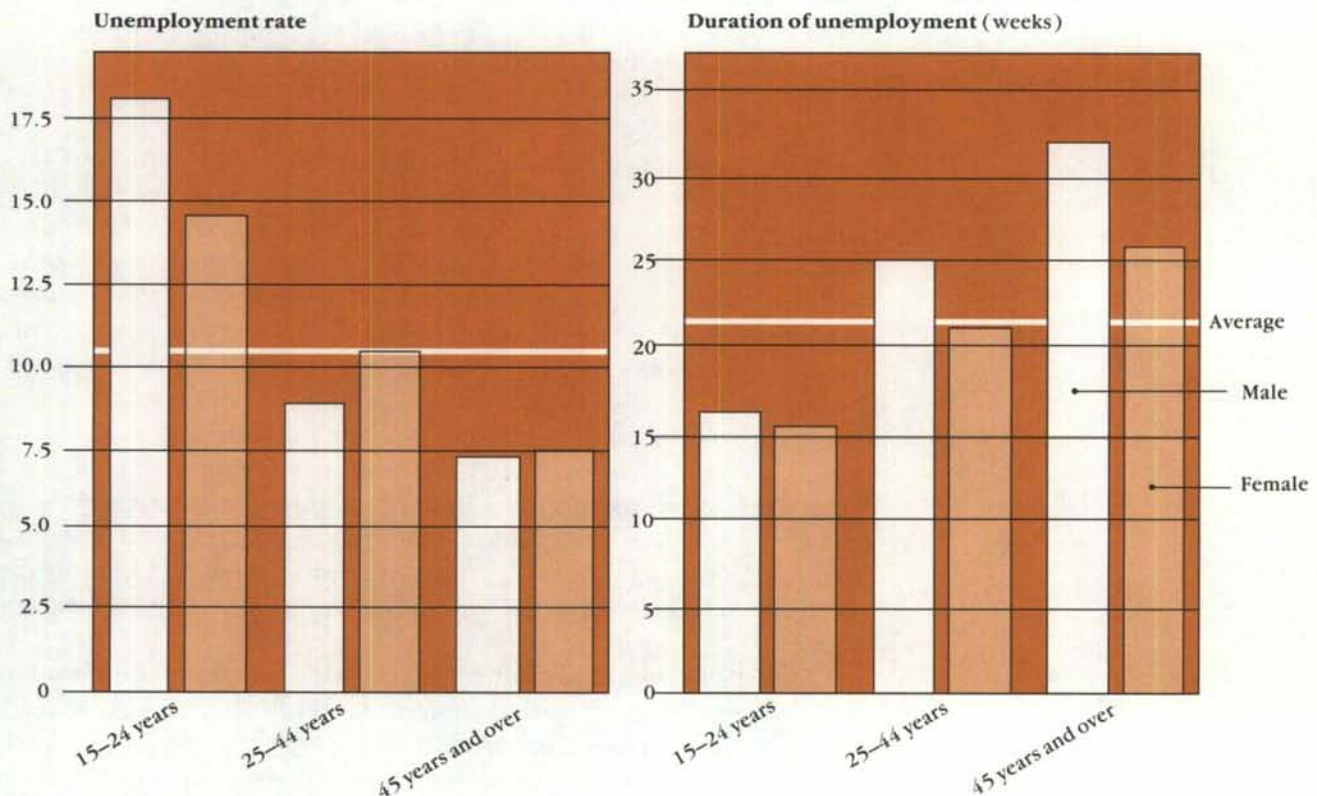
a Number of persons unemployed at some time in the year divided by the number of persons in the labour force for part or all of the year.

b Number of weeks unemployed in 1985 for those unemployed at some time in the year.

Note: This pattern is similar to that observed using other measures of duration, such as the average duration of incomplete spells of unemployment (used by Statistics Canada in its Labour Force Survey) or average duration of completed Unemployment Insurance claims.
Source: Statistics Canada, "Annual Work Patterns Survey," *The Labour Force, March 1986* (Cat. no. 71-001), 1986.

lower than female unemployment rates, but there is greater variation by age among men than among women. The unemployment rate for men over age 45 is a little over a third that of the 15-to-24-year-old group, while the rate for women over age 45 is about half the rate of younger women (see Figure 2.17).

Figure 2.17
Unemployment Rate and Duration of Unemployment, 1985



Unemployment Rate and Duration of Unemployment, 1985
(Annual averages)

		Unemployment rate	Average duration (weeks)
Both sexes		10.5%	21.6
Males	15-24 years	18.2%	16.3
	25-44 years	8.9%	24.9
	45 years & over	7.1%	32.1
Females	15-24 years	14.6%	15.1
	25-44 years	10.3%	21.0
	45 years & over	7.5%	25.7

Note: Figures for duration exclude persons with a job to start within four weeks of the reference week who had not actively looked for work in the past four weeks.
Source: Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.

"Reports from field staff also show that an increasing number of young people are in the 'high risk' category – undereducated (severe difficulties in literacy and numeracy), delinquent, etc." (OPCAN, written brief)

"Unemployment is here to stay, but work sharing is just around the corner. By the end of this century, only one-third of our adult population will need to be employed at any one time. Technology will be so far advanced that this one-third will easily be able to support the other two-thirds." (Dunfield Park Tenant Association, written brief)

"The Economic Council of Canada recently predicted that because of strengthening growth by 1995 the unemployment rate would be down to 7.6 percent. Well, whoopee! It is going to take 10 years to drop a little below 8 percent – and a few years ago 8 percent was considered to be tragically high!" (Community Unemployed Help Centre, Winnipeg hearings)

Education and Unemployment

Research into the correlation between the level of education and vulnerability to unemployment provides a clear message: the higher the level of education, the less unemployment is likely. While a university degree will not guarantee immunity (no one is immune), a low level of educational attainment considerably increases the probability of unemployment.

A low level of education seems to have particularly severe consequences for young people aged 15 to 24 years, who cannot offset this deficiency by long work experience. In this group, those with no more than eight years of schooling have unemployment rates of more than 27 percent, while the rates for those with some post-secondary education are less than 12 percent. This factor is of such significance that it is the focus of attention in Chapter 5.

Future Trends

Predicting future trends is difficult. Some trends and changes in industrial sectors suggest that employment in the service sector will grow, while employment in the goods-producing and primary sectors will decline. The impact of anticipated changes in the work force as the population grows older can be projected, as well as possible changes in participation rates as more women decide to seek employment. Various social and economic policies, however, can also affect the number in the labour force. Policies which encourage educational leave or keep more young people in educational institutions for longer periods, policies which support early or partial retirement, work-sharing schemes and longer vacations may all have an impact on behaviour, on employment and unemployment in the future. Monetary, fiscal and trade policies may also have a profound impact. Technological change and innovations in the global marketplace will continue to affect the national labour market.

Statistics Canada and others have developed simulation models of the economy. By varying the assumptions about such factors as fertility rates, life expectancy, participation and retirement patterns, these models can be used to explore the long-term implications of a variety of theoretical situations. Some combinations of factors suggest that the unemployment rate will fall below pre-1982 levels only at the end of the century. Other combinations of variables result in projected unemployment figures varying from 10.5 to 7 percent within the next five years and from 7 to under 5 percent by the year 2000. These models were used in this Inquiry to explore the impact of changes in demography, participation rates, and a variety of different economic and social policies. (A more detailed description of these simulations and the results is provided in Appendix E.)

The Unemployment Insurance Program

To this point, this chapter has concentrated on the characteristics of the unemployed. In this section, the emphasis switches to the Unemployment Insurance program itself and how claimants use it. A detailed description of the program is contained in Appendix F and a statistical summary is in Appendix G.

In 1985 the average monthly number of beneficiaries was 1.1 million, down slightly from 1984 and from the peak in 1983. This figure was about 86 percent of the total unemployed population of about 1.3 million per month in 1985. Total payments to Unemployment Insurance claimants were \$10.2 billion in 1985, of which the government cost was \$3.0 billion. Employer and employee premium revenue was \$8.8 billion and the Unemployment Insurance Account had a small surplus of \$174 million. As a result the cumulative deficit was reduced to \$4.4 billion.¹⁴

Using 1984 data (the most recent year for which complete data are available) it is possible to describe how the program was used. The average claimant received weekly benefits of \$161.62 per week and the average duration of their time on claim was 25.3 weeks. The average duration ranged from 29.6 weeks in Newfoundland to 22.0 weeks in Saskatchewan. The average total payments in that year were about \$4,089 per claimant. The proportion of claimants exhausting benefits was highest for those individuals with very few (10 to 14) or many (52 +) weeks of insurable employment.¹⁵ Overall, about 28 percent of claimants exhausted their benefit entitlement.

Repeaters (that is, individuals with an Unemployment Insurance claim in the previous year), accounted for about 48 percent of claimants.¹⁶ Eighty-seven percent of claimants with only 10 to 14 weeks of insured employment, however, were repeaters.

The utilization of Unemployment Insurance benefits differed between claimants with short-term and long-term labour force attachment. Average durations were longest for claimants with 10 to 14 weeks of insurable employment, shortest for claimants with 40 to 44 weeks and increased again for those with 52 or more weeks of insurable employment. The pattern of benefit utilization for claimants with long and short labour force attachments is presented in Figure 2.18. It illustrates that generally the average duration of benefits decreases with increasing labour force attachment. The peaks on the histogram suggest three distinct patterns of usage; short-attachment workers collecting for 35 or more weeks; claimants with 40 to 44 weeks of employment collecting for 5 to 9 weeks; and, claimants with long-term employment exhausting their benefits.

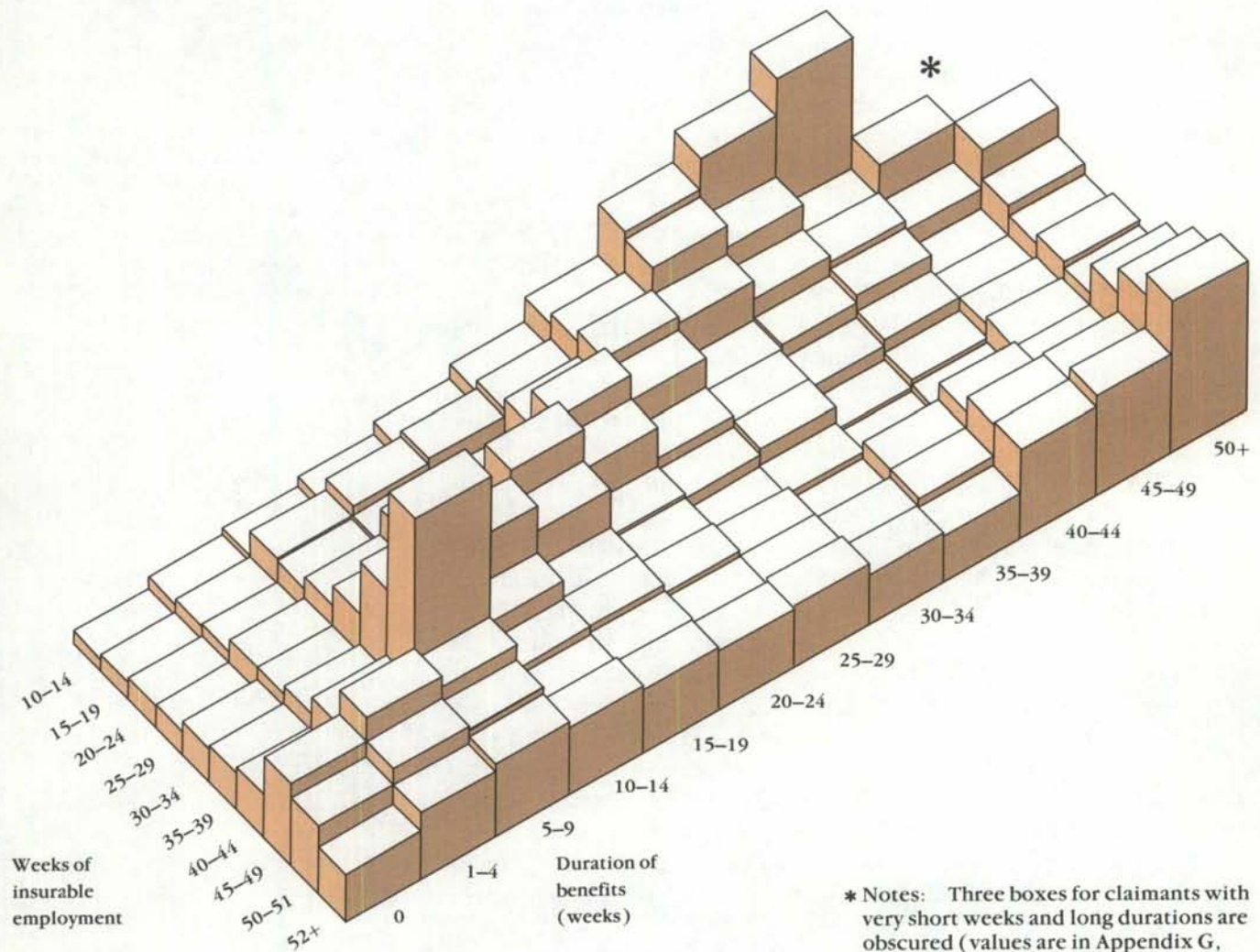
These three patterns are notable since they differentiate each group from other unemployed workers with similar employment histories. The

"For the most part, Unemployment Insurance, with all its faults, has been doing the jobs that it was basically intended to do. Unemployment Insurance is providing a very necessary economic safety net for people who are normally employed and require this stopgap to carry them over until they can find other work." (Office and Technical Employees' Union, Vancouver hearings)

"In many of these communities, Unemployment Insurance and social welfare are interchangeable and you go from one to the other. That is just the way it works. They are a package. In fact, you know very well that provincial governments organize programs to get people off social welfare – 10-week work programs and that – so they can get them onto the federal payroll as opposed to the provincial payroll." (Canadian Pulp and Paper Association, Ottawa hearings)

"Seasonal workers may put in long hours over a short period of the year, earn a good income, then draw benefits during their idle period. This practice goes directly against the original intention of the Act, which was to provide assistance to bind over those in between jobs." (Stewart Sutter, written brief)

Figure 2.18
Distribution of Regular Claimants by Duration of Benefits and by Weeks of Insurable Employment, 1984



* Notes: Three boxes for claimants with very short weeks and long durations are obscured (values are in Appendix G, Figure G.2). Percentage distributions are calculated by duration of benefits. The values for each category based on weeks of insurable employment add to 100 percent. Data are based on "pure" regular claims terminating in 1984. Source: Calculations by the Commission of Inquiry on Unemployment Insurance based on Canada Employment and Immigration Commission data.

10-to-14-week workers, for example, are quite different from 15-to-19-week workers in how they use Unemployment Insurance, and the 40-to-44-week workers are different from those who work a full 52 weeks. If the program itself was not affecting behaviour, workers with similar work histories would be expected to behave in very much the same way.

The observation that workers with 10 to 14 weeks of work tend to receive benefits for close to the maximum possible duration may simply demonstrate the difficulty of finding a job for workers with short labour force attachments. This, however, would not account for the difference between this group of workers and their 15-to-19-week colleagues. Thus, it gives credence to the concern that some of these workers are playing the system or to the view that job creation programs and other make-work projects may be designed to qualify workers for Unemployment Insurance benefits. While this represents a small percentage of claimants in the country as a whole, it is a significant group in Atlantic Canada, as well as a significant pattern of behaviour.¹⁷ To the extent that this behaviour is indeed the result of the current program design, this issue is dealt with in Chapter 7. Chapter 3 discusses the consequence of systematic attempts to obtain the maximum income redistribution from job creation programs.

Those with about 40 weeks of work who collect up to 10 weeks of benefits is also a small group but represents a significant pattern. Again, two possible explanations present themselves. First, that it takes about 10 weeks or so to find another job and, second, that employers lay off workers for short periods each year to accommodate plant maintenance, inventory and the like, and then recall them. The recommendations in Chapter 7 for changes to the Unemployment Insurance program deal with the elements of the current program which encourage this behaviour. Finally, although the pattern observed for full-year workers may suggest that they too are taking full advantage of available benefits, it seems more likely that these workers had long-term attachment to a previous employer, and in many cases are unemployed as the result of structural changes, and therefore may have particular difficulties in finding new employment. Program changes and the recommendation for the establishment of a Cumulative Employment Account to provide improved benefits to these workers are also proposed in Chapter 7.

Seasonal workers are currently eligible for benefits on the same basis as other workers. This has led some to recommend that the program should return to its pre-1971 basis when seasonal workers were eligible but received differential treatment. The major argument used by proponents of this view is that seasonal unemployment is anticipated and that Unemployment Insurance acts more as a program of income

"The point we were trying to make, Mr. Chairman, is that many people deliberately choose to have seasonal employment and don't wish to work the rest of the year."
(Canadian Electrical Distributors Association, Toronto hearings)

"Economic situations are different in the many regions of Canada and therefore the Unemployment Insurance program should be assessing these differences and responding to them in a positive manner. The program should encourage seasonal workers to find other work in their area or at least have requirements that these seasonal workers are trained in another line of work which could be used in their off-seasons." (Alberta Chamber of Commerce, Calgary hearings)

"Seasonal workers, like fishermen and tourist workers, are paid not to work at all, all winter, in effect, under this program." (Halifax Board of Trade, Halifax hearings)

“Employees realize that a small number of weeks of work will make them eligible for income support. That will allow them to survive until their usual work begins again. Without the cushion of a reasonable income support program, seasonal industries would have difficulty recruiting and maintaining a qualified labour force in this province.” (Government of Prince Edward Island, Charlottetown hearings)

redistribution than income replacement. Industries with strong seasonal components (such as fishing, construction and agriculture) in general make heavier demands on Unemployment Insurance than non-seasonal industries.¹⁸ A similar conclusion can be derived from examining Figure 2.14, which indicates that workers in seasonal occupations tend to be major users of the program.

An analysis of benefits and contributions by age group indicates that individuals aged 20 to 24 appear to be significant net beneficiaries while those aged 35 to 54 are net contributors.¹⁹ While the overall ratio of benefits to contributions is essentially the same for men and women, there are differences in different age ranges. Young women tend to be less likely to use Unemployment Insurance than young men but this reverses after about age 25. The benefit to contribution ratio for men aged 20 to 24 years is 1.88; that is, they receive an average of \$1.88 in benefits for each \$1 of contributions, whereas women in the same age group have a ratio of only 1.29. In the 45 to 54 age group the ratios are 0.68 for men and 0.75 for women.

While Unemployment Insurance is not primarily an income redistribution program, it is regarded as such by many who equate unemployment with low income. Although this may be true at a point in time and on an individual basis, it is not so when annual income is considered on a family basis. This latter is the accepted approach to determining the effectiveness of income redistribution programs. On this basis Unemployment Insurance provides about 11 percent of benefits to families with incomes under \$10,000 but almost 20 percent goes to those with incomes in excess of \$40,000.²⁰ Although it transfers money from the employed to the unemployed and, to some degree, from the rich to the poor, Unemployment Insurance is not a very effective income redistribution program.

Turning to the distributional impact of the program by province, 1984 data indicate net benefits for Atlantic Canada, Quebec and British Columbia. Ontario was the largest net contributor in absolute terms, with \$1.3 billion. In relative terms, only 67 percent of contributions by Ontario workers returned to the province as benefits.²¹ At the other extreme, Newfoundland received about \$3.38 for every dollar of contributions.

Summary and Conclusions

Unemployment is everyone's problem. Annually it affects one in four Canadians. It is not an isolated problem, specific to a few individuals at the bottom end of the income scale, but a pervasive reality which may touch any worker. But Canada also enjoys employment growth and rising participation rates. The Canadian economy is not undergoing a fundamental breakdown. On the contrary, we have a strong record in employment growth over the last two decades and have outperformed most other Western nations. In spite of these solid achievements and the high expectations based on them, Canadians are understandably concerned about the persistence of high levels of unemployment and the concentration of unemployment among those in certain industries and occupations. These problems and those facing people with low levels of education, particularly the young, have implications for employment policies.

A review of who uses the Unemployment Insurance program reveals three distinct patterns of usage which differ from the overall one. These patterns include: workers who are employed for 10 to 14 weeks and collect benefits for about 40 weeks; those who work about 40 weeks and collect for about 10 weeks; and full-year workers who show a tendency to exhaust their benefits. Another observation is that the increasingly structural nature of unemployment has meant that the duration of time receiving benefits has increased substantially in recent years.

It is apparent, therefore, that serious employment disruption is and will continue to be a major characteristic of our economy. This has three significant implications:

- An Unemployment Insurance program is and will continue to be essential to the economic security of Canadian workers.
 - Measures to assist workers, companies and communities to adjust to the impact of long-term structural change are essential.
 - Unemployment Insurance alone may have limited impact in resolving the problems of unemployment. Spending on Unemployment Insurance must be placed within a context of investment in economic growth and a human resource development strategy.
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Notes

- 1 Canada Employment and Immigration Advisory Council, *Older Workers: An Imminent Crisis in the Labour Market* (Ottawa: Minister of Supply and Services Canada, 1985), p. 8.
- 2 M. Ethier, "Survey of Pension Issues," in *Income Distribution and Economic Security in Canada*, Volume 1 of the Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
- 3 The youth rate includes individuals aged 14–24 in 1963 and individuals aged 15–25 in 1983.
- 4 These calculations are based on Statistics Canada, *Labour Force Annual Averages 1975–1983* (Cat. no. 71-529), 1984 and *The Labour Force* (Cat. no. 71-001), various years.
- 5 Japan and some of the Scandinavian countries are the exceptions. While employment ratios for Canada and the United States were approximately 56 percent in 1983, the corresponding figures for these countries were: Japan, 62.1 percent; Denmark, 58.5 percent; Finland, 61.9 percent; Norway, 59.9 percent; and Sweden, 62.3 percent. Source: Organisation for Economic Co-operation and Development, *Labour Force Statistics, 1963–1983* (Paris: OECD, 1985).
- 6 C.M. Beach and S.J. Kaliski, "Measuring the Duration of Unemployment from Gross Flows Data," *Canadian Journal of Economics* 16 (May 1983): 258–63.
- 7 Cited in L. Osberg, "The Incidence and Duration of Unemployment in Canada," research study prepared for the Commission of Inquiry on Unemployment Insurance, 1986 (unpublished).
- 8 G. Glenday and G. Jenkins, *The Employment Experience of the Unemployed*, Technical Study No. 13, Task Force on Labour Market Development (Ottawa: Canada Employment and Immigration Commission, 1981), p. 3.
- 9 Statistics Canada, *Seasonal Variations in the Canadian Economy: Employment and Unemployment* (Cat. no. 16-501), 1982, p. 36.
- 10 Osberg, "Incidence and Duration of Unemployment," p. 34.
- 11 Edward A. Carmichael, *Reorienting the Canadian Economy: Policy Review and Outlook 1986* (Toronto: C.D. Howe Institute, 1985), p. 16.
- 12 Economic Council of Canada, *In Short Supply: Jobs and Skills in the 1980s* (Ottawa: Minister of Supply and Services Canada, 1982).
- 13 Seasonal industries in this context are defined as construction, forestry, fishing, mining, agriculture and tourism. This industrial breakdown varies slightly from the one used to define seasonal industries in Figure 2.13. Based on G. Glenday and J. Alam, "The Effects of Unemployment Insurance Benefits on the Structure of Employment in Seasonally and Cyclically Sensitive Sectors," study prepared for the Task Force on Labour Market Development (Ottawa: Canada Employment and Immigration Commission, 1982), p. 44.
- 14 See Chapter 10 for a detailed review of the financing of the program.
- 15 See Appendix G, Figure G.1.
- 16 Special tabulations of Canada Employment and Immigration Commission data.
- 17 See Appendix G, Figure G.2.
- 18 See Appendix G, Figure G.8.
- 19 See Appendix G, Figure G.9.
- 20 See Appendix G, Figure G.11.
- 21 See Appendix G, Figure G.12.

Part II

What Are the Needs of the Unemployed?

What Are the Needs of the Unemployed?

Unemployment is no longer a short-term cyclical event affecting only a few marginal workers and companies. Increasingly, unemployment arises from major structural changes in the economy involving whole industries, occupations, communities and regions. The result is that the needs of the unemployed are changing too.

The interdependence of social and economic policies and programs becomes readily apparent when one attempts to find better ways to meet the needs of the unemployed. It is obvious that what the unemployed want above all else is jobs, not Unemployment Insurance benefits. Individuals who are unable to find employment, however, need some form of financial assistance to support themselves and their families while they continue searching for work, await a return to work, move to another community, or retrain for other kinds of work. The accelerated rate of change in the economy calls for many initiatives besides Unemployment Insurance to build greater adaptability in the labour market.

Meeting all the needs of the unemployed is a task well beyond the scope of an Unemployment Insurance program. Unless reform of the current program is undertaken as part of a broad, integrated human resource development strategy, it can be no more than a token effort, almost certain to fall short of its objective. It would be irresponsible to give serious consideration to removing regionally extended benefits, for example, without providing an income supplement to workers faced with economic hardship, and without providing development funds to regions and communities suffering from the impact of economic forces well beyond their control. Practical reforms must include a strategy directed to recognizing the increasing need for workers to retrain as skill demands change and the particular problems this poses for the large number of the unemployed who have a low level of education. Employment policy and the Unemployment Insurance program are closely related to tax and fiscal policy, retirement policy, and regulations governing hours of work. Examination of the strengths and shortcomings of the current program should be undertaken within the broader context of a longer-term strategic plan for human resource development.

A necessary part of a strategic plan for human resource development is the setting of objectives. The following objectives would be considered reasonable by most Canadians:

- an educated and adaptable work force;
 - an array of options that will enable individuals to exercise choice in moving into and out of the paid labour force;
 - full employment; and
 - adequate income security for those temporarily out of work or unable to work.
-

It is important, of course, to recognize that these goals are dependent upon broader economic goals of continued growth and stability. It is also important to recognize the multiplicity and sometimes contradictory nature of social and economic objectives and the likelihood that they will change over time. It is not enough simply to set economic goals and trust that achievement of social objectives will follow.

The objectives of a human resource development strategy are embedded in the national culture: the set of beliefs, values, attitudes and opinions that influence behaviour. Beliefs and attitudes change over time and, as demonstrated by the success of health promotion campaigns, both attitudes and behaviour can be modified by explicit policies and purposeful initiatives. Government-initiated programs and policies should be aimed at achieving a concerted, integrated set of social reforms consistent with the four objectives identified above. These reforms are necessary in order to address the needs of the unemployed, and they must provide a base for any proposed revisions to the Unemployment Insurance program.

Part II describes the ingredients of an integrated human resource development strategy. Within this section, Chapter 3 looks at full employment, at employment development strategies in general, and at the role of Unemployment Insurance and job creation in particular. Chapter 4 outlines Canada's income security system and the role of Unemployment Insurance in that system – in terms both of what it does now and what it should do in the future. Chapter 5 identifies fundamental inadequacies in the educational and skill level of the Canadian work force and examines the role of Unemployment Insurance in training. Chapter 6 addresses the need for increased flexibility in the labour market and evaluates adjustment programs, retirement policy and alternative work patterns – the ideas behind the call for shorter work days, work weeks, work years, and the work-sharing program within the current Unemployment Insurance system.

A human resource development strategy is essentially a strategy for investment in people. As with any other investment, planning must precede action. A strategy must be developed that will translate the need for jobs, financial assistance, skills and increased flexibility in the workplace into a coherent and feasible program of action. No one knows exactly what the appropriate balance should be, but the current situation demands initiatives on all four fronts – and not just by governments. A human resource development strategy would be meaningless without the involvement and commitment of all Canadians – governments, labour, employers. It is not just a new label for the same tired old ideas; it is,

rather, a different way of looking at the future. It means considering the full spectrum of problems that Canada faces in attempting to remain internationally competitive and to adapt to new ways of organizing work and to new demands on the skills and experience of workers.

A human resource development strategy, as its name suggests, has two major ingredients. It puts people first, and it does this in the context of a broader strategic plan. It harnesses our natural talents and directs them to their most productive uses. Developing and implementing that strategy is the theme of the next four chapters.

Has Canada Given Up on Unemployment?

The following article appeared in The Toronto Star on June 8, 1961. An unemployment level of 5 percent was of as much concern 25 years ago as our current rate is today.

Government economists, says The Star's Ottawa Bureau Chief Val Sears, see little hope of reducing unemployment below five per cent of the labor force.

Hidden in the weak broth of recovery on which the ailing Canadian economy now is feeding is an indigestible lump of more than 300,000 unemployed.

These men and women – five per cent of the labor force – are the “acceptable” number of unemployed which government economists consider will always be with us.

No matter what stimulants are included in the forthcoming budget, they say; no matter how steeply the graphs of economic growth may climb in the two-year “upbeat cycle” ahead, Canadians will have to be content that full employment means 95 per cent of the labor force at work.

Liberal economists take a gloomier view.

Unless there is a massive government readjustment of the economy, unemployment will not drop below six per cent.

This is more than twice the amount the Gordon royal commission on Canada's economic prospects used in its 1957 calculations of the country's future.

U.S. Intervention Level

More significantly, perhaps, it is above the level President Kennedy's economic advisors have set as the point at which substantial government intervention would be needed to keep the American economy growing.

Walter Heller, chief of the president's council of economic advisors, has said that without more government spending, tax cuts or a combination of both, the American economy will have an unemployment rate of five and one-half per cent.

And he regards this as an unacceptable figure. It should come down to four per cent.

Americans out of work now represent seven per cent of the labor force as opposed to 9.7 for Canada in April.

Behind this underbrush of percentages are men and women, out of a job, looking for work, struggling to feed and clothe themselves and keep their pride in the midst of a society that, for a time at least, will grow steadily more affluent.

These “acceptable” unemployed are not only costly in human terms, they are a drain on the government's social resources – the unemployment insurance fund and all manner of municipal assistance.

While there is no doubt that even in a wildly expanding economy such as Canada had during World War II, substantial numbers of people will be between jobs or looking for new ones (63,000 in June, 1944), the anticipated five per cent is too high to be gloomily accepted.

No government official, mind you, would ever publicly admit that the country should be content with any specific number of unemployed.

Full Employment Fetish

In fact Canada, under a Liberal government, made something of a fetish about full employment standards.

In reply to the resolution of the economic and social council of the United Nations in 1950 to define the standard by which each government implies the meaning of full employment, Canada

stated her economy was too dependent on export markets to be able to determine a full employment standard.

And in 1953, the government shrugged off another attempt by saying that Ottawa was too much in the hands of the provinces to set any nationwide standard.

Professor Stanislaw Judek of Ottawa university, in his brief to the senate committee on manpower and unemployment, called this a "strange admission."

"In view of the gravity of unemployment today, surely, the complexities of inter-government financial and constitutional relations should not present unsurmountable difficulties," he said.

Liberal economists maintain that other countries have succeeded in keeping acceptable unemployment figures low and there is no reason for Canada to be pessimistic about this country's ability to do so.

Sweden, a country whose economy is roughly comparable to Canada's in that she is a primary producer trying to find export markets for a number of manufactured goods, had an unemployment rate of 0.8 last summer. Canada had five per cent.

Swedish Job Plan

(The Swedish government, among other things, builds prefabricated houses and ships them to areas where workers are needed, then pays for the worker and his family to move where the jobs are.)

Who are these people for whom jobs apparently cannot be found?

They are, in the jargon of the economists, the "frictionally unemployed, the seasonally unemployed and the structurally unemployed."

The frictionally unemployed are those who are not at the right place at the right time when a job is available either because they did not know about the job or were unable to move to get it.

Seasonal unemployment is a particularly serious problem for Canada because of the wide variation in climate and the emphasis on primary industries such as lumbering, fishing and wheat growing which are dependent on the weather and season.

Seasonal swings redistribute but do not alter the average level of unemployment.

Structural unemployment is by far the most serious long-range problem. It results from technological changes in industrial or service trades that leave the ill-trained worker behind.

All three of these unemployment lumps can be chewed on to reduce them, at least in part, to digestible portions.

Economists have recommended an increased mobility through portable pensions; provision for transport and resettling; a substantial increase in public works spending to beef up the construction trades and absorb casual labor; and a massive technological training program.

As the current commercial letter of the Bank of Commerce points out unemployment is not a "temporary phenomenon" and calls for fundamental remedies.

It is clear that five per cent of the labor force of 6,440,000 permanently unemployed cannot be dismissed as "the best we can do" in a society increasingly conscious of its responsibilities to fellow human beings.

Greg MacLeod, Founder of New Dawn,^a Cape Breton, Nova Scotia

Community-based development holds promise for long-range employment growth. Mr. MacLeod outlines the case for community economic development initiatives.

It's wrong to think of the problem of unemployment as just lack of jobs. The problem is that many communities do not have structures that solve local economic needs. To implant jobs without paying attention to establishing any long-term self-sustaining structure is just delaying the problem.

We do need short-term solutions as well, but if you're going to solve the problems of a depressed community in the long term you've got to create organisms in that community that are self-sustaining and will stay in the community and continue to employ people. It's an extreme position to say that the community can do this itself. In a modern industrial country, as much as 40 percent of the economy is directly linked to government. And it's just naive to say that a depressed local community can solve its problems without government collaboration.

For the past 20 years the initiative has come from central government . . . Somebody in Ottawa devises a program and advertises in local newspapers and on radio that you may apply to participate in this program. I'm proposing a different approach. I'm saying the initiative should start in the community, where people first try to do things and then the government responds with help.

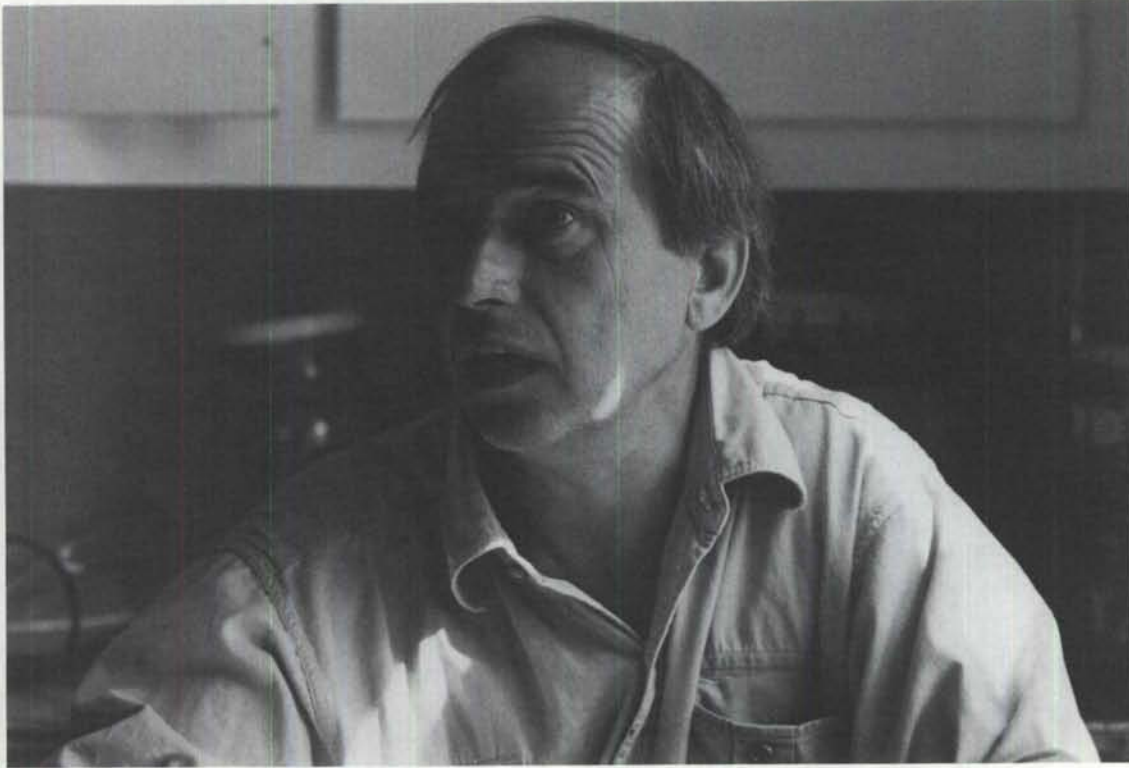
Innovations^b is one of the better programs and it's going in the right direction . . . but still I have some criticisms, because when the idea is put into operation civil servants lay down the terms of

reference and the community loses the initiative. The community has to adapt to rules and procedures, and becomes very dependent on that ongoing program.

Community business should operate like any other business. First, it should build up its equity base and the local community should take responsibility for that equity base. A sound government program should act just like a banker, saying "those people have proven themselves, now we can give them some help." In the past it has worked just the opposite. If a group has been successful and built up some equity base the government won't help them . . . So being successful is a disincentive!

You see, when a group has built up equity, it's independent, and government officials don't like dealing with local groups that have any kind of independence. They normally want the community group to be dependent on the government official for advice and direction . . . Bureaucracy works that way.

The key thing is that community groups can use business methods for social purposes and that social purposes are difficult to achieve without business methods. Let community groups develop their own ideas and give them lots of leeway. The government imposes more restrictions on community groups than on private business. It gives money to Dome Petroleum and lets them use their initiative and imagination. But when it gives money to community groups, it applies all kinds of structures and strictures that prevent the group from developing business equity. That's my big beef.



For instance, New Dawn asked for government funding for a venture to generate revenue and make some profit in order to buy development land for housing. The program officers said we were not allowed to make money under these programs. We adapted, we became “sea lawyers” clever at finding loopholes . . . like other community groups . . . and that’s how we kept going.

Several times we almost went bankrupt . . . A community business goes through all the crises that any business will go through. We survived because of our volunteer management – our board of directors and their committees, all local people.

We now have assets of around \$12 million, which is respectable . . . but we have liabilities too, because lots of stuff is all mortgaged. We have a home for the aged and are developing a project to care for people in their homes. Now this is something else, too . . . In the real business world, 70 percent of jobs are in the service sector, in such things as information. So any community business that is awake, that is contemporary, is going to develop in these areas. Government officials frown on this . . . Very often they concentrate on secondary manufacturing and are out of date.

But still, I’d say a community corporation should take on any business as long as it will create jobs and be viable. I’m very skeptical about depending on companies coming from the United States or Europe to solve the problems of Newfoundland, Cape Breton or Manitoba . . . that we can entice companies to come in and create jobs for us. I don’t believe it will succeed in the long run. It will be temporary. I believe that we have to anchor business in the local community and that the local people have to be involved.

In Cape Breton alone there are 35,000 people unemployed. New Dawn is just a little blip on the Cape Breton scene. It employs maybe 40 people or so altogether. But over the years, people have come from other parts of Nova Scotia, British Columbia, Newfoundland – all over the place – looking to see how New Dawn operates. I think we have had a big impact in Canada with this idea that the community group can legitimately make money and build up an equity base and that makes it more effective socially.

a New Dawn is described in a box later in this chapter.
b One of the programs in the Canadian Jobs Strategy.

Jobs

Introduction

Participants at the hearings were clear. The unemployed need jobs – not simply a better Unemployment Insurance program. They called for a full employment policy in Canada, although few were prepared to state what that meant or how it should or could be achieved. Chapter 2 showed that, although employment has grown, full employment has not been achieved. We know how many are unemployed today but we do not know how many new jobs are required for “full employment” to prevail ten years from now. Policy makers are shooting at a moving target. Expectations in regard to the labour market will continue to change. For example, in 1955 “full employment” would have been possible with only 50 percent of the adult population at work, because of the low participation rate of women. Today, however, if the same percentage of adults were employed, the unemployment rate would be 22 percent. Even though the specific target is not clear, the direction to be taken is. Creating more opportunities for employment must be of high priority and must figure prominently in any strategic planning for human resource development.

This chapter will discuss such questions as:

- What is the role of governments, communities and individuals in creating opportunities for employment?
- Is full employment a reasonable objective of economic policy?
- What should be done to improve the ability of our economy to generate permanent jobs?
- How successful have federal job creation programs been?
- What kind of economic climate would make efforts to increase employment more successful?
- Should Unemployment Insurance have a role in job creation?

There is a tendency to think of job creation in terms of discrete, government-funded job creation programs, but most jobs have not been created by this process. What is most important is the general economic policy that sets the stage for employment growth. Consequently, this chapter deals first of all with economic policy: economic growth and short-term stabilization policies.

“Employment growth” is the term used here to describe the process by which increased economic activity produces more opportunities for employment. “Job creation” refers to the process by which government programs are implemented with the explicit goal of creating jobs.

“If you think the system is working, ask someone who isn’t!” (Organization of Unemployed Workers, Port Alberni, B.C., picket sign)

“We have unemployment at levels not seen since the Great Depression, and the answer to this problem is jobs, not unemployed-worker bashing.” (Kamloops Unemployment Guidance Centre, Vancouver hearings)

“Job creation, yes, we need jobs desperately. Everybody needs jobs. But not just the idea of job creation alone . . . I’ve seen people that get jobs on projects and just work and sometimes they don’t even work. They are there filling in time, getting a pay cheque and losing pride by the gallons and pounds and tons, and self-respect and dignity.” (New Brunswick Association of Métis and Non-Status Indians, Bathurst hearings)

"I suggest that as far as a cure is concerned, the best cure is economic growth." (Sam Jannohamed, Edmonton hearings)

"The major cause of Canada's unemployment problem is the depressed state of the economy. No amount of government training and job creation programs will help to overcome job reduction caused by the inability of industry to sell its goods and services. The root of the problem is that the majority of Canadian products are not cost and price competitive in either domestic or world markets. The markets are still there, but other countries are supplying them. The reason is not quality, it is cost, including that associated with labour. A study done by the U.S. Department of Labor showed that hourly compensation costs in manufacturing industries in Canada were second highest among nine countries. The cost of labour in Canadian manufacturing industries has now risen to the point where it has become approximately 65 percent of the total cost of goods produced." (Machinery and Equipment Manufacturers' Association, written brief)

"There is only one reasonable way to come to grips with the number of people drawing UI and the overall cost of the program. That is to reaffirm full employment as the first priority of economic policy." (Canadian Labour Congress, written brief)

The General Economic Policy Context

The demand for jobs in any nation can be met only if there is economic growth. Programs to "create jobs" may appear successful, but unless the total number of jobs is growing, that success will be deceptive: new jobs created in one firm or in one part of the country may have taken place at the expense of another firm or another region. Economic growth creates the climate in which the increase in jobs can be real and not simply a shifting around of employment and unemployment. Therefore, what is important is growth in the economy at a pace sufficient to absorb the growth of the labour force.

The policies and instruments required today to promote economic growth and, consequently, growth in employment are not necessarily those of previous decades. New problems have emerged, conditions have changed, and new solutions may be required. At the beginning of the 1970s it was fashionable to belittle the possibility of economic growth and even to question its importance. It was presumed that anticipated shortages and rising costs of raw materials, and the environmental degradation associated with industrial development would restrict and eventually prevent further growth in the economy. But since that time, the prices of many raw materials have declined in relation to prices of manufactured goods and a beginning has been made in combatting pollution and alleviating other environmental damage. While obstacles to economic growth have declined in significance, the need for continued growth has become painfully obvious. For Canada, and most other industrialized countries, the trend toward increasing participation in the labour market has continually exceeded the increase in jobs.

During the hearings, the call for more jobs was heard repeatedly. For some, discussion of the rules governing Unemployment Insurance was irrelevant; the real need was to create the conditions that would allow the economy to surge ahead and to open up enough employment opportunities to reduce unemployment to its low "frictional" level.

A call for jobs translates directly into a call for economic growth, since in most industries additional jobs come about only as a result of substantial capital investment. While the amount of investment required to create a job varies by industry, it is generally true that the amount has grown over time. This is so even in the service industries, where employment growth is greatest. The advent of the electronic office, for example, has meant that the amount of capital per employee is much higher than it was five or ten years ago. As the megaprojects involving the tar sands and offshore oil attest, capital requirements in primary industries continue to be very high. An extreme example is an aluminum smelter currently being built in Quebec, where the investment required for each new job created exceeds \$1 million. While the jobs that are created by such projects pay well, technological change also means that there are fewer jobs than if that smelter had been built ten years ago.

This example illustrates an important fact about the relationship between investment and employment growth. Technological change has made employment growth relatively more expensive. But failing to keep pace with competing nations in adopting the latest technology simply saves jobs today at the cost of future jobs, because developing new processes and products is essential in order to compete successfully in world markets. Furthermore, unless there is significant unused capacity in the economy, employment cannot grow without investment.

There are two kinds of investment. One is designed to reduce costs and increase productivity (i.e., output per unit of labour) by substituting capital for labour, as well as for energy or raw materials. Such investment may well reduce employment, but to the extent that this makes firms more competitive, it may contribute to the preservation or expansion of jobs in the long run. The second type of investment is designed to start new ventures or increase total productive capacity, and leads directly to growth of employment.

Over the past several decades, most industrialized countries have had to embark upon investment of the first kind to save energy, to defend their position in international trade, to keep pace with innovations and to protect the environment. The more a country has to invest for these and other purposes, the less is available for increasing total capacity and employment. The solution to this dilemma is to raise the overall level of investment sufficiently to allow a country to keep pace with changes in its operating environment and also to expand its overall productive capacity so that employment can match the growth in the labour force.

How well has Canada performed in meeting the need for these two kinds of investment? With respect to increasing total output, Canada has been more successful than the United States and Western Europe (see Figure 3.1). This rise in total productive capacity has led to Canada's

"The government wants to subsidize capital-intensive energy because it is sexy. Hydro plants are sexy. Nuclear power plants are big, masculine, macho things. People make big money out of them. People get a chance to show what they have done. They create few jobs and huge debts." (Kenneth Emberley, Winnipeg hearings)

"Our mandate is to create investment; investment will create jobs in the long run. That is the only thing that will create jobs, because it has to be long term and sustained." (Miramichi Regional Development Corporation, Newcastle hearings)

"The world competition is getting tougher and tougher and tougher. Unless we reduce our costs and manpower, we are just not going to be able to compete. So we are caught on the one side with the social implications of a change, and we are caught on the other side in that if we don't change we are not going to be able to compete." (Miramichi Pulp and Paper, Newcastle hearings)

"Countries with cheap labour, new equipment and 'vendu' governments can oversupply markets many previously thought only available to western industrial nations." (Hugh Roberts, written brief)

Figure 3.1
Changes in Real Gross Domestic Product, Employment and Productivity,
1960–83
(Annual averages)

	Change in gross domestic product	Change in employment	Change in productivity ^a
Canada	4.2%	2.5%	1.6%
United States	3.1%	1.9%	1.2%
Japan	7.2%	1.1%	6.0%
Germany	3.2%	-0.2%	3.4%
France	4.1%	0.5%	3.7%
United Kingdom	2.2%	nil	2.3%
Italy	3.8%	nil	3.7%
Average	3.7%	1.0%	2.7%

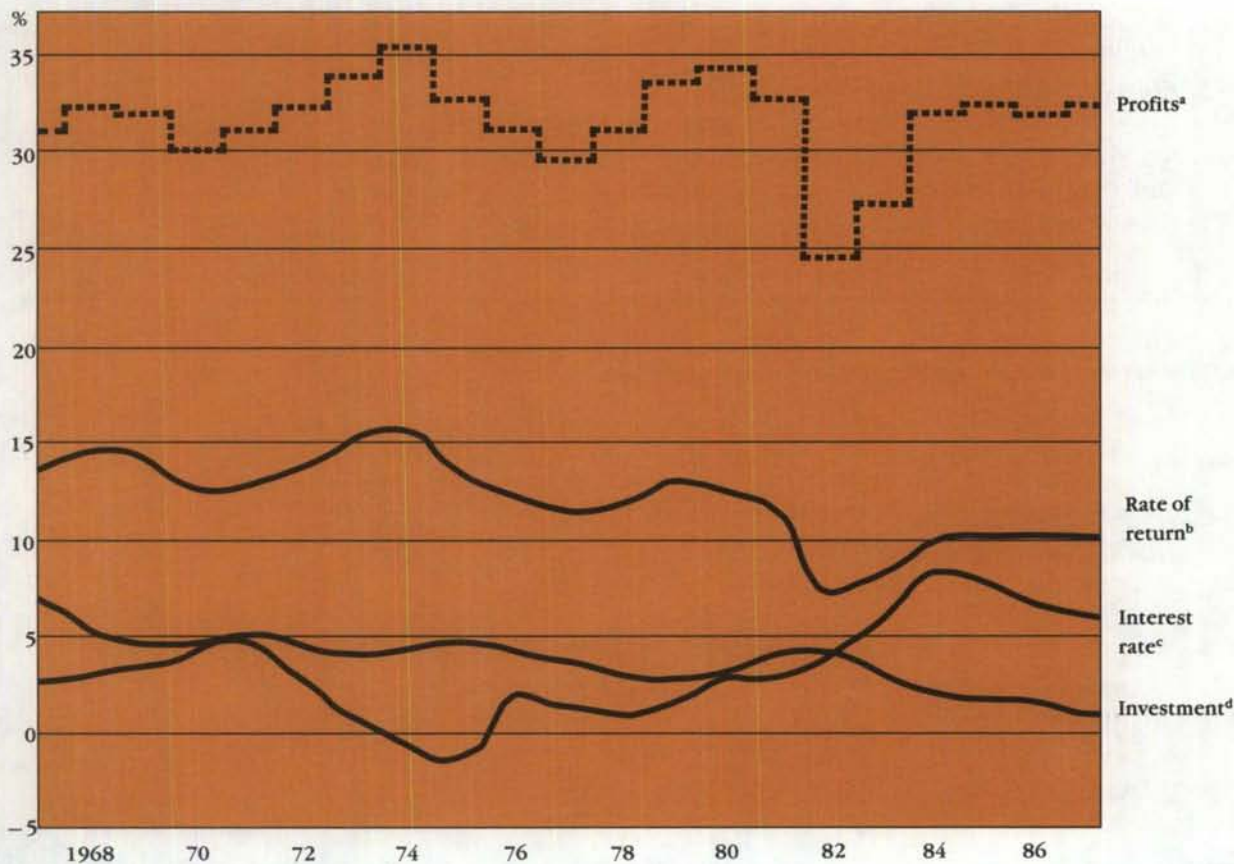
a Real GDP per person employed.

Source: Organisation for Economic Co-operation and Development, *Historical Statistics 1960–83* (Paris: OECD, 1985), Tables 1.6, 3.1.

exceptional performance in creating jobs to employ a rapidly increasing labour force. From this perspective the country's performance has been excellent. With respect to gains in productivity, however, Canada has been among the least successful of major OECD countries. This need not have been the case. Rapidly increasing output and employment are not incompatible with productivity growth. It is notable that since 1981 investment in real terms has remained stagnant in Canada. That situation is understandable because of the high and rising interest rates that prevailed until 1985. The declining rate of return on investment and the rise in interest rates made it increasingly improbable that new investment would pay for itself (see Figure 3.2). Stronger productivity growth could have been achieved if the overall level of investment had been higher.

Whatever the reasons, there has not been sufficient investment to increase productivity and enable employment to catch up fully with the growing labour force. For an open economy like Canada's, falling behind other nations in terms of productivity means an eventual decline in its competitive position and in the growth of employment. Economic

Figure 3.2
Profits, Rate of Return and Investment in Manufacturing



a Gross operating surplus as a percentage of gross value added.

b Gross operating surplus as a percentage of gross capital stock.

c Growth of real gross capital stock.

d Long-term government bond yields less the rise in consumer prices.

Note: OECD estimates and forecasts from 1985 onwards.

Source: OECD *Economic Outlook* (May 1986), Chart C, p. 13.

growth is the only environment in which hopes of employment growth can be realized and unemployment truly resolved.

Recommendation

- 1** Economic policies should give high priority to raising the rate of growth of the economy, in recognition of the role of economic growth in creating employment opportunities. Particular attention should be paid to policies that would ensure:
- a high and sustained volume of investment; and
 - sufficient improvement in productivity to maintain or improve Canada's competitive position in the world.

The economic well-being of a nation requires that there be a close correlation between productivity and wages. For many years there has been little increase in the general level of the productivity of labour in Canada, with some notable exceptions in specific industries. This is reflected in the increase in unit labour costs in manufacturing (see Figure 3.3). The devaluation of the Canadian dollar has generally offset the growing discrepancy between unit labour costs in Canada and in competing nations such as Japan and Germany. Increasing wages faster than productivity has resulted in inflation domestically and devaluation internationally.

Whatever the root cause of poor productivity growth, the impact is compounded by the pressure on governments to counteract short-term fluctuations in economic activity by "managing" aggregate demand. The objective of that process, known as "economic stabilization," is to maintain the country's productive resources at a high level of utilization.

Economic activity is subject to many influences and is likely to be unstable. It has long been recognized as a function of government to intervene in periods of recession in order to stimulate demand for goods and services through the use of general policy instruments – fiscal policy (the balance between taxes and public expenditures) and monetary policy (the general level of interest rates). The hearings provided clear evidence of public support for this role of government. Experts consulted by the Commission of Inquiry agreed that it is possible to reduce the unemployment rate in Canada by means of a properly executed stabilization policy. But it is clear that the potential success of that policy is severely limited. The reduction in the rate of unemployment that could actually be achieved by these means is estimated to be in the order of a few percentage points (i.e., a drop from an unemployment rate of about 9.5 to about 7 percent).¹ That would not be an inconsequential improvement but it would not eliminate unemployment.

Canada is not alone in finding it difficult to eliminate unemployment. This is not a matter of insufficient commitment to the goal of full employment, nor of a lack of political will. Most OECD countries share this problem. There were altogether 10 million unemployed in OECD countries in 1970, almost 19 million in 1979, and more than 31 million in 1984.² A legitimate case can be made that, in some circumstances, sustained full employment is practically impossible to attain, no matter how much political will is brought to bear on the issue. In France, for

"The only effective long-term solution to government fiscal problems is to get Canadians back to work through a combination of direct job creation programs and the introduction of economic policies which will stimulate rather than depress our economy." (British Columbia Federation of Labour, written brief)

"Long-range government planning is going to have to take place to create employment and assist the provinces." (Dorrell Robertson, Edmonton hearings)

"Have you people thought about some other form of Unemployment Insurance or income or something, other than the existing system? We would like full employment." (Northern Alberta and Northwest Territories Building and Construction Trades Council, Edmonton hearings)

Figure 3.3
Changes in Unit Labour Cost in Manufacturing Industries, 1960–84
 (Annual averages)

	Change in unit labour cost	
	1960–70	1970–84
United States	1.9%	5.1%
Japan	3.1%	4.4%
Germany	3.8%	4.4%
France	2.4%	9.2%
United Kingdom	3.7%	11.8%
Italy	4.6%	14.1%
Canada	1.2%	7.3%
Average	2.6%	6.3%

Source: *OECD Economic Outlook* (May 1986), Table 4.

“Unemployment Insurance... cannot act as a comprehensive income maintenance system, nor as a solution to problems arising from industrial dislocations. For that we require separate legislation and programs, including economic policies based on full employment objectives.” (New Brunswick Federation of Labour, Moncton hearings)

“The best situation would be one where there would be meaningful work at decent wage levels for all. But we do not have economic policies at the present time that promote that.” (Latin American Mission Program, written brief)

example, the number of unemployed went from 1,371,000 in 1979, two years before the election of a government committed to economic expansion, to 2,319,000 in 1984, after three years of “stimulation.”³ Nevertheless, the United States has managed to reduce unemployment quite spectacularly since the last recession by adopting a highly stimulative fiscal policy. This formula has been effective, but has resulted in a correspondingly large trade deficit for several years, something that smaller countries like Canada cannot do without starting a cycle of currency depreciation, inflation and, finally, retrenchment.

Many economists feel that it is not possible to “spend our way out of a recession.” The problem revolves around the relationship between inflation and unemployment. When inflation is as persistent as it has been recently, workers expect prices to continue to rise and so they demand wage increases to keep pace with these expectations. Increased government spending may then fuel these expectations, leading to an increase in both wages and prices, and only part of the increased spending will stimulate additional production and employment. The higher the unemployment rate, the more likely that the result of increased spending by government will be a rise in production. The lower the unemployment rate, the more likely that the result will be increased inflation. The difficulty is to reach the delicate balance between increased production and higher inflation.

Many economists now believe that because of prolonged past inflation, it may be very difficult to reduce unemployment below 7 percent through traditional public policies.⁴ The difficulty of the task does not make it less important. What can be achieved may be modest and the room to manoeuvre may be restricted, but any reduction in unemployment would have a significant beneficial effect on all of Canadian society.

Recommendation

2 Full employment should continue to be a primary objective of fiscal and monetary policies.

The Need for Innovative Approaches

For generations, Canadians have believed that governments have a responsibility to stabilize the economy and to use fiscal and monetary policies to achieve the best possible compromise between the objectives of full employment, price stability and balance in the country's external account. In a world of flexible exchange rates and open economies, most countries appear to be unable to achieve economic stability by acting on their own. As a result of disappointing experience, belief in the feasibility of stabilization policies and the ability of governments to achieve "full employment" has gone through a crisis of confidence. New solutions to old problems are required.

Perhaps too narrow a range of options has been considered in the past. When traditional remedies for poor economic performance prove to be disappointing, the need for innovative approaches becomes more apparent. The responsibility of government for the performance of the economy requires it to search for new ideas.

Analysis of the operation of labour markets and the decision-making rules used by businesses to hire additional workers has focussed attention not only on the inherent "rigidity" of the process, but also on the implications of the current approach to wage determination. That approach takes the risks present in the labour market away from established workers and concentrates them on marginal workers and the jobless. Under the current process of wage determination, the risks that are an inescapable part of the functioning of any market lead to variations in the level of employment rather than in the level of earnings. These risks also have a disproportionate impact on a relatively small number of the most vulnerable workers who are least able to absorb that impact. Studies of labour market segmentation underline this fact.⁵ If that perspective is accepted, Unemployment Insurance becomes, to a significant extent, the price society must pay for operating its labour market in one particular way. This price, however, may be greatly reduced by diversifying the remuneration of labour through such new approaches as revenue-sharing schemes.

One alternative process is persuasively argued under the label of "The Share Economy."⁶ In this situation workers agree to take a share of their wages as a negotiated percentage of the revenue of the firm. The arrangement guarantees part of the worker's income through the basic wage, and provides an incentive to improve productivity and to maintain employment levels even during periods of recession. Involuntary unemployment is still possible, but revenue-sharing schemes help to stabilize employment, and the degree of stability increases with the fraction of labour income received in the form of shares (as opposed to the basic wage). The larger the proportion of remuneration that is in the form of revenue sharing the larger the shock of a recession must be to generate unemployment.

This approach is widely practised in Korea and Taiwan; in the United States, about 15 percent of all firms have some type of profit-sharing plan. In Japan, where unemployment is usually around 2 percent, about one-quarter of the average worker's pay is in the form of bonus payments, a significant part of which is linked to the firm's revenues or

"The focus of particular employment strategies at the moment is on frictional, structural and cyclical unemployment, and doesn't in fact address the question of chronic or long-term unemployment." (Graham Riches, Regina hearings)

"While profit-sharing cannot be expected to be a panacea for lowering unemployment, positive steps to encourage it may nevertheless be worth taking. Furthermore, profit-sharing or similar schemes, in addition to increasing the responsiveness of nominal wages to unemployment, may be worth encouraging as a potentially powerful vehicle for improving productivity, by giving workers a greater sense of personal commitment to their firms." (*OECD Observer*, September 1986)

profits per worker.⁷ In Canada, however, such revenue-sharing schemes remain relatively uncommon. In order to encourage more firms to initiate these schemes, the revenue-sharing portion of a worker's income could be treated differently and taxed at a lower rate than wages.

If Canada had more revenue-sharing arrangements, a number of advantages might follow:

- higher, more stable employment levels;
- greater output and wealth;
- an easing of the transition for workers in declining industries;
- a levelling of regional disparities in employment opportunities; and
- savings on Unemployment Insurance.

Because of high rates of unemployment and skepticism regarding the effectiveness of traditional policies, these schemes should be actively pursued. Government leadership will be necessary because the concept can be most effective in stabilizing employment if a large number of firms implement it more or less simultaneously.

Recommendation

3

Profit or revenue sharing as a component of total earnings of labour should be encouraged and the treatment of income from these schemes by Unemployment Insurance and Revenue Canada should encourage their introduction.

Economic Development Strategies

Since the late 1960s regional economic development policy has concentrated mostly on trying to attract large firms to the less developed areas of Canada. The primary instruments have been grants and loans to private enterprise, frequently with the amount of assistance tied to the number of jobs created. In addition, the Department of Regional Industrial Expansion and its various predecessors have provided grants and subsidies to provincial and local governments for building and upgrading infrastructure facilities, such as ports and roads, to assist in local economic development.

From the perspective of employment growth, the two most important elements have been the Industrial and Regional Development Program and federal-provincial Economic and Regional Development Agreements. The levels of assistance provided under these programs tend to be linked to local unemployment conditions. Under the Industrial and Regional Development Program, which deals directly with business, it is estimated that 32,000 jobs were created and 17,700 maintained during 1984/85 at a total cost of \$500 million.⁸ Since that program underwrites job creation in the private sector, those jobs are likely to last longer than those created by the short-term projects funded by the Canada Employment and Immigration Commission. Part of these expenditures is aimed at helping new firms to get started and existing firms to expand and modernize. The Nielsen Task Force revealed that in 1985 only 18 percent of the program's funds were granted to firms with

⁷“They built an oil refinery in the strait, a heavy-water plant down the road and one in Port Hawkesbury. But what they failed to do was put the brakes on in the rest of the country. They duplicated these in other parts of Canada with more political clout than we have here, so ours closed and they kept them going in Ontario.” (Cape Breton Island Building and Construction Trades Council, Glace Bay hearings)

sales of less than \$2 million.⁹ This suggests a certain bias toward the manufacturing sector and against the service sector of the economy. As shown in Chapter 2, between 1975 and 1982, over 50 percent of net employment growth was in businesses with fewer than 20 employees and two-thirds of all new jobs were due to the formation of new firms rather than the expansion of existing firms. Thus, providing industrial assistance to new and small businesses, including those in the service sector, would seem to promise greater growth in employment.

In terms of promoting regional economic development, the focus should be on increasing the productive capacity of the region rather than simply subsidizing firms to locate in that region. Analysis suggests that the Economic and Regional Development Agreements between the federal government and the provinces should concentrate on three areas. The first is encouragement of research and development and promotion of investment to enhance productive capacity. The second is development and improvement of infrastructures to help local governments provide better transportation systems, industrial parks and commercial sites, educational facilities, healthy urban cores and public utilities.¹⁰ The third is financial support for community economic development, which is another aspect of an overall employment strategy. A current Economic and Regional Development Agreement with Newfoundland includes that type of assistance.

"More and more communities are experimenting with small business incubators as a way to revitalize, to transform underused properties, to increase job opportunities, and to broaden the community's economic base." (Canadian Federation of Independent Business, written brief)

"An effort by Canada to provide proper infrastructure to allow a base for economic development in the North would stimulate private and public entrepreneurship and allow for the creation of jobs. The Unemployment Insurance regime, of course, would benefit." (James Bay Cree Corporation, written brief)

"Why not turn to other patterns of investment that would be community based, small scale, and labour intensive?" (Pat Kerans, Halifax hearings)

The Beauce

The small farms and countryside of the Beauce used to be one of Quebec's most economically depressed regions.

Bypassed by tourists, its forests depleted, its soil rocky, its roads poor, it was fast losing its young people to more prosperous regions.

In 1973, local businesses joined together and founded the Beauce Economic Council, a regional development organization.

The council began by urging local lending institutions to invest more in small business ventures, especially manufacturing plants that would create permanent jobs. At the beginning, the entrepreneurs did what they knew best: forest

products and food processing – industries already established in the region. After attaining considerable success, they have diversified into such areas as bicycles, truck trailers, and brand name shirts.

The Beauce is the home of Culinar, producer of Vachon cakes, and the Canam Manac Group which, besides being one of Canada's biggest truck-trailer manufacturers, supplies more than half the Canadian market for steel joists used in construction.

With a population of only 75,000, the Beauce now has 350 manufacturing industries, which annually pay \$100 million in wages and ship goods worth more than \$1.2 billion across the continent and around the world.

“Rather than taking the traditional job creation approach . . . look more in terms of developing an economic base. For instance, job creation monies go into non-traditional occupations. Here in New Brunswick a number of small entrepreneurs do not have the access to financial developmental monies that larger businesses may have.”

(Fredericton Anti-Poverty Organization, Fredericton hearings)

“We have, for example, a used-clothing store, for which after three or four years we have managed to get federal funding, but which was funded locally for start-up. ‘At Your Service’ is a restaurant-training program; ‘K-Team’ is a group of moms that have gotten together and are actually providing full-time employment now for approximately 30 persons a year.” (Regional Municipality of Ottawa–Carleton, Ottawa hearings)

“In Halifax, for example, construction and maintenance of adequate and sufficient low-income housing, community-based play areas and affordable daycare facilities are a few of the services that require human resources. Although in many cases, this work does not provide profits, there are existing examples of community development corporations and worker-owned cooperatives that have demonstrated the possibility of doing good work and good business simultaneously.” (Metro Action Committee for Employment, Halifax hearings)

“Many community economic self-help ventures, however, have in the past experienced two major problems which have hampered their success – lack of start-up capital and lack of technical expertise. Capital to invest is not easily found in communities facing chronic unemployment, underemployment and poverty, yet it is those same communities that most need economic development. The Coalition of Equality recommends that monies in the form of loans, loan guarantees, direct investments and grants be made available to communities wishing to undertake community economic self-help. We further recommend that these monies be administered through an appropriate financial institution which is made up of representatives of member organizations (communities seeking funds), is an autonomous body, and develops criteria for assistance.” (Coalition for Equality, written brief)

Community Economic Development

Successful community economic development initiatives are characterized by extensive involvement of the local community in identifying needs and potential markets, and in planning, evaluating and encouraging new ventures. Traditional government-funded job creation projects are too rigid for sound community economic development, which must be more responsive to the community. First and foremost, local involvement in identifying potential ventures and supporting them leads to jobs that become part of the fabric of the community. These ventures are the result of local enterprise and economic growth, and depend on the community’s continuing capacity to generate and to maintain business. They embrace both social and business growth, and can be a powerful tool in promoting community regeneration and self-reliance. An initiative of this type has been successful in regenerating communities such as the Beauce in Quebec (see box).

There is a great deal of community economic activity in Canada, but it is hampered by a lack of public understanding or support. In a recent report to the Canada Employment and Immigration Commission, the Canadian Council on Social Development identified about 500 organizations directly or indirectly involved with community economic development.¹¹ This Commission of Inquiry undertook a number of field trips and consultations to meet groups involved in community development. The Canadian Association of Threatened Single-Industry Towns, New Dawn in Nova Scotia, the Deh Cho Regional Council in the Northwest Territories, Riverborne (part of the Winnipeg Core Area Initiative)¹² and the Local Exchange Trading System (LETS) all demonstrate the potential impact of a more innovative approach to economic problems (see boxes).

Policy makers need to become more familiar with the role that such community development initiatives can play in an overall strategy to promote economic growth. These initiatives include two different approaches. One is a community or regional council approach where the local community actively plans and encourages economic activity. This approach frequently involves all levels of government, but the pivotal role is played by business and labour through their participation on the council. Their combined efforts are primarily directed toward encouraging business and new industry that can survive and prosper in the community. Communities such as the Beauce, Lynn Lake, Fort Simpson and Winnipeg’s core area are actively involved in this type of community economic development.

A second approach to economic development involves community development corporations, worker cooperatives and other legal entities especially created to foster economic development. These corporations are very different from the social animation approach to community development of the 1960s and ’70s, which concentrated on helping a community to identify its problems and then to “lobby” for change. They have specific objectives and are run as businesses to meet a community need.

There are sound reasons for a distinct community-based employment strategy to supplement but not to replace the industrial and regional strategy of the Department of Regional Industrial Expansion,

The Canadian Association of Threatened Single-Industry Towns

The Canadian Association of Threatened Single-Industry Towns grew out of a crisis facing two mining towns – Red Lake in Ontario and Lynn Lake in Manitoba. Since both towns faced mine closures, they decided to join together to deal with their similar problems.

Their partnership was then expanded to include all single-industry towns, regardless of the industry base. At a founding conference in Winnipeg in May 1985, 62 delegates from across Canada met to share their problems.

Goals and operating principles for this non-profit, grass-roots organization were developed under a basic mandate of

helping to provide a more secure future for people living in single-industry and resource-based communities in Canada.

The association offers a number of services, including a speakers' bureau, research on economic diversification and social issues, and studies on community impact. It has delineated the major problems facing single-industry communities as:

- lack of contingency plans by federal, provincial or local governments in the event of industry closure;
- lack of long-term plans for community development;
- lack of larger economic development strategies;
- overly complex regulations and procedures that make it difficult to use government programs; and

- slow government response to communities facing the crisis of closure.

The association has recommended a number of approaches to deal with these problems. To replace short-term response to individual crisis, it has developed a 37-point program. In this program government, industry, labour and advocacy groups work together on ways that single-industry communities can prepare for a healthier economic future. The association hopes, through the program, to convince people living in single-industry towns and resource-based communities that instead of turning to government to save their town, they must rely on their own initiative, commitment and long-term planning.

New Dawn: Business for People

Established in Cape Breton in 1973, New Dawn grew out of the Cape Breton Association for Co-op Development, which had in turn evolved out of frustration with the government's failure to attract industry to the area.

A local handicraft enterprise which operated out of several rented rooms in Sydney appealed for financial assistance to move to better premises. Because of the job creation potential and cultural value, the association decided to help.

An old store was available at a cost of \$60,000. Personal guarantees from members of the board of directors raised a \$40,000 credit union mortgage, and \$20,000 was borrowed from the bank. Various federal make-work grants funded renovations and improvements. Commercial space was rented on the first floor and eight bachelor apartments were constructed on the second floor. This income allowed the association to add \$20,000 to the mortgage and pay off the bank loan.

Besides being a worthwhile business venture, the project achieved several social objectives. It provided work for unemployed workers. It supplied financial support at a critical time, permitting the continuation of a thriving craft enterprise. And it supplied better housing and more attractive commercial facilities in a section of the city that was deteriorating.

A further result of this project was the creation of New Dawn, which was incorporated in 1976. The Cape Breton Association for Co-op Development was maintained as a subsidiary, and since it now owned \$200,000 worth of property it concentrated on housing and construction.

By 1979 New Dawn had become a conglomerate with over \$1 million in real estate, including two dental centres, a group home for the post-mentally ill, a senior citizens' home and a senior citizens' resource centre. It employed about 30 people. In 1984, the housing construction program alone amounted to more

than \$2 million. By 1985 assets were nearly \$10 million. New Dawn now has a legal structure which includes three separate corporations for business, social and cultural ventures, with a chief executive officer and managers for each of its various departments. The conglomerate is presided over by an unpaid volunteer board of directors recruited from the community. From its inception, New Dawn has tried to recruit people who combine technical competence and social conscience.

After 10 years, New Dawn continues to wrestle with its goal of reconciling economic and social objectives. Although the corporation is not for profit and is particularly concerned with the social and cultural needs of the community, it accepts only those projects which seem economically viable. To date it has been successful.

The Winnipeg Core Area Initiative

In 1981, federal, provincial and municipal governments launched the five-year Winnipeg Core Area Initiative. At the time, the 100,000 residents of Winnipeg's 10-square-mile core area were plagued by inner city problems typical of large North American cities.

A thousand projects were launched under three main program areas:

- Education, training and employment – budget of \$15.4 million plus \$42.8 million complementary funding, largely through the Canada Employment and Immigration Commission for job training and employment creation.
- Strengthening inner city neighbourhoods – budget of \$30.5 million plus \$73.7 million complementary funding, largely through Canada Mortgage and Housing Corporation for home repairs; building non-profit and cooperative housing; and creating

and improving community facilities such as daycare centres.

- Promoting economic growth through key site development – budget of \$45.5 million, plus \$202.7 million complementary funding in assisted or auxiliary development for loans to small businesses; industrial development; rehabilitation of heritage buildings; and Chinatown development.

The \$96 million core budget was contributed equally by the three levels of government, which were all involved at both policy and implementation levels. Besides the improvements accomplished under its projects, this urban renewal megaproject had beneficial results in three general areas.

First, it levered and focussed unprecedented levels of public investments, and was able to integrate and rationalize the funds more efficiently than if there had not been a central, unifying framework. In addition, it attracted

several other multi-million-dollar projects to the Winnipeg area, such as a National Research Council building and an Air Canada complex.

Such large undertakings fostered the second benefit, the creation of private sector confidence and investment. The business community invested at least \$200 million in commercial and residential development.

The third benefit was on the human side; many more Winnipeg residents now had skills, jobs and a healthier, more prosperous place to live.

The program has not been an unqualified success. The involvement of three levels of government and the breadth of objectives resulted inevitably in compromises. Nonetheless, Winnipeg's Core Area Initiative is being studied by European and U.S. policy makers as a unique example of an urban revitalization strategy undertaken by three levels of government.

The Local Exchange Trading System

The Local Exchange Trading System (LETS) was established in the Comox Valley in 1983 by Michael Linton as a way to revive the economic stagnation resulting from high unemployment.

It overcomes the limitations of an ordinary barter system which operates on a one-to-one basis by creating a pool of community currency that participants can draw on. Participants pay a \$25 entry fee. They can then trade goods or services on the community market, selling or buying in a combination of real dollars and so-called "green dollars," which are

the system's own currency. All transactions and items in demand or on sale are logged into a central computer so that traders can "bank" their credits toward future purchases.

For example:

- An electrician buys a cord of firewood from a woodlot owner for Green\$20 and Can\$15.
- The woodlot owner uses Green\$15 and Can\$15 to pay a roofer for repairs to his house.
- The roofer orders a hand-made sweater from a craftsperson, paying Green\$30 and Can\$20.

- The craftsperson pays the electrician Green\$15 and Can\$20 to fix her stove.

The LET system works well in small communities because it encourages an interdependent local company. Retail businesses are, however, reluctant to participate in the system because they depend on non-local suppliers and have commitments to other facets of the conventional economy.

Six hundred persons participate in the Comox Valley system. Ten other B.C. communities have been operating their own systems for about two years; new LET systems are being started in several cities in Canada and the southern United States.

The British Enterprise Allowance Scheme

The British Enterprise Allowance Scheme, introduced in 1982, is open to anyone 18 years and older who has been unemployed for 13 weeks (or on notice of redundancy) and is drawing unemployment or supplementary benefits. Participants receive a weekly allowance of £40 for one year and are eligible for three free business counselling sessions. To be eligible, participants must create a new and independent business, toward which they have £1,000 of their own money to invest and on which they agree to work full time. Seventy percent of participants experience an increase in weekly benefits on the scheme; 30 percent experience a decrease.

By June 1985, 88,000 persons had participated in the scheme. Twenty-six percent of participants were under age 25 and 23 percent were women.

The most popular business structure was a single-person enterprise, followed by a two-person partnership. The service sector attracted the most participants (65%), and the strongest occupations were construction (16%), retail trade (16%), and goods and vehicular repair (12%).

On average, after six months on the scheme, for every 100 businesses set up, another 45 jobs were created, approximately half of which were full time. After 15 months this rate increased to 68 jobs.

Most of these additional jobs were created by a small proportion of the businesses.

It is estimated that half the entrepreneurs would have set up businesses without the scheme. Of those who completed the first year, 86 percent were still in operation after 15 months. The most successful group were older men who had experienced relatively short periods of unemployment. Almost two-thirds of closures after one year's business occurred when the allowance was cut off. Most frequent reasons given for cessation of business were lack of demand for goods and too much competition.

The Canadian Jobs Strategy: Current Initiatives

In 1985 the Canada Employment and Immigration Commission responded to criticisms levelled at its previous programs by reorganizing a panoply of federal job-training and job creation programs into the Canadian Jobs Strategy. The new program is meant to address the fundamental structural issues of the economy and the labour market, in contrast to the previous focus on short-term, cyclical problems. The six components of the new strategy have a projected budget of \$1.6 billion for 1986/87. They are:

A Job Entry Program: a program to help young people who have not completed secondary school and women who have been out of the labour force for at least three years. The program subsidizes institutional and on-the-job training and work experience. It offers a combination of training and work experience of up to 52 weeks for skills in demand locally.

A Skill Investment Program: a program to assist workers whose jobs are threatened because of new technology. It supports the full-time or part-time retraining of currently employed and self-employed workers in occupations and industries threat-

ened by structural change. Training to meet local and regional demand for skills can last up to three years, with training costs and wages subsidized by the federal government.

A Skill Shortages Program: a program to train unemployed workers in skills for which there are existing or anticipated shortages on a regional or national basis. The program involves on-the-job training with private sector employers. It offers up to three years' assistance to employers to retrain their workers for skills in short supply. Where no employers are available, the government supports training programs in institutions.

A Job Development Program: a program to help the long-term unemployed find permanent jobs. It offers training and work experience with private sector employers to improve the labour market potential of the long-term unemployed. It combines wage subsidies with contributions to training and capital costs for up to 52 weeks.

A Community Futures Program: a program to help workers in specially designated declining communities. This program operates through a local Community Futures Commit-

tee, which provides "one stop shopping" for access to the whole range of options within the Canadian Jobs Strategy. These include: a \$180-a-week self-employment incentive; a business development centre (similar to the former Local Employment Assistance and Development program) that will make loans to small business; the purchase of institutional training; relocation assistance; and a community initiatives fund which can be used to mount demonstration projects.

An Innovations Fund: a fund to be used for stimulating new ideas, pilot programs and experiments that will lead to jobs.

In addition to the above initiatives, the federal and provincial departments of employment and social welfare have been working together to improve coordination of job possibilities for those on social assistance. Recipients of social assistance have too often been denied access to employment and training programs because of severe restrictions on earnings and training allowances under the Canada Assistance Plan. The new federal-provincial initiatives will give them greater access to the range of programs in the Canadian Jobs Strategy.

which is aimed at the private sector. Private businesses cannot make it their primary objective to provide jobs and be fully oriented to the community – although many do so as part of their vision of good corporate citizenship. To survive, they must make a profit and remain competitive. Community businesses, on the other hand, may have as a primary objective the improvement of economic and social development and employment in the community. While they must be governed by sound business practices, they need some encouragement and assistance to support their objectives of maximizing employment.

Community businesses frequently require government financial support at the outset. That support could be provided from part of the funds released by the proposed phasing-out of regionally extended benefits. Community economic development is a legitimate form of business development. Experienced field officers may be needed to help communities establish economic development corporations or councils, but assistance should be provided in a way that encourages rather than destroys the community development process. As community economic development structures gain maturity, the federal government might help them make the transition to other sources of funding, perhaps through such vehicles as loan guarantees for private lenders, as is done in more traditional approaches to business development. To be most effective, these initiatives should involve all three levels of government. The fundamental principles of community economic development must be observed, however, and financial support should not have inappropriate strings attached.

The Community Futures part of the Canadian Jobs Strategy, described earlier in this chapter, appears on the surface to be much in keeping with these proposals. It may, however, be too limited geographically. The first Community Futures Committees are now being established and seem to cover an even smaller geographical territory than the former Local Economic Assistance and Development program. While community economic development must be supported in economically declining areas, there is a need for a funding mechanism to grant assistance to all communities. Unemployment is not restricted to a few declining communities; it is general. Moreover, certain aspects of the Community Futures program, such as its self-employment incentive, should be made readily available across Canada. France and Britain have successfully adopted a similar proposal (see box).

“Fostering the start-up and growth of local enterprises that are rooted in the community is the only hope for permanent employment in those regions of Canada currently enduring high unemployment levels. Furthermore, such policies seem far more humane and socially responsible than ‘encouraging’ migration out of the regions.” (Canadian Federation of Independent Business, written brief)

“Based on certain experience of European communities in recent years, municipalities could begin to adopt local economic development programs that attempt to plan new types of industries in their communities, and attempt to ensure that investment is put to productive use, meeting both municipal and local needs and the long-term growth needs of the economy.” (Social Planning Council of Metropolitan Toronto, Toronto hearings)

“We see the changes needing to be linked to job training and skill development programs to allow recipients to use the fund to start new ventures or something that is in fact economic activity for self-sufficiency or self-employment or new business opportunities.” (National Council of YMCAs of Canada, written brief)

Recommendation

- 4** An industrial and regional development strategy should be designed with the following characteristics:
- A substantial proportion of regional and industrial assistance should be directed to new and to small businesses, including those in the non-manufacturing sector.
 - Community economic development initiatives should be funded, at least in part, from funds released by phasing out regionally extended benefits. They should be undertaken in a manner that ensures local control and should be widely available to communities in Canada.
 - Initiatives that assist the unemployed to start their own business enterprises should be encouraged.
-

Job Creation: The Best of Intentions

Since the 1930s, governments have established programs with the express purpose of creating jobs.¹³ The “relief camp” or “job corps” approach grew out of the Great Depression. In the early 1950s, job creation reappeared in the form of the federally funded Winter Works program. The strong economic recovery of the 1960s made direct job creation a rarity, but from 1971 to 1979 a total of some \$1.9 billion was spent on federal direct job creation programs. This total does not include tax expenditure programs and other measures designed to create employment in the private sector, such as training programs. About a quarter of a million person-years of employment were created, at an average cost of \$7,500 per person-year. The major portion of the funds over these years, around \$1.3 billion, supported short-term employment created through Canada Works-type programs. Roughly \$350 million was spent on summer youth-oriented programs and only about \$180 million on programs excluding Canada Works and summer programs with long-term objectives. A total of \$945 million was spent in 1983/84, and program expenditures reached a peak in 1984/85 with total spending of \$968 million.¹⁴ Spending on Canada Works alone amounted to almost \$600 million in 1984/85.¹⁵

Responsibility for these job creation programs has been shuffled among several government departments at different times, but in recent years it has rested with the Canada Employment and Immigration Commission. Job creation programs have come in all shapes and sizes, and have attempted to address a large number of specific problems. The programs have always been considered a “temporary” response to an unemployment crisis and funds have been continually reallocated to direct job creation, in spite of increasingly widespread recognition that these programs had little success. The program names and objectives changed constantly as staff in Ottawa and in the regions struggled to meet the needs of jobless Canadians. The most important programs have been the Local Initiatives Program and Canada Works. Both these programs have now been subsumed under the new Canadian Jobs Strategy (see box).

Until very recently, job creation projects have been used primarily to counterbalance high unemployment rates and economic depression in various regions. Newfoundland, for example, has relied increasingly on federal job creation projects to provide income. In many years, the money spent to create jobs in that province has almost equalled the federal contribution to social assistance benefits under the Canada Assistance Plan.¹⁶

Furthermore, job creation expenditures have increased dramatically without a parallel increase in the number of jobs created. These increased expenditures have not improved the employability of participants as an evaluation of Canada Works makes abundantly clear.¹⁷ It found no significant impact on the long-term employability of participants, although there were some short-term benefits. In the longer term, for example, Canada Works had no discernible impact on either the wage rates or the incomes of participants. Furthermore, although

“I believe that short-term job creation is immoral. It is treating people like things. It is herding people through a shuttle bus of make work, UI, make work, UI, to avoid the welfare system. I think the approach lacks honesty, dignity, realism and basic human caring.”
(Pastoral Institute of Northern Ontario, Sudbury hearings)

“There can be long-term value in direct job creation if the jobs created are long term and if they pay adequate amounts. They allow community groups to hire people to do constructive and socially useful activities. They provide people with a means of income that allows them to purchase goods and services, and allows people the dignity of knowing they are using their talents to provide services the community determines are needed.” (Saskatchewan Association on Human Rights, written brief)

“One of the things that we have observed is the number of sources of job creation funds. The UI program provides funds for this purpose; DRIE provides funds; the Province provides funds; the Department of Fisheries provides funds. All these pots are out there in various forms to do different things. One wonders how effective the overall culmination of these actions is.” (Fredericton Anti-Poverty Organization, Fredericton hearings)

“Statistics show that this program area does not create jobs, because the jobs usually disappear when funds dry up.” (Alberta Teachers' Association, Edmonton hearings)

“Direct job creation programs have been expensive, poorly targeted and largely ineffective in remedying problems of disadvantage in the labour market.” (David Berger, MP, Laurier, Ottawa hearings)

“Government make-work projects offer no long-term value. They are similar to extended UI benefits and work-sharing programs in that they provide only temporary solutions for Canada’s unemployment problems. In addition they are very costly in both monetary and human terms.” (Machinery and Equipment Manufacturers’ Association, written brief)

“There is virtually no coordination or cooperation between programs, whether between governments or within the same jurisdiction. Threads of connection can be found between, for example, training and education, job placement and Unemployment Insurance, social assistance and other responsibility areas, but these threads are fragile and seem almost purposely hidden.” (Community Service Employment Cooperative of Regina, Regina hearings)

employment increased in length, so also did unemployment spells. While job creation initiatives may be evaluated internally, these evaluations are not publicly available. This seriously hampers the dissemination of good ideas. In contrast, most job creation projects in the United States have funds set aside for independent external evaluations and their publication. This approach should be instituted in Canada.

As early as the mid-1970s the Economic Council of Canada noted that almost all of the approximately 250,000 short-term jobs created through the Local Initiatives Program were subsequently terminated and the participants, originally drawn from the “hard-to-employ,” returned to government income support, either Unemployment Insurance, social assistance, manpower training allowances, or combinations of these.¹⁸ Thus, job creation programs simply added another link in the temporary labour market, but did not break down barriers to better-paying, more highly skilled jobs.

There are three major problems with short-term job creation: the nature of the programs themselves; the intergovernmental difficulties that arise in coordinating federal, provincial and municipal efforts at the local level; and the fact that funds are allocated on a constituency basis.

Inherent in the very nature of short-term job creation programs is the fact that they are subject to changing federal priorities. The result is that it is virtually impossible to plan and commit funds for the longer term. This problem, compounded by inadequate knowledge of local conditions and the difficulties of coordinating projects that span the mandate of more than one department, hampers efforts to achieve success. Finally, there is the pervasive notion that job creation projects should be just that – discrete, easily identifiable projects with but a single goal. For a sponsor to suggest anything more complex is to court rejection of an application for funds.

The second major impediment to success is the lack of adequate coordination among the various levels of government. Over the years, short-term job creation programs like Local Initiatives and Canada Works have not only provided certain disadvantaged participants with jobs but have also provided services to the community. For example, several day-care centres were run under the Local Initiatives Program. The short-term programs met a need for these services and when the federal funding ran out, the other levels of government faced political pressure to continue providing services about which they had not been consulted, and which, in some cases, ran counter to established local priorities. This created problems and a degree of resentment that proved to be an obstacle in subsequent negotiations between the federal government and the provinces.

Over and over in the public hearings, the disbursement of job creation funds was described as “too political.” In the Canada Works program, for example, funds were allocated on a constituency basis, based on the local level of unemployment. The higher the unemployment rate, the greater the amount allocated to job creation programs. Local advisory committees determined priorities within constituencies and the local Member of Parliament gave final approval for projects in various

communities. The Member faced tremendous pressures from many constituents and groups, often with the result that a large number of projects with limited funding was approved, and the community was unable to undertake one really worthwhile project. The community hall received its seventh coat of paint in ten years but the community could not afford its operating costs. Since job creation programs are federally funded, the pressure on Members of Parliament increases when other employment alternatives are not available, and rises and falls with fluctuations in Canada's economic activity. In chronically depressed regions, with a disproportionate share of unemployment, pressure for continuing job creation or make-work programs is the norm.

In attempting to meet the objective of human resource development, programs to provide on-the-job training and work experience have been made available to those with employment disadvantages, those entering the labour force for the first time, and those re-entering the labour force after several years' absence. It is inappropriate to tie these programs to short-term job creation; they should be a permanent part of Canada's employment strategy. The participants should not, however, be a permanent part of the program. After a suitable training and job development period, they should be expected to enter public or private employment, which could include new jobs created through community economic development. The Canadian Jobs Strategy places responsibility for these special cases within two programs: Job Entry and Job Development. The program's exclusive reliance on the private sector may not be appropriate. Human resource development would be far more effective if its funds were directed primarily to community non-profit organizations that establish businesses to provide the participants with training and employment experience. Since the training and employment opportunities will need to be subsidized permanently, this type of development activity is more appropriate to the non-profit sector. Private sector enterprises, with the pressure of the bottom line, may find it difficult to provide much training to the disadvantaged unless they are given contracts for that purpose.

On occasion, direct job creation strategies have been aimed at creating more permanent jobs. The Local Employment Assistance and Development program was designed to help the long-term unemployed start their own businesses by providing three years of initial funding, after which the business had to support itself. The funds were given to specially established community corporations to help them deal with local economic problems, to finance community enterprises, to provide technical assistance and start-up funds to small businesses, and to assist in local infrastructure projects. This program differed markedly from contracyclical programs such as Local Initiatives and Canada Works in that federal funds were available for several years. The Nielsen Task Force, after reviewing job creation, training and employment services, recommended that the Local Employment Assistance and Development program be transferred to the Department of Regional Industrial Expansion and treated as a component of industrial policy.¹⁹ That proposal raises some concerns. Programs of this type, with a community

"I just want to say that in 1982 when the Canadian government first came out with this temporary job creation program for UI recipients, I knew it wouldn't work. I just knew that people would not go back to work for an extra \$100 a week. I have been proven wrong. I believe in particular the younger recipients of UI want work experience. There isn't regular work experience for them and this has proven to be of great benefit to them." (British Columbia Forest Products Ltd., Vancouver hearings)

"We have tried to encourage young people to look at job creation in what I consider to be a truer sense, not job creation in the sense that we will have 20 weeks of employment to do something and then it will end and you will be able to go on UI; but to look at job creation in the sense of, is there an idea that you have that you could develop with some assistance? Youth are a little hard pressed to do that because of their lack of experience. But we are exploring some of those possibilities." (Metro Action Committee for Employment, Halifax hearings)

"I think it is also important to understand that sometimes these short-term make-work projects do result in permanent employment. It does sustain a thing which I think is pretty strong in this province, among the people of this province, and that is the desire or the ethic to work. You can lose that if you are without work for very long." (Government of New Brunswick, Fredericton hearings)

focus, are quite different from those programs now administered by that department which are designed for the private sector.

The goal of industrial policy should be to make Canadian industry the best that it can be – to produce competitively the maximum of goods, services and therefore wealth for the nation. A strong position in international trade will provide the economic base to foster the growth of employment opportunities such as those in local businesses, in education and in social and health services. Investment in community economic development, however, holds promise as an alternative to traditional programs. As community economic development is a mix of economic/business development and social/public services, it requires a different orientation on the part of the federal bureaucracy – one that is more community oriented than the current program within the Department of Regional Industrial Expansion and more long term and business oriented than programs within the Canada Employment and Immigration Commission.

“The UI/JC program was an unquestionable success in various forestry regions in Canada. The program is clearly an excellent medium for dealing effectively with unemployment in the forest sector. The program exceeded its short-term employment objectives by 50 percent. The UI/JC program achieved its objectives by providing gainful employment for recipients of UI benefits, stabilizing work forces in communities with high unemployment levels, and accomplishing meaningful activities that will yield further long-term economic benefits for Canada. Its benefits to unemployed workers included valuable experience in forestry, the maintenance or improvement of skills, an income and a sense of fulfilment.” (Canadian Forestry Service, written brief)

“I am speaking for the native population. UI, like social assistance and job creation and in some sense like Canada Works, for some of the clients that I deal with, has created a dependency. People say ‘I am going to get a job on a project and work for 10 or 20 weeks, or whatever you need for UI’. I find in a lot of people that that seems to become a mentality where they continually think that way.” (New Brunswick Association of Métis and Non-Status Indians, Bathurst hearings)

The Impact of Job Creation Programs and Unemployment Insurance on the Labour Market

Throughout the public hearings, participants expressed strong criticisms of such make-work jobs as cleaning up garbage along highways. The reaction was favourable, however, to jobs that provide long-term value to the community, such as reforestation projects.

Job creation programs are targeted to areas of high and continuing unemployment. As noted by the Macdonald Royal Commission, “A disproportionate share of unemployment is generated by Canada’s seasonal industries, often concentrated in depressed regions, and by individuals with unstable work attachment in all industries and regions. For this reason the income-security problems of many Canadian workers are intimately tied to the seasonality of economic activity.”²⁰

The Macdonald Royal Commission cites a study of the effect of Unemployment Insurance provisions in Newfoundland and Alberta which indicates that, “if the ‘generosity’ of the program in high unemployment regions were extended to the whole of Canada, the extent of unemployment and short-term employment would increase significantly.” It concluded “that the main differences in regional unemployment stem from the fact that individuals in regions of high unemployment rates experience many short periods of unemployment as compared to the other regions.” This in turn led them to the view that the Unemployment Insurance program “reinforces the concentration of unstable and short-term jobs in regions with high unemployment and a heavy concentration of seasonal industries.”²¹

The fact that unemployed persons may obtain as many as 42 weeks of Unemployment Insurance benefits after a 10-week attachment to the work force makes short-term job creation projects an attractive source of support to individuals and to the local economy. It may also retard

migration from high unemployment regions to areas where jobs are available. Out-migration from high unemployment areas declined from 1971 onwards. While other factors may have contributed, the fact that this coincides with the inclusion of regionally extended benefits in the Unemployment Insurance program suggests that the availability of these benefits was a contributing factor.²²

In addition, over the past 10 to 15 years, the Canada Works program has been used to qualify participants for Unemployment Insurance benefits, thus simply moving persons from one program to another. Long-term benefits from a short-term work attachment can lead to a cycle of dependency. The interaction of job creation programs and the Unemployment Insurance program may inhibit adjustment to changes in the labour market. This issue is dealt with more fully in Chapter 4.

Recommendation

- 5** Short-term job creation programs should be eliminated and the funds redirected to longer-term employment programs. These programs should:
- focus on jobs with a long-term value to the participant and community, rather than on short-term make-work jobs;
 - eliminate the constituency basis of funding; and
 - set aside a portion of program budgets for analysis by independent researchers to determine whether their objectives have been met. The results of these evaluations should be available to the public.
-

"We've dealt with Section 38 here in Hamilton to a great degree. We found that the program is not working, cannot work in our industry, and imposes all kinds of injustices on workers. For the most part we were forced into positions of working under that program by virtue of a contractor being a part of that program, in his bidding for the project that he goes on to from it." (Hamilton-Brantford, Ontario Building and Construction Trades Council, Hamilton hearings)

"NUPGE does not accept the use of unemployment job creation funds to disguise the phasing-out of valuable public services which result in the loss of jobs to our members." (National Union of Provincial Government Employees, written brief)

"The use of these programs was to get work done at a cheaper cost at the expense of the construction tradesmen, who were . . . used as a stopgap to give the impression that you were putting a lot of people to work where, in effect, they were putting people to work at a lower rate and subsidizing the people who would be getting the work done anyway." (Essex and Kent Counties Building and Construction Trades Council, Windsor hearings)

"We feel that the best use of UI funds is to maximize a person's opportunities to obtain permanent employment, and the jobs created under Section 38 do not serve this purpose." (Canadian Bankers' Association, Toronto hearings)

The Role of Unemployment Insurance in Job Creation: Projects under Section 38

Under the authority of Section 38 of the Unemployment Insurance Act, the Canada Employment and Immigration Commission may provide Unemployment Insurance benefits to participants in approved job creation projects for the duration of the program and up to six weeks after the project ends. The private employer in charge of the project can top up the benefits so that workers are paid at the going rate for the type of work undertaken. Unemployment Insurance recipients are under no obligation to accept work on these projects and are not disqualified if they refuse. Work on a Section 38 project is not considered insurable employment. The purpose of Section 38 is to extend the benefit period and provide some additional income above Unemployment Insurance benefits.

Section 38 projects are only a small part of job creation funding and totalled only \$60 million in 1984/85. Funding for extended benefits for participants on Section 38 projects is from general government revenue. Although some excellent projects funded under Section 38 provide meaningful work for those who are skilled and unemployed, there are a number of problems. The different rules, regulations and reporting requirements governing Section 38 projects may require a management group to help persons apply for and administer funds. Funding is short term, permitting only short-term planning. Artificial deadlines are set for completion of the project and no overtime is allowed. Personnel must be replaced at the end of their Section 38 funding and new personnel must be trained. Finally, many view this program as a wage subsidy that benefits the employer who can hire subsidized workers rather than paying the going rate. The problems faced by the claimant are illustrated in the profile which follows this chapter.

The most significant problem with Section 38 is that the use of Unemployment Insurance funds for job creation is not appropriate for an insurance program, no matter how worthy or successful a project may be. These projects should be funded directly by the federal government and should be available to all citizens, but not through Unemployment Insurance and not restricted to recipients of Unemployment Insurance benefits. Not only would this arrangement protect the integrity of the Unemployment Insurance program, but it would make these funds available to a wider group of the unemployed. In many cases, those who have exhausted their benefits might well be more in need of that assistance than those still receiving them.

Although some worthwhile projects are funded under Section 38, the balance of the arguments suggests that job creation funds should not be channelled through Unemployment Insurance.

Recommendation

6

Section 38 (Job Creation) of the Unemployment Insurance Act should be rescinded.

Summary and Conclusions

"We need jobs, not UI!" was a slogan heard often at the public hearings. Certainly no blueprint for Unemployment Insurance, or any other social program, can be satisfactory unless it takes into account the fact that, generally, Canadians want to work.

Is full employment a reasonable objective? Can it be translated into an operational policy? The issues at the heart of the debate include the impact of fiscal and monetary policies on investment, productivity and employment; the interdependence of the Canadian economy with those of other countries; the relationship between inflation and unemployment; and the influence of expectations regarding wages and prices. The problem of entering the debate is that it tends to become theoretical and to focus on identifying the most acceptable level of the measured unemployment rate, rather than seeking practical ways to reduce the current level. Bringing unemployment down even a few percentage points would have a significant beneficial effect.

Economic growth is the engine that generates employment opportunities. The objective of full employment is implicit in the discussion of employment growth and job creation, but this objective cannot be defined as reducing the unemployment rate to a specific percentage. Rather it is to reduce the overall problems resulting from the present imbalance between supply and demand in the Canadian labour market.

This chapter has considered the prospects for employment growth. Canada must take immediate steps to put in place the ingredients essential for bringing about "full employment." This includes planning for economic growth and sound macroeconomic management of the economy. It also includes trying new approaches, such as the increased participation of workers in profit sharing. It will entail some wrenching shifts in program priorities, attitudes and assumptions.

Parallel with steps to promote economic growth, a community economic development strategy is needed to give people control of their own destiny. The needs of communities and individuals can more easily be met at the local level, and there are promising new developments taking place in communities where Canadians have decided to take their futures into their own hands. These people should be given support and encouragement, and government assistance should be carefully designed in order not to control or stifle their initiative.

For years, the federal government has, with the best of intentions, tried to reduce unemployment and to help individuals and communities by creating short-term jobs on make-work projects and programs run from Ottawa. It has not changed anything in the long run, except to create dependency. All short-term direct job creation efforts should be dropped in favour of an employment and community economic development strategy. The Unemployment Insurance program is not an appropriate vehicle for the delivery of job creation policies. All of the

"The UI program should no longer be used as an ad hoc means of solving any type of labour market adjustment problem. Separate and distinct government programs should be developed for such purposes as that of job creation and retention, training and retraining, mobility, and work sharing. The government should . . . immediately concentrate its efforts on a massive job creation program to help reduce all forms of unemployment, and stop using UI reform as one of the tools of artificial unemployment reduction."

(Vancouver and District Labour Council, Vancouver hearings)

"Some of these job creation programs pay up to 85 percent of salaries. Why would employers pay full salary when they can get workers and pay only 15 percent of their salary? We have watched many of our unemployed workers going through these job creation projects. The majority always end up back at square one – no job." (Unemployment Help Centre, Kingston, Ottawa hearings)

unemployed, and not just those unemployed workers who qualify for Unemployment Insurance, should have access to these programs. Furthermore, the inclusion of job creation within the Unemployment Insurance program – even though it is funded by general revenues – distorts the perceptions that the public has of the program.

The employment development strategy proposed in this chapter is a marked departure from the past. The policy of valuing job creation above all other considerations has not served us well. In future, regional and industrial economic development funds should be concentrated on the development of entrepreneurs and on the promotion of competitive enterprises. In the long run, that approach will create more lasting jobs.

Notes

- 1 Grady Economics & Associates Ltd., "Full Employment," research study prepared for the Commission of Inquiry on Unemployment Insurance, 1986 (unpublished).
- 2 Organisation for Economic Co-operation and Development, *OECD Employment Outlook* (Paris: OECD, 1985), p. 125.
- 3 Ibid.
- 4 Grady Economics & Associates Ltd., "Full Employment."
- 5 Monica Townson, "The Segmentation of Labour Markets," research study prepared for the Commission of Inquiry on Unemployment Insurance, 1986 (unpublished).
- 6 M. L. Weitzman, "Profit Sharing as an Antidote for Canadian Unemployment," research study prepared for the Commission of Inquiry on Unemployment Insurance, 1986 (unpublished).
- 7 Ibid.
- 8 Canada, Department of Regional Industrial Expansion, *Industrial and Regional Development Program Annual Report 1984-1985* (Ottawa: Minister of Supply and Services Canada, 1985), Tables 4, 9.
- 9 Canada, Task Force on Program Review (Nielsen Task Force), *Services and Subsidies to Business* (Ottawa: Minister of Supply and Services Canada, 1986), p. 107.
- 10 Many communities need to repair and replace existing infrastructures. This work is labour intensive and can create many worthwhile jobs. A recent study by the Federation of Canadian Municipalities suggested that investing \$12 billion over a five-year period would create 45,000 to 60,000 jobs per year (*Municipal Infrastructure in Canada*, Ottawa: The Federation, 1985).
- 11 David P. Ross, "Report on the Feasibility of a Project to Develop an Active Inventory of Local Economic Initiatives in Canada" (Ottawa: Canadian Council on Social Development, 1986).
- 12 Lionel Orlikow, "Municipal Government in Job Creation: The Case of Winnipeg," paper presented at the Symposium on Policies for Full Employment, Ottawa, November 29, 1985; and Matthew Kiernan, "Coordination for the City Core," *Policy Options 6* (September 1985), pp. 23-25.
- 13 Economic Council of Canada, *In Short Supply: Jobs and Skills in the 1980s* (Ottawa: Minister of Supply and Services Canada, 1982), p. 3.
- 14 Internal data from the Canada Employment and Immigration Commission.
- 15 Canada, Department of Employment and Immigration, *Annual Report 1984-1985* (Ottawa: Minister of Supply and Services Canada, 1985), p. 27.
- 16 David P. Ross, *Report on the Income Security System in Newfoundland*, prepared for the Newfoundland Royal Commission on Employment and Unemployment (St. John's: Queen's Printer, 1986).
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- 19 Canada, Task Force on Program Review (Nielsen Task Force), *Job Creation, Training and Employment Services* (Ottawa: Minister of Supply and Services Canada, 1986), p. 67.
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Serge Martineau, Audio-Visual Communications Specialist, Montréal, Quebec

Mr. Martineau discusses the inequities of wage subsidies and the dead-end nature of many job creation programs.

After I got my bachelor's degree in communications, I was lucky enough to get a one-year contract as a radio producer right away. Unfortunately, after six months my job ended because of budget cuts and I ended up on Unemployment Insurance. At first, in spite of everything, I was still euphoric about having found a job so soon after finishing school. I thought it wouldn't take me long to find another. I lost my illusions when I tried to get grants from public cultural organizations to produce broadcasts with my own radio equipment . . . For me, Unemployment Insurance represented a temporary stage before finding another job in communications. I gradually became less optimistic and began to realize that it might be difficult to find work in my profession as a producer.

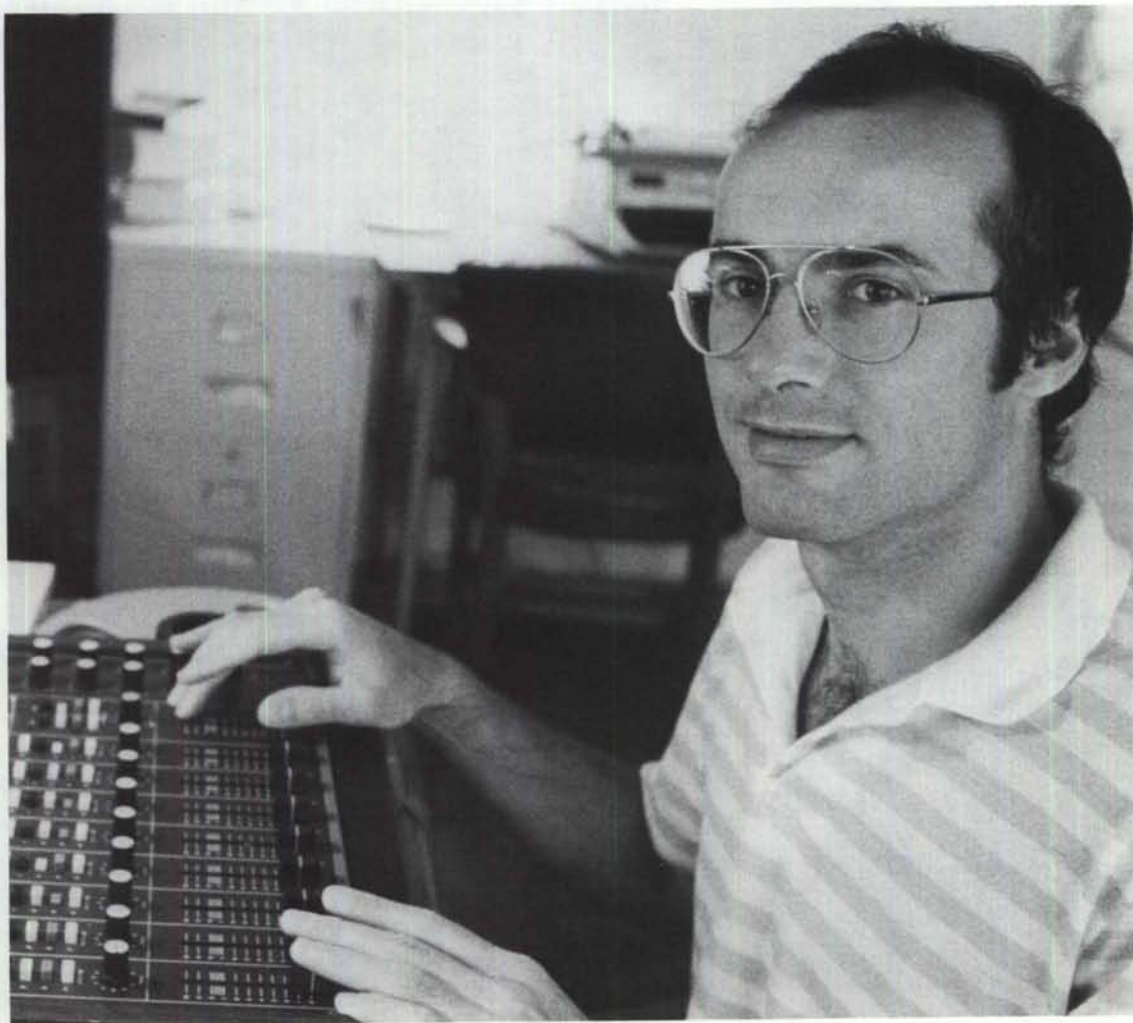
One day, out of the blue, the Employment Centre for Professionals and Executives suggested I apply for an unskilled job as a technical assistant in electrotechnology in a local NEED^a project. That meant going from being a producer, supervising technicians, to being their errand boy.

In spite of everything I accepted the job, with

the idea that I could find a way to carve out a place for myself in the company. But, even if there had been a position open, it wouldn't have done any good since, according to the personnel manager, the company hardly ever recruited from the outside when a position became vacant and my experience on the NEED project didn't count. The job lasted six months. After that, I took courses, worked for a community radio station and worked in various temporary help jobs. At present, I am a housecleaner.

What about the future? . . . I am eligible for loans and bursaries and I'm going back to school to study management-data processing.

I still resent the way Employment and Immigration treated me. You see, the job they found me paid less than the going rate. I was paid \$210 a week, \$71 less than other employees performing the same duties. Why? . . . Simply because the others were regular employees and I was hired temporarily through the NEED program sponsored by Employment and Immigration Canada. This program in fact helped the employer to lower wages for other employees . . . Another participant in the NEED project was a former employee who could get his contract renewed only under the NEED program, and so earned \$71 a week less than he got before.



You might say it's better to earn \$210 a week than to be on UI . . . and in theory, it is. However, when benefits amount to \$218 a week, there isn't much incentive to go to work for wages of \$210. In fact, the loss is greater than \$8 since more deductions are taken off wages than off Unemployment Insurance benefits, and that's not counting work-related expenses like clothing, transportation and food.

Employment and Immigration Canada should be better managed, with more coordination between job creation and Unemployment Insurance programs. They should work it out so that a claimant who goes back to work and stops receiving benefits doesn't have his income reduced, as I did.

a National Employment Expansion and Development program.



Belinda McLean, Nova Scotia

Ms. McLean expresses the anxiety of unskilled workers who cannot find and hold a steady job. She is like many who are at high risk of being unemployed for much of their lives.

I had my son when I was 17. I couldn't get welfare until I was 19, so we lived with my mother until I finished high school. I'm 20 now and I have a one-bedroom apartment in a block with a lot of other single mothers on welfare.

I'd like to get off assistance. It's terrible. All of us are afraid to ask any questions, because whenever somebody does they get cut off. Your word means nothing. If they say you have a man, you do, and they cut you off.

I've never been on Unemployment Insurance because every time I do get a job it doesn't last long enough for me to qualify.

The last time I worked was when I went through the program at the Y. They were really

good. They placed me at the hospital for a few weeks. I was really happy because if I could, I'd really like to go back to university and become a nurse . . . But then it became a problem because I got paid on this program, and somebody called assistance and told them I was working. They cut my cheques right away, and when the program ended, I had no income for a month until it was straightened out. Now I have to pay them back, and they take twenty dollars off every cheque.

I was really scared when that happened, because I didn't know how I was going to feed my son and pay my rent. My friends each lent me a little.

The Y program made me feel like I could do something . . . But it's not easy. I ask my friends to save the want ads for me, because I can't afford to buy a newspaper every day. I am determined not to spend my life on assistance . . . That's not what I want for my son.

Money: The Need for Income Security

Introduction

Unemployment Insurance occupies a unique position. It stands at the boundary between economic and social policy. This chapter considers the relationship between Unemployment Insurance and other income security programs and analyzes the strengths and weaknesses of the income security system in Canada. In the process a clearer picture of the role of Unemployment Insurance in that system is developed. Questions are raised about the level and nature of the income protection that Unemployment Insurance should provide to workers and how the program relates to other elements of the income security system.

Thus this chapter deals with such questions as:

- How much money does an unemployed worker need?
- What proportion of income should an insurance program replace?
- How adequate is the protection provided by Unemployment Insurance for workers earning minimum wages?
- Should Unemployment Insurance supplement the incomes of short-term or seasonal workers?
- What is and what should be the relationship between Unemployment Insurance and social assistance programs?
- What role should Unemployment Insurance play within the income security system?

This chapter begins by describing the current income security system, the complex income transfer role played by the Unemployment Insurance program, and the problems resulting from that role, leading to discussion of the need for an income supplementation plan.

The Income Security System

Income security programs in Canada can be divided into three distinct categories or tiers. Tier 1 consists of *income support programs* (such as social assistance and the Guaranteed Income Supplement). Tier 2 includes *income supplementation programs* (such as Old Age Security, Family Allowances, the Child Tax Credit and programs operated by certain provincial governments). Tier 3 consists of *social insurance programs* (such as Unemployment Insurance, the Canada and Quebec Pension Plans, and Workers' Compensation). Although Unemployment Insurance is listed in Tier 3, it is argued later in this chapter that the regionally extended benefits portion of Unemployment Insurance is a form of income supplementation.

In Canada, the system of programs for the elderly illustrates this three-level structure of income security. Tier 1 (income support) is the Guaranteed Income Supplement, which provides benefits on an income-tested basis to elderly persons whose other resources are inadequate. Tier 2 (income supplementation) is Old Age Security, which provides a

taxable benefit based on age. Tier 3 (social insurance) consists of the Canada and Quebec Pension Plans, which provide benefits based on past premium contributions. In addition, the tax system provides an age exemption for the elderly.

In total, both direct program expenditures and related tax assistance for income security will account for some \$58 billion of government spending for 1986/87. Figures 4.1 and 4.2 show the direct program expenditures according to the three categories of income security, as well as the related tax assistance.

The distribution of public funds through all income security programs in Canada reflects a heavy preference for the aged. The Guaranteed Income Supplement, Old Age Security benefits, Canada and Quebec Pension Plan benefits, the tax exemptions for age and pension income, the tax assistance related to registered retirement savings plans and registered pension plans, as well as CPP/QPP contributions all testify to the high priority given to this group. By contrast, the benefits aimed at those still in the labour force are much more modest and are dominated by Unemployment Insurance.¹ Furthermore, Unemployment Insurance is the single largest income security program and represents almost 20 percent of total expenditures on income security (including tax assistance).

Figure 4.1
Federal and Provincial Expenditures on Income Security, 1984/85

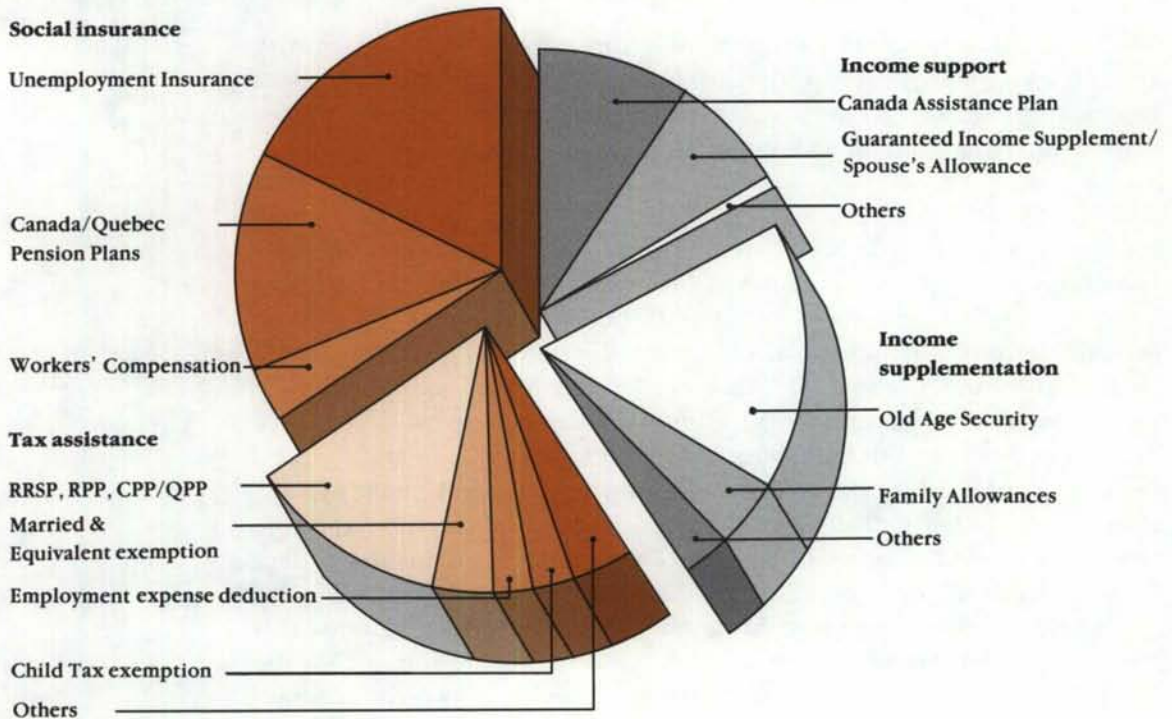


Figure 4.2
Federal and Provincial Expenditures for Income Security, 1986-87

Tier	Category	Objective	Principles	Program	Federal and provincial cost (\$ millions)	Percent of total cost
Tier 1	Income support (social assistance)	Financial assistance: to prevent absolute hardship	Paid according to needs test or income test; financed by general revenues (both federal and provincial); family based.	Canada Assistance Plan	5,400	9.3%
				Guaranteed Income Supplement/Spouse's Allowance	4,200	7.2%
				Veterans' Allowances	400	0.7%
				Social assistance to on-reserve Indians	100	0.2%
					10,100	17.3%
Tier 2	Income supplement	Income supplementation: to top up inadequate income or to provide money to particular groups (the elderly and children)	Financed by general revenues (both federal and provincial); usually family based	Old Age Security	9,500	16.3%
				Family Allowances	2,500	4.3%
				Child Tax Credit	1,600	2.7%
				Provincial programs	100	0.2%
					13,700	23.5%
Tier 3	Social Insurance	Income stabilization: to prevent an excessive fall of income	Paid upon contingency; financed by premium contribution, ^a individually based.	Unemployment Insurance	10,200	17.5%
				Canada/Quebec Pension Plans	7,900	13.6%
				Workers' Compensation	2,000	3.4%
					20,100	34.5%
Tax assistance				Child Care Expense deduction	200	0.3%
				Child Tax exemption	1,300	2.2%
				Married and Equivalent exemption	1,900	3.3%
				Employment expense deduction	1,500	2.6%
				Provincial tax credits	200	0.3%
				Unemployment Insurance premium deduction	900	1.5%
				Registered Retirement Savings Plans; Registered Pension Plans; Canada/Quebec Pension Plan deductions	7,500	12.9%
				Age exemption	700	1.2%
				Pension deduction	200	0.3%
	14,400	24.7%				
Total					58,300	100.0%

a Regionally extended benefits of Unemployment Insurance are currently financed by general revenues and serve as a form of income supplementation (see chapter text).

Sources: Estimates based on Department of Finance, *Cost of Selected Tax Measures* (Ottawa: Minister of Supply and Services Canada, 1985); Government of Canada, *1986-87 Estimates: Part II: The Main Estimates* (Ottawa: Minister of Supply and Services Canada, 1986); Department of National Health and Welfare, *Social Security Statistics, Canada and Provinces, 1958-59 to 1982-83* (Ottawa: The Department, September 1985); and data supplied by the Department of National Health and Welfare and the Department of Finance.

"No jurisdiction in Canada provides welfare benefits even close to the poverty line. The trauma and humiliation experienced by many claimants of UI is nothing compared to the stigma that is attached to welfare recipients." (National Anti-Poverty Organization, written brief)

"We do not deny the need for social assistance measures. However, we strongly believe that costs associated with them should be borne by the society as a whole through general government revenues. The cost burden should not fall overwhelmingly on employers and employees alone." (Corner Brook Chamber of Commerce, written brief)

"Local governments, and social services departments in particular, experience the impact that unemployment creates. For instance, this department has experienced a 214 percent growth in the welfare caseload between 1975–1985. The distribution of 'employables' (those who are able to seek employment) and 'unemployables' (those who, for medical or other reasons, are unable to look for employment) has changed dramatically over the past 10 years. For instance, in 1975 'employables' constituted 24 percent of the average monthly caseload whereas 'unemployables' constituted 76 percent of the caseload. By 1985, 'employables' constituted 66 percent of the caseload, compared to 34 percent for 'unemployables'." (Regional Municipality of Ottawa–Carleton, written brief)

In order to explain the role that Unemployment Insurance now plays in the overall income security system, the goals and programs in each of the three levels of income security are described, beginning with the first tier, social assistance.

Income Support: Social Assistance

Social assistance is the income support program designed to provide income to individuals and families who are unable to obtain adequate income from employment, from the marketplace, or from private resources.

For individuals and households with little or no access to earnings or private income – such as elderly persons without adequate pension coverage, persons who cannot work because they are chronically ill or disabled, and single parents with preschool children – income support payments are the last line of defence. In addition to social assistance, other selective programs such as the Guaranteed Income Supplement, Spouse's Allowance, and Veterans' Allowances provide basic income support. Eligibility for benefits from these selective programs is determined by either a needs test or an income test (see box).

Social assistance programs are operated by the provinces and cost-shared under the Canada Assistance Plan with the federal government, on a 50:50 basis. The guidelines for the cost-sharing agreement have remained relatively unchanged since the plan's introduction in 1966. These federal guidelines currently specify that, above an exemption, employment income reduces social assistance benefits dollar for dollar. As a result there is little financial incentive to work, since working beyond that exemption level does not increase total income.

Increasing numbers of Canadians are being forced to rely on social assistance (see Figures 4.3 and 4.4). Over the period 1981–85, the number of social assistance recipients increased in all provinces except the Atlantic provinces. The increase for Canada as a whole was 34 percent, from 1.4 million people in 1981 to 1.9 million in 1985. In British Columbia the number of social assistance recipients almost doubled in only four years. This has made it increasingly difficult for governments to raise or even maintain the existing levels of support.

Needs, Means and Income Tests

Needs Test (Budget Deficit Test)

A needs test determines eligibility for benefits by comparing budgetary requirements to income and assets. Assistance is granted to cover any deficit that exists. Budgetary requirements usually include food, shelter, clothing, fuel, utilities, household supplies and personal requirements. These are determined on the basis of either rate scales related to studies of budgetary needs or actual costs to the

claimant. Income and assets are taken into account subject to stated exemptions, with assets in excess of a fixed amount constituting a disqualification for assistance.

Means Test

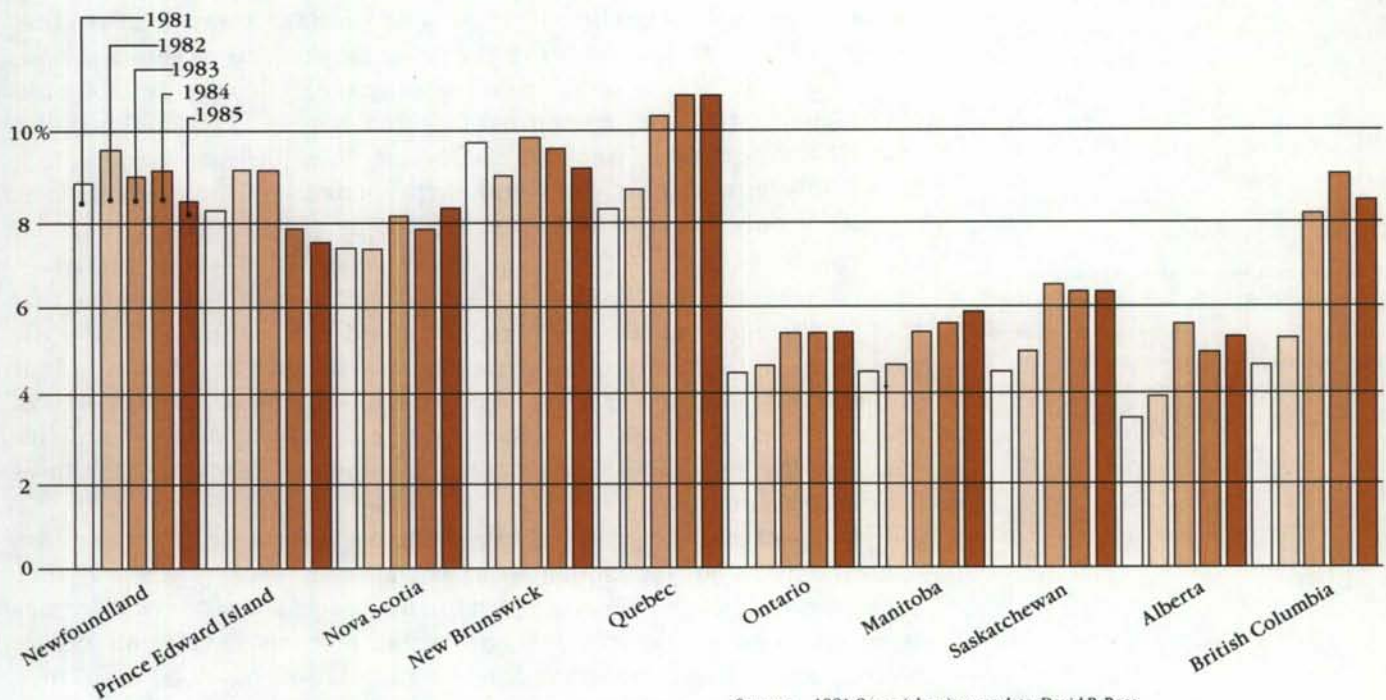
A means test takes into account both the income and assets of a claimant in determining eligibility. Assets may be converted to income equivalents or may constitute an automatic limit on eligibility if they exceed a fixed amount. Benefits

are paid up to a fixed ceiling, with no account being taken of budgetary requirements.

Income Test

An income test to determine eligibility takes into account only the income available to a claimant. No account is taken of any assets except insofar as they produce income. Similarly, no account is taken of the claimant's budgetary requirements.

Figure 4.3
Percentage of Population on Social Assistance, March 1981 to March 1985



Sources: 1981-84 social assistance data: David P. Ross, *Report on the Income Security System in Newfoundland*, prepared for the Newfoundland Royal Commission on Employment and Unemployment (St. John's: Queen's Printer, 1986); 1985 social assistance data: unpublished data provided by the Department of National Health and Welfare; population data: Statistics Canada, *Canadian Statistical Review* (Cat. no. 11-003), various issues.

Figure 4.4
Estimated Number of Social Assistance Recipients Under the Canada Assistance Plan, March 1981 to March 1985

	March 1981	March 1982	March 1983	March 1984	March 1985	Change 1981-85
Newfoundland	50,400	54,700	51,900	53,300	49,000	-3%
Prince Edward Island	10,100	11,300	11,300	9,800	9,600	-5%
Nova Scotia	62,400	64,600	69,000	67,500	73,100	17%
New Brunswick	67,400	62,700	70,100	68,600	66,300	-2%
Quebec	532,900	561,900	675,800	705,900	708,700	33%
Ontario	389,800	406,800	471,200	484,600	486,300	25%
Manitoba	46,900	47,800	55,900	59,200	62,800	34%
Saskatchewan	43,800	48,400	59,700	63,700	64,000	46%
Alberta	78,100	91,700	130,600	117,100	122,500	57%
British Columbia	128,000	144,900	228,800	257,100	243,500	90%
Canada	1,418,400	1,502,800	1,832,900	1,894,900	1,894,500	34%

Note: Canada total includes the Yukon and Northwest Territories.

Sources: 1981-84 data: David P. Ross, *Report on the Income Security System in Newfoundland*, prepared for the Newfoundland Royal Commission on Employment and

Unemployment (St. John's: Queen's Printer, 1986); 1985 data: unpublished data provided by the Department of National Health and Welfare.

"We don't believe that UI should be a convenient cover for social or welfare programs. Not that we do not need social or welfare programs – Lord knows we do. We think they should be identified more up front for what they are, and addressed as such, debated as such. If we decide that's what we want, need and can afford, then fund them as such."
(Greater Moncton Chamber of Commerce, Moncton hearings)

"I work in an agency that started a food bank last month. And this month we served 200 families; 30 of these families were on Unemployment Insurance or waiting for it."
(Etobicoke Advisory Committee on Unemployment, Toronto hearings)

Originally, social assistance was not intended for employable persons. The rising number of employable individuals who are receiving social assistance accounts for much of the increase in the number of social assistance recipients over the past decade. There is also great variation among the provinces in the benefits provided to young people (Figure 4.5). If they are considered "employable," they may be ineligible for social assistance. In most provinces they receive very small benefits even if they are eligible. As a result, although Unemployment Insurance is not an appropriate vehicle to supplement incomes, in some provinces it may be the only source of help for young people.

The Nielsen Task Force and the Macdonald Royal Commission echoed longstanding complaints of various community groups that social assistance benefits are inadequate and vary too much across the provinces. In 1985, for example, long-term assistance for a family of four varied from a high of \$13,080 a year in Saskatchewan to a low of \$8,052 in New Brunswick. Even the Saskatchewan rate falls far short of Statistics Canada's low-income or "poverty" line income of \$15,316 for a family of four in rural areas.

At present, because Unemployment Insurance benefits are subtracted dollar for dollar from social assistance payments, they provide no additional benefits to recipients of social assistance. Earnings from employment, in contrast, are subject to an exemption before welfare payments are reduced. In the calculation of social assistance entitlements, Unemployment Insurance benefits earned through paid employment and financed by premiums should be treated the same way as the earnings that they replace. That would allow individuals to retain at least part of their earned entitlements to Unemployment Insurance

Figure 4.5
Maximum Monthly and Annual Benefits of Single Persons and Families on Long-Term Social Assistance, by Province, 1985
(Dollars)

	Single person, age 25, employable		Single person, disabled		One adult, child age 4		Two adults, children age 10 and 13	
	Monthly benefit	Annual benefit	Monthly benefit	Annual benefit	Monthly benefit	Annual benefit	Monthly benefit	Annual benefit
Newfoundland	275	3,300	436	5,232	689	8,268	797	9,564
Prince Edward Island	471	5,652	511	6,132	592	7,104	848	10,176
Nova Scotia	366	4,392	539	6,468	659	7,908	919	11,028
New Brunswick	188	2,256	405	4,860	609	7,308	671	8,052
Quebec	160	1,920	440	5,280	655	7,860	929	11,148
Ontario	368	4,416	519	6,228	647	7,764	762	9,144
Manitoba	353	4,236	414	4,968	579	6,948	931	11,172
Saskatchewan	345	4,140	530	6,360	750	9,000	1,090	13,080
Alberta	484	5,808	695	8,340	719	8,628	1,082	12,984
British Columbia	375	4,500	548	6,576	640	7,680	870	10,440

Source: Social Planning Council of Metropolitan Toronto, *Social Infopac 3:4* (October 1985), p. 3.

even if they have to fall back on social assistance. There is also merit in considering lowering the rate at which earnings reduce social assistance payments.

Since social assistance programs were not designed for employable persons, provincial social service departments have generally not developed employment assistance or training services, although some other provincial departments have done so. Unemployment Insurance officials and the Canada Employment and Immigration Commission have been the major actors in dealing with the unemployed. Once workers lose their entitlement to Unemployment Insurance, they lose contact with the official employment and training system.

Maintaining employable persons in a permanent state of dependency is counter-productive. While a basic income should be provided to all Canadians to prevent severe hardship, those who are willing and able to work require other forms of help. All the unemployed, including those on social assistance, should receive these services through the same offices (see Chapter 8).

Income Supplementation

It cannot be assumed that all working members of the labour force have adequate incomes. In 1984, 55 percent of all poor families had at least one member at work over some time during the year. In almost half of them, one person worked for the full year but the family was still poor. This phenomenon has been increasing over the last decade. In 1976, only 46 percent of poor families had some income from employment.²

Income support and supplementation were the focus of intensive federal-provincial study and discussion in the period 1973–76. The original impetus of that unprecedented effort to reshape the entire social security system in Canada was the hope that a single comprehensive Guaranteed Annual Income could provide an adequate answer to the need for both income support for those unable to work and income supplementation for the working poor. The difficulties inherent in that ambitious task proved insurmountable. Although the effort resulted in significant, if piecemeal, changes, its major objective was subsequently abandoned.

Programs that provide a financial supplement to those who are employed have received some attention and several developments have taken place. The Child Tax Credit, introduced in 1979, currently provides up to \$384 per child for families with incomes below \$26,330. Above this family income level, benefits are reduced by \$5 for every \$100 of income, with the result that benefits for a family with two children cease at \$41,690. In February 1986 the federal Refundable Sales Tax Credit was introduced. It provides up to \$50 for each adult and \$25 for each child under 18 as long as family income is less than \$16,000. Above this income level, benefits are reduced by \$5 for every \$100 of income. Thus, a family of two adults and two children with an income of up to \$16,000 would receive \$150 and benefits would cease at \$19,000.

In addition to these federal benefits, four provinces have their own supplementation programs. Saskatchewan's Family Income Plan provides allowances based on family income and number of children.

"The Chamber of Commerce of Québec recommends therefore that the current UI program be replaced by more selective programs which assist persons living in poverty; and that the administration and financing of these programs be the responsibility of provincial or local governments." (Chambre de commerce du Québec, written brief)

"The current depression in the Newfoundland economy has witnessed an alarming increase in the number of 'exhaustees' – UI recipients who have used up their weeks of benefit and have no prospect of employment. For many of these workers UI failed to bridge the gap between jobs and they were forced – many for the first time in their lives – to rely on welfare." (Newfoundland and Labrador Federation of Labour, written brief)

"Canada needs an income protection system that is as much a motivator for people to engage in productive work as it is a safety net for those people who cannot generate an equitable level of income in their lives."
(Government of Prince Edward Island, Charlottetown hearings)

The maximum benefit, payable to families with annual incomes of less than \$8,200, is \$100 monthly for each of the first three children and \$90 for each additional child. For incomes above that level, the maximum allowance is reduced by one dollar for every two dollars of income. In 1984/85, program expenditures totalled \$19 million and 7,767 families were assisted. About half of the costs are eligible for cost sharing under the Canada Assistance Plan.³

Manitoba also has a Child-Related Income Supplementation Program. The maximum benefit is \$30 a month for each child, payable to families with incomes below \$10,025 (1985/86). Above this income level, the maximum benefit is reduced by one dollar for every four dollars of income. In 1984/85, total benefit expenditure was \$6.1 million, and almost 9,000 families received some assistance.⁴

The Quebec program is the Work Income Supplement program. Under that scheme, each dollar earned increases the benefits by 25 cents up to an earnings ceiling adjusted for family size. In 1985, the maximum supplement for a family of four was \$2,193, paid out at an earnings ceiling of \$8,772. Above that level of earnings, benefits were gradually reduced. The Quebec scheme is designed to provide a work incentive for those on social assistance and to be a supplement for those with low earnings who might otherwise need social assistance. The program is not eligible for federal cost sharing, and in 1984/85 cost the province approximately \$25.1 million.⁵

Ontario's Work Incentive Program is available to persons who have been on social assistance for at least three months. It pays benefits if recipients take full-time employment; these benefits vary by family size and take into account family income. Benefits are reduced by one dollar for each two dollars of income in excess of \$675 a month. In addition, recipients retain their eligibility for such benefits as free dental care and medical prescriptions, which were available to them on social assistance. Total expenditures in 1984/85 were about \$2.6 million.⁶

In addition to these federal and provincial programs, Old Age Security payments, Family Allowances and many tax expenditures contribute to income supplementation. As will be discussed, the regionally extended benefits portion of Unemployment Insurance should be added to this list.

These supplementation programs make no explicit attempt to bring the incomes of recipients up to any precise level. The most that can be said is that they attempt to minimize (but not necessarily to eliminate) the severity of the effect of inadequate income. Family Allowances, for instance, are not designed to provide 100 percent or 80 percent or any other precise share of the average cost of raising a child, but are based on the recognition that families incur expenses in raising children and that society should provide "some" contribution toward these expenses. While social insurance programs seek to replace a given proportion of past income and while income support programs seek to provide a socially acceptable minimum income, programs that supplement other income have no such clearly articulated objective. Some benefits, in particular the child and married or equivalent to married tax exemptions, are greater for those with higher incomes.

Social Insurance Programs

Social insurance programs by their nature provide protection against specific occurrences. Premiums are collected and contributors are entitled to benefits when certain contingencies occur. In Canada, there is a broad range of social insurance programs, including the Canada and Quebec Pension Plans, Workers' Compensation, and of course Unemployment Insurance.

The objective of social insurance is to provide income replacement in order to maintain some measure of income when individuals face contingencies such as unemployment, sickness, accidents or retirement. Because benefits are triggered by these contingencies and because they are funded by premiums, social insurance programs confer a sense of entitlement to benefits. Furthermore, the level of benefits received is related to the nature of the loss, not to the needs of the recipient, and consequently social insurance benefits are received by workers at all income levels.

Workers' Compensation, for example, provides assistance to those who are unable to work because of work-related illness or incapacity. It is a provincial program funded entirely from employer contributions. In every province, workers (or their survivors) may receive financial compensation for permanent and temporary disability or death if the cause is related to the job. The program also pays medical and vocational rehabilitation expenses for workers requiring these services. Both permanent and partial disability benefits are based on earnings. In Newfoundland, New Brunswick, Quebec and Alberta, payments are set at 90 percent of net income. In all other provinces, payment is set at 75 percent of gross earnings. The actual amount of benefits received in the case of a particular disability varies and depends upon the amount of income that the disabled worker is still capable of earning. Pensions and/or lump-sum payments to the spouses and children of deceased workers also vary by province.

The Canada and Quebec Pension Plans are the second largest component of social insurance in Canada. The Canada Pension Plan was introduced in 1966 and has been fully operational since 1976. It provides retirement, survivor and disability benefits on a universal basis for members of the paid labour force, including the self-employed. The federal government administers the plan but the provinces are responsible for its design. The Quebec Pension Plan provides similar benefits. At present the major difference between the two is that the Quebec plan provides actuarially adjusted benefits, which allow individuals more flexibility in deciding when to retire. The Canada Pension Plan is being amended to do the same. Retirement pensions are 25 percent of lifetime earnings up to an earnings maximum that is approximately equal to the average industrial wage. In 1986, the maximum retirement pension under the Canada Pension Plan was \$455.64 monthly (\$5,658 annually) and the maximum survivor's pension was \$291.67 (\$3,400 annually). These benefits do not affect Old Age Security benefits but are considered as income in calculating the Guaranteed Income Supplement and Spouse's Allowance.

"We see the purpose of the UI program as providing a certain level of income support to cover temporary interruptions in earnings for those individuals who have a genuine attachment to the work force." (Canadian Bankers' Association, written brief)

"The UI program is designed to provide workers with earnings-related benefits in the event of unemployment; it is not designed to provide all Canadians with a minimum level of income; nor is UI designed to redistribute incomes on a vertical basis. The risk associated with unemployment is not simply the risk of deprivation in an absolute sense; it is the risk of losing the standard of living that has been established on the basis of pre-unemployment earnings. This risk remains unaltered no matter how many earners there are in a family." (Canadian Labour Congress, written brief)

"Like any other insurance plan, Unemployment Insurance was, and is, intended to deal with contingencies and not certainties. The UI program was never designed to deal with chronic unemployment, whether it be among specific individuals, industries or regions of this country." (St. John's Board of Trade, St. John's hearings)

"The members of our association are absolutely convinced that many persons voluntarily make what amounts to a way of life out of working only long enough to establish benefits, and then drawing them for the maximum period, and then repeating the cycle. This is borne out by the studies that show that large numbers of persons who couldn't find any work while they were on benefits, very, very quickly find work as soon as their benefits run out." (Construction Labour Relations, Edmonton hearings)

"Ideally, Unemployment Insurance is an insurance policy against short-term lack of work. When unemployment is at levels of 3 to 4 percent, it serves as a safety net for times between jobs. However, during these times of double digit unemployment, the program, of necessity, serves both income support and regional development functions." (Coalition for Equality, written brief)

"The UI program cannot and should not be made to operate as an income redistribution or regional disparity correction vehicle." (Retail Council of Canada, written brief)

"I don't see UI as a problem. I see that \$1 million a week coming into the Miramichi economy as a God-send, as a matter of fact. UI is not the problem. It is one of the strengths of this economy." (Miramichi Region Development Corporation, Newcastle hearings)

"At times, the income maintenance provided by Unemployment Insurance is the difference between the survival of a community and its extinction." (Canadian Paperworkers Union, written brief)

Regionally Extended Benefits: Unemployment Insurance as Income Supplementation

Unemployment Insurance has become much more than a program of temporary income assistance for workers who are between jobs. In some households it may be a part of a regular pattern of income from earnings on seasonal employment or short-term job creation projects, Unemployment Insurance benefits and perhaps some social assistance. In regions with high unemployment, any job and any public project to create jobs are reportedly viewed as "community resources" to be shared for 10-week periods in order that as many as possible can qualify for Unemployment Insurance benefits for the remainder of the year.

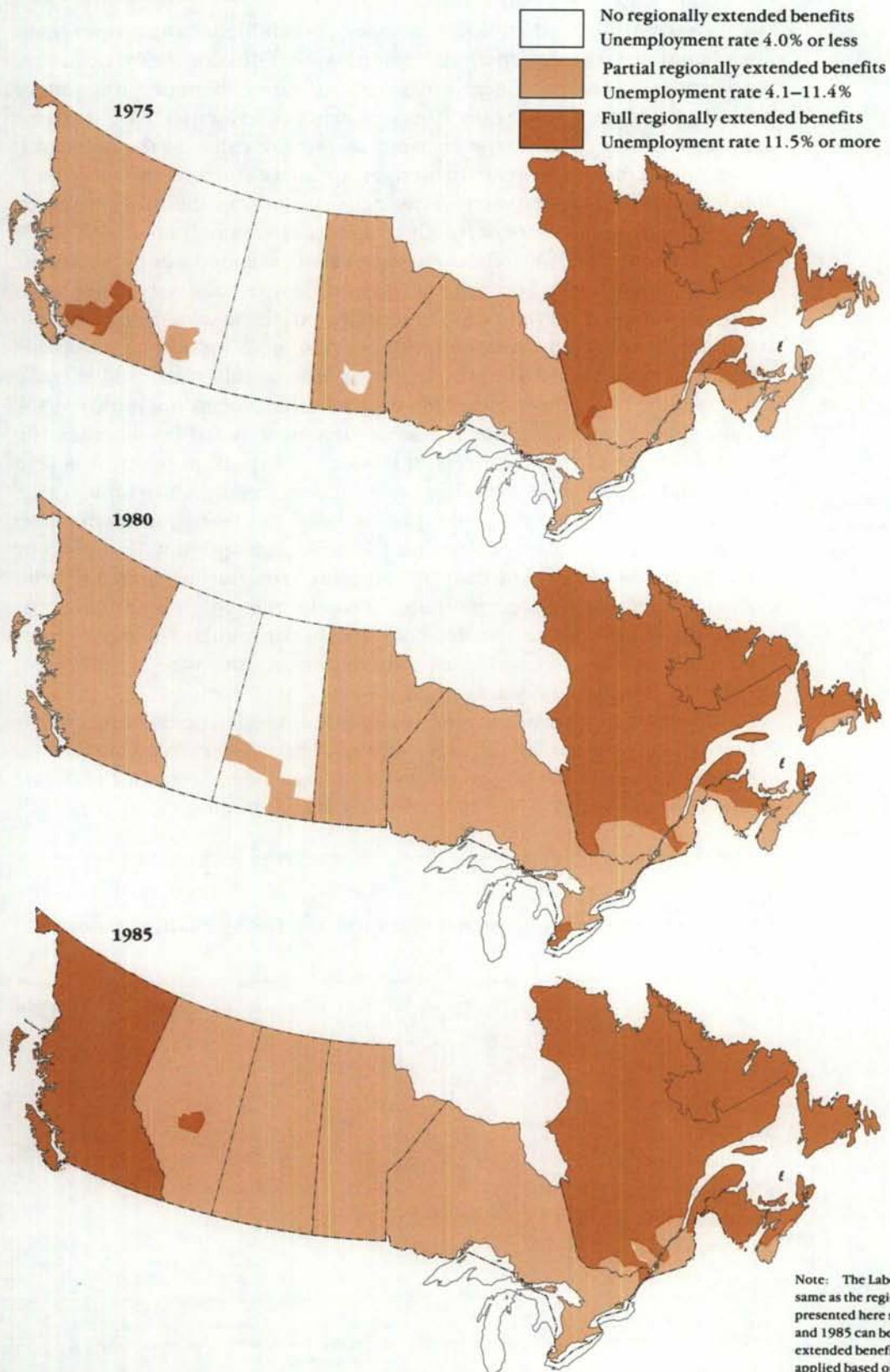
Unemployment Insurance supplements the incomes of short-term and seasonal workers through regionally extended benefits. This aspect of the program is highly controversial. There are those who view regionally extended benefits as the lifeblood of regions of high unemployment, while others view them as a major impediment to economic adjustment. Both views are held by different members of this Commission of Inquiry and constitute a basis for disagreement regarding specific reforms.

Regionally extended benefits were designed as a third benefit phase to assist workers in regions with less industrial activity and with an average unemployment rate higher than "normal." When these benefits were introduced in the early 1970s, the rate of unemployment accepted as normal was 4 percent. For this reason, regionally extended benefits provide claimants with two additional weeks of benefits for every half percentage point over a 4 percent regional unemployment rate, up to a maximum of 32 weeks. Thus, the benefit structure favours the unemployed in high unemployment regions. In addition, entrance requirements diminish as regional unemployment rates rise, and the 6-week "repeater" penalty disappears when unemployment rates are above 11.5 percent.

The 4 percent threshold was originally established on the grounds that the government, not employees and employers, should pay for unemployment benefits when unemployment is above what might be expected at "full employment." It was assumed that Unemployment Insurance should be confined to normal or frictional unemployment (typically of short duration), and that the federal government should pay the extended benefits in areas where unemployment was above that normal level (and where unemployment spells could be expected to last longer). In addition, the 4 percent threshold was based on the assumption that employment is more difficult to find in a region where unemployment is high.

When regionally extended benefits were introduced, it was assumed that they would be restricted to specific regions with particularly serious unemployment difficulties. Over time, however, the level of unemployment has risen in every region of Canada. In fact, as can be seen from the maps shown (Figure 4.6), some level of regionally extended benefits has been paid in every region since 1981. Regional benefits are no longer part of an economic adjustment plan directed toward areas with unusually

Figure 4.6
Regionally Extended Benefits in Canada



"We believe that the administrative connection of UI with other programs, particularly social welfare schemes, should not be allowed to confuse or alter the primary objective of the program. UI is social insurance, not social welfare." (Labourers' International Union of North America, written brief)

"We feel that this is an essential first step in philosophy, that Unemployment Insurance again be established for what it should be, an insurance benefit which is a person's right to claim, based on past contributions, with appropriate eligibility requirements and limitations related solely to involuntary loss of employment. We believe it essential to establish firmly again in people's minds that this is not a program for redistribution of income, an easy substitute for available gainful employment or a vehicle to avoid contributing meaningfully to society." (Mechanical Contractors Association of Canada, written brief)

severe problems. They have become a kind of guaranteed weekly income or a temporary social assistance/income maintenance plan for those who can find at least 10 weeks of work.

Persistent high unemployment rates (much higher than 4 percent) are changing attitudes toward Unemployment Insurance. Many more workers are drawing Unemployment Insurance benefits for longer periods and depending on Unemployment Insurance for income supplementation. During the hearings there were calls, on the one hand, to expand Unemployment Insurance to meet income support and supplementation objectives more effectively and, on the other hand, to restrict the program more narrowly to an insurance program.

The history and rationale for regionally extended benefits suggest that they ought not to be a part of Unemployment Insurance. They are a form of short-term income supplementation to those who have been able to obtain 10 weeks of work, and they provide more assistance in regions where unemployment is high. The unfairness of this restricted income maintenance program is clear. Persons who have been unemployed for longer than 25 weeks suffer the same degree of hardship whether the unemployment rate in their region is 4 percent or 10 percent. It is also unfair to relate the qualifying period for regular Unemployment Insurance to the region where a person lives and works. A person who becomes unemployed after working 13 weeks in a region with 4 percent unemployment may be in exactly the same situation as someone who becomes unemployed after working 13 weeks in a region with 9 percent unemployment. Yet the first does not qualify for regular Unemployment Insurance and the second does. For details on the way benefits and qualifying periods vary, see Appendix F.

In high unemployment areas, regionally extended benefits mean that 10 weeks of work can result in 42 weeks of benefits. Earnings of \$495 a week for 10 weeks can be "supplemented" by Unemployment Insurance to the amount of \$12,474 (60% of 495×42), bringing the individual's

Figure 4.7
Distribution of Unemployment Insurance Benefits by Family Income,
1982

Family income in 1982	Total estimated benefit (\$ millions)	Percentage distribution
Less than \$10,000	821	11.5%
\$10,000–20,000	2,048	28.7%
\$20,000–30,000	1,763	24.7%
\$30,000–40,000	1,189	16.7%
\$40,000–50,000	633	8.9%
\$50,000 and over	681	9.5%
Total	7,135	100.0%

Note: Total does not match administration data since the source for these data is a survey subject to undercounting.

Source: Special tabulation by the Commission of Inquiry on Unemployment Insurance based on data supplied by Statistics Canada.

annual income to \$17,424 (\$4,950 + \$12,474). Without regionally extended benefits that person would be eligible for only \$7,920 (\$4,950 earnings plus 10 weeks of Unemployment Insurance at \$297 per week).

The fact that regionally extended benefits are administered as Unemployment Insurance has another serious consequence. To the extent that those who qualify for extended benefits have only a short-term attachment to the labour force, others perceive the payment of extended benefits as an indication of abuse. Workers who collect benefits for longer than 40 weeks after less than 15 weeks of insured earnings, however, represent only 3 percent of claimants and they collect only 4.5 percent of total benefits paid in Canada (although in Atlantic Canada their proportions are greater). Since extended benefits represent 31 percent of total benefits, this high incidence has eroded public confidence in the Unemployment Insurance program as a whole.

When regionally extended benefits are analyzed as a form of income supplementation, it is clear that they are not well designed to meet that objective. This is true for a number of reasons.

- Unemployment Insurance does not target benefits strictly to low income families; benefits are proportional to the former earnings of the individual worker, so that higher benefits go to higher earners rather than to those with greater need (Figure 4.7). An income supplementation scheme should adjust benefits inversely to earnings.
- Unemployment Insurance benefits are calculated according to individual earnings, whereas income supplementation programs usually pay benefits according to family or household income.

"Transfer payments and federal payments in the form of UI are certainly an integral and necessary part of the Atlantic economy. Any reduction in those payments will have an immediate and disastrous effect on the present economy." (Nova Scotia Federation of Labour, Halifax hearings)

"Eliminate regional benefits." (Chambre de commerce du Québec, Montréal hearings)

but it was only you who said it was to be considered as a income suppl. relieve

Figure 4.8
Relationship of Unemployment Insurance Benefits to Wages and Salaries by Province, 1985

	Benefits (\$ millions)	Total Wages and salaries (\$ millions)	Benefits as a percent of wages and salaries
Newfoundland	554	3,065	18.1%
Prince Edward Island	107	648	16.5%
Nova Scotia	457	5,765	7.9%
New Brunswick	518	4,466	11.6%
Quebec	3,172	54,050	5.9%
Ontario	2,551	94,803	2.7%
Manitoba	318	8,666	3.7%
Saskatchewan	258	6,908	3.7%
Alberta	838	23,387	3.6%
British Columbia	1,416	25,890	5.5%
Canada	10,226	228,568	4.5%

Note: Canada total includes Yukon, Northwest Territories and residents abroad.

Sources: For benefits, Canada Employment and Immigration Commission, *Statistical Bulletin* (Ottawa: The Commission, January 1986). For wages and salaries, Statistics Canada, *Canadian Statistical Review* (August) (Cat. no. 11-003), 1986.

"Unemployment Insurance is the major adjustment assistance program available to unemployed workers. In the case of New Brunswick almost \$ 5 billion was expended on UI benefits in 1984. If removed wholly or partially from the economy without offsetting employment revenue to replace it, the results would be catastrophic. Overall economic activity would decline sharply and the provincial debt would rise appreciably, as would unemployment." (New Brunswick Federation of Labour, written brief)

but stay on pitifully small

- The Unemployment Insurance scheme has an "either-or" character – workers are either unemployed and eligible or employed and ineligible. Unemployment Insurance does not supplement the incomes of former recipients who have fully returned to the labour force. Income supplementation schemes, however, typically supplement workers' incomes as they move from unemployment to employment, and this supplement can continue for an indefinite period, depending on the level of earnings.

Unemployment Insurance benefits are considered by many as an essential element in regional economies (see Figure 4.8). The impact of removing regionally extended benefits would be to reduce total expenditures for Unemployment Insurance by some \$2.8 billion. This change would have a differential impact on provinces and on individual beneficiaries, depending upon their weeks of insured employment, the duration of their unemployment, and their weekly earnings.

In terms of weeks of insured employment, the impact of this would be to reduce benefits to short-term workers relatively more than to long-term workers (see Figure 4.9). By contrast, the impact would be least for those who remain unemployed for a short time and greatest for those who remain unemployed for at least 40 weeks (see Figure 4.10). The impact of the removal of regionally extended benefits on workers at different levels of earnings would be somewhat more severe for those with low earnings than for those with higher earnings (see Figure 4.11). The impact of all three of these can be summarized by looking at the provincial distribution of the consequences (see Figure 4.12). The Atlantic provinces, Quebec and British Columbia all lose more than Ontario or the Prairie provinces.

Regionally extended benefits are a palliative, not a cure, and do nothing to change the basic problems facing the unemployed in these

Figure 4.9
Estimated Effect of Eliminating Regionally Extended Benefits, by Weeks of Insurable Employment

Weeks of insurable employment	Number of beneficiaries ^a	Expenditures (\$ millions)			Change from current program
		Current program	Regionally extended benefits	Current program without regionally extended benefits	
Less than 20	419,000	2,000	1,310	690	-66%
20-29	573,000	2,500	930	1,570	-37%
30-39	333,000	1,210	250	960	-21%
40-49	324,000	1,180	190	990	-16%
50 and over	434,000	2,070	130	1,940	-6%
Total	2,084,000	8,970	2,800	6,170	-31%

^a Excludes benefits for maternity, sickness, fishing, training, work sharing and job creation.
Notes: Totals may not add due to rounding. Percentage changes are calculated using unrounded figures. See Appendix G for additional information.

Source: Special tabulation by the Commission of Inquiry on Unemployment Insurance based on Canada Employment and Immigration Commission claimant data.

they do help people / *or any other money*

regions, or the communities in which they live. They could be assisted more effectively if the money now spent on regionally extended benefits were used to address the root causes of unemployment. Moreover, the current approach of simply extending benefits provides little incentive for individuals to adapt. Indeed, it may reinforce the natural unwillingness of people to change. — *are people's attitudes the cause of unemployment?*

"It is our view that any reduction in the level of Unemployment Insurance benefits and any increase in the restriction on UI eligibility, in and of themselves, will inevitably increase poverty and increase income disparity between rich and poor in Canada. That is point no. 1. Point no. 2 is that major changes to Unemployment Insurance should be undertaken only in concert with an overhaul of the whole income security system." (National Anti-Poverty Organization, Ottawa hearings)

The need for a rational income supplementation scheme in Canada was identified in the social security review of the mid-1970s and more recently by the Macdonald Royal Commission. The need for reform of the Unemployment Insurance program has been the subject of no less than five reviews since the Gill Committee of Inquiry in 1962. Reform has been difficult, however, because it is impractical to change Unemploy-

Figure 4.10
Estimated Effect of Eliminating Regionally Extended Benefits, by Duration of Benefits

Duration of benefits (weeks)	Number of beneficiaries ²	Expenditures (\$ millions)			Change from current program
		Current program	Regionally extended benefits	Current program without regionally extended benefits	
1-10	367,000	260	0	260	0%
11-20	359,000	830	10	820	-1%
21-30	362,000	1,440	210	1,230	-15%
31-40	350,000	2,030	770	1,460	-38%
41 and over	524,000	4,410	1,810	2,600	-41%
Total ^b	2,084,000	8,970	2,800	6,170	-31%

a Excludes benefits for maternity, sickness, fishing, training, work sharing and job creation.

b Includes claimants with zero weeks.

Notes: Totals may not add due to rounding. See Appendix G for additional information.

Source: Special tabulation by the Commission of Inquiry on Unemployment Insurance based on Canada Employment and Immigration Commission claimant data.

Figure 4.11
Estimated Effect of Eliminating Regionally Extended Benefits, by Weekly Insurable Earnings

Weekly Insurable Earnings (1985 dollars)	Number of beneficiaries ^a	Expenditures (\$ millions)			Change from current program
		Current program	Regionally extended benefits	Current program without regionally extended benefits	
\$0-200	454,000	1,080	370	710	-34%
\$200-400	1,052,000	4,660	1,540	3,120	-33%
\$400 and over	578,000	3,230	890	2,340	-28%
Total	2,084,000	8,970	2,800	6,170	-31%

a Excludes benefits for maternity, sickness, fishing, training, work sharing and job creation.

Notes: Totals may not add due to rounding. See Appendix G for additional information.

Source: Special tabulation by the Commission of Inquiry on Unemployment Insurance based on Canada Employment and Immigration Commission claimant data.

Figure 4.12
Estimated Effects of Eliminating Regionally Extended Benefits, by Province

Province	Number of beneficiaries ^a	Expenditures (\$ millions)			Change from current program
		Current program	Regionally extended benefits	Current program without regionally extended benefits	
Newfoundland	91,000	460	220	240	-48%
Prince Edward Island	17,000	90	40	50	-44%
Nova Scotia	83,000	380	130	250	-34%
New Brunswick	91,000	470	220	250	-47%
Quebec	628,000	2,890	940	1,940	-33%
Ontario	616,000	2,160	510	1,650	-24%
Manitoba	68,000	270	60	210	-22%
Saskatchewan	55,000	220	50	180	-23%
Alberta	177,000	740	210	530	-28%
British Columbia	252,000	1,260	410	850	-33%
Total^b	2,084,000	8,970	2,800	6,170	-31%

a Excludes benefits for maternity, sickness, fishing, training, work sharing and job creation.

b Includes Yukon and Northwest Territories.

Notes: Totals may not add due to rounding. See Appendix G for additional information.

Source: Special tabulation by the Commission of Inquiry on Unemployment Insurance based on Canada Employment and Immigration Commission claimant data.

ment Insurance without providing an alternative form of financial assistance to those individuals and regions that would be adversely affected.

As has been noted, Unemployment Insurance is not an efficient method of redistributing income (see Figure 4.7); only about 11 percent of benefits go to families with incomes below \$10,000 while almost 20 percent go to families with incomes of \$40,000 a year or above. Furthermore, the tax dollars which pay for regionally extended benefits are not directed to all who are in need of a supplement, but only to individuals who have obtained at least 10 weeks of insurable work. Finally, this tax money is directed to individuals rather than to communities or regions; it does not address the need to build up the economic base of the region and to decrease unemployment.

If regionally extended benefits were replaced by a separate income supplementation program and appropriate economic development initiatives, Unemployment Insurance could serve its legitimate social insurance role. Unemployment Insurance cannot make insufficient earnings adequate, because it replaces only part of the income lost during unemployment and provides no benefit if there is no interruption in earnings. The role of Unemployment Insurance is to stabilize a person's income in some measure. Any attempt to make Unemployment Insurance do more will lead to inconsistencies and inequities.

"Only 16 percent of the Unemployment Insurance payments go to those below the poverty line; 84 percent go to the haves." (Ontario Provincial Council of Labour, written brief)

"The Canadian Federation of Labour disagrees with the notion that UI is or should be a program to redistribute income. The CF of L suggests that if income redistribution is desired by the government and Canadians it should be pursued through programs specifically designed for that purpose, such as a guaranteed annual income, negative tax, or direct payments with tax recovery." (Canadian Federation of Labour, written brief)

The removal of regionally extended benefits, along with other changes recommended in this report, could make available almost \$3 billion to help fund an income supplementation program and the other human resource development programs proposed. What proportion of these savings should be used for supplementation and what proportion should be devoted to educational upgrading or community economic development initiatives is a matter for debate and decision by politicians. There is no single "best answer" to these choices: all that can be done is to indicate their combined impact upon unemployment.

Recommendation

- 7 Regionally extended benefits within the Unemployment Insurance program should be progressively abolished and replaced over a period of four to five years with a range of human resource development programs better tailored to meet the needs of individuals and regions. The range of programs and policies should include:
- an earnings supplementation program;
 - economic and community development initiatives (see Chapter 3);
 - education, literacy and basic training programs (see Chapter 5); and
 - policies and programs to facilitate greater flexibility in the labour market (see Chapter 6).

A Canadian Earnings Supplementation Program

An income supplementation program cannot be discussed in isolation. The characteristics of any supplement will depend on a multitude of features in social security benefits and in the tax system that materially affect its adequacy, its cost and the distribution of benefits. The federal government has recently made known its intention to reform the tax system and to review a number of social programs. It may be that a good income supplementation program can be devised only if substantial tax reform takes place.⁷

As noted, four provinces already have supplementation programs and all provinces are vitally interested in any program that might help "unemployed employables" who now depend on social assistance. The introduction of any supplementation plan should presumably follow federal-provincial discussions and should probably result in bilateral or multilateral agreements that would reflect different provincial concerns. The need, for example, to find a substitute for fishermen's benefits might be incorporated in the plans of a number of provinces (see Chapter 9). Thus, it might be appropriate to consider a group of supplementation plans instead of one uniform plan applicable across this diverse country.

There are many kinds of income supplementation programs. One program involves payment of varying amounts to bring everyone up to a certain level, as in the Saskatchewan and Manitoba plans. Another, referred to as an "earnings supplementation" program or a "work incentive" plan, pays a small amount to top up every dollar earned up to a certain income level, similar to the plan in operation in Quebec. A variation of that scheme would involve treating Unemployment Insurance benefits in the same way as the earnings that they replace, and

*with total benefits
be replaced?*

*only we see part of
a "pure minimum
program"?*

"If remuneration from employment is not enough, it is to be supplemented by other means of social protection. Everyone has a right to a standard of living adequate for the health and well-being of himself and his family." (Saskatchewan Association on Human Rights, Regina hearings)

"We are not denying that there is a need for a guaranteed annual income, we are simply saying that this objective cannot be achieved at the expense of UI or other earnings-related programs." (Canadian Labour Congress, Ottawa hearings)

"It would seem impossible to have a minimum guaranteed income which, in effect, gathers up all the other programs and replaces them. (Chambre de commerce du Québec, Montréal hearings)

"The Macdonald Commission's proposal for UISP, if accepted, would amount to a straightforward transfer of funds from low, and middle, income earners to corporations." (Toronto Legal Clinics' Unemployment Insurance Workgroup, written brief)

"We feel that if you were to combine all the social programs as they presently stand that the benefits for an individual, at this time, would far exceed what a guaranteed annual income might actually give him, especially since the bottom-line recommendation, I think, has been \$13,000 a year. In our understanding, this does not meet the poverty lines for a family of three even for a rural area." (Fredericton Anti-Poverty Organization, Fredericton hearings)

topping up either earnings or benefits. An income supplement combined with a standardized and reformed tax system has also been proposed. Finally, the Macdonald Royal Commission's proposed Universal Income Security Program is primarily an income supplementation program.

An income supplement differs in a fundamental way from a guaranteed annual income. A guaranteed annual income is a universal program but is directed, first and foremost, to those who are unable to work – that is, those who would otherwise have no income at all. In a sense, Canada already has a guaranteed income, albeit in a piecemeal form. For the elderly it provides Old Age Security payments plus the Guaranteed Income Supplement, for families with children there are Family Allowances and tax credits, and for all who meet the needs test there is social assistance. A guaranteed income must provide those who have no other sources of support with enough money to live on.

An income supplementation program is by definition addressed to those who have some other income. More specifically, it is addressed to those with some minimum level of earnings – that is, the "working poor." That category includes workers whose wages are too low to provide an adequate income to meet their family's needs, and those who work some of the time but either fail to qualify for Unemployment Insurance or qualify only for small or short-term benefits. Potentially, this group could also include those now on social assistance who are employable and would work if they had the opportunity.

If the tax system and all existing socially motivated tax assistance measures remain unchanged, and if the funds now used for all income supplementation benefits remain available for that purpose, a supplementation plan could conceivably be devised that would solve the problems inherent in the present patchwork system. But the result would be unsatisfactory. An analysis of the problems inherent in the Macdonald Royal Commission proposal for a Universal Income Security Program illustrates that point.

The Macdonald Royal Commission identified approximately \$12.2 billion that could be made available from Family Allowances, the Guaranteed Income Supplement (but not Old Age Security pensions), the Child Tax Credit, child and married or equivalent to married income tax exemptions, and the federal share of social assistance.⁸ If all these funds were channelled into a Universal Income Security Program, they could finance the maximum annual benefit levels (in 1984 dollars) of \$2,750 for adults under age 65 (and for the first child in a single-parent family), \$750 for children, and \$3,825 for the elderly.

During the public hearings this proposal was frequently misunderstood and criticized. Because it was referred to as an "income security" plan, it was perceived as a guaranteed annual income. Thus, the level of income was identified as clearly inadequate, since it was insufficient for a person or family with no other source of income.

For those with no other income, the Macdonald Royal Commission's recognition that "the income guarantees operative at very low earnings levels are not necessarily adequate to meet all family needs unless some additional support is provided"⁹ was lost upon its critics. The Royal Commission's assumption that the provinces would use their 50 percent

share of Canada Assistance Plan monies to provide a basic income (averaging some \$4,000) in addition to the proposed supplement was no consolation to those concerned with protecting the lot of social assistance recipients.

The "universal" nature of the Universal Income Security Program provides another source of difficulty. There is no way of sidestepping the distinction between those who are able and expected to work and those who are not. There are fundamental differences between these two categories (in spite of the unavoidable grey area in between) in the way they can respond to the very existence of income support and supplementation programs. The Macdonald Royal Commission's Report recognized this concern:

It is possible to make receipt of benefits contingent on active participation in the labour force in the form of active job search . . . or by demonstrating some level of earned income or by participation in locally administered job-creation projects.¹⁰

If this were done, however, the Universal Income Security Program would no longer deserve its title of "universal."

Beyond these criticisms that are based partly on a misapprehension of the proposal for a Universal Income Security Program, Michael Wolfson has demonstrated that, even considered from the narrower perspective of an income supplement, when the tax system is taken into account the proposal does not achieve the slow and smooth transition from net transfers to net taxes as higher and higher income levels are considered (see box).¹¹

These imperfections of the proposal stand out more clearly against an alternative proposal that substantially modifies the tax system in the direction of a flat (that is, a uniform marginal) rate for personal income tax. For instance, the effective marginal tax rates under the Universal Income Security Program range between 50 and 60 percent at incomes between \$10,000 and \$30,000.

This analysis brings out the basic dilemma of instituting a universal guaranteed annual income. Available funds are not sufficient. Therefore, either benefits would have to be inadequate or the tax rate on earnings would have to be so high that work incentives would suffer. Even if the program used all of the money in both the income support and the supplementation tiers of programs identified earlier, there would not be enough to provide an adequate income for all those Canadians who are without work. The attempt to do so would involve large shifts in benefits, and not always in the desired direction. Recipients of social housing benefits would lose, for example, as would the elderly, while single individuals would gain. A supplementation program, however, would require a smaller amount of funds because it simply tops up other earnings.

To define a specific supplementation plan would require making a large number of highly debatable assumptions about related changes in social programs and the tax system, about social and economic priorities, as well as about provincial viewpoints. It is valuable, however,

"I think it is the mechanics of the thing that scare people. What scares people the most is the fact that they will not get paid enough. On UI you do not get dental and you do not get optometrists, et cetera. You simply get a cheque. But people on welfare do get the optometrist. We have to take these things into account as well. What a guaranteed annual income would pay would have to be above the poverty line and would have to be reviewed yearly. The speaker before me said \$9,000 for a single person and I tend to think that is low." (David Radke, Calgary hearings)

"This is where guaranteed annual income falls down, in my view. It provides only the income side. You also need the social service side." (Government of Manitoba, Department of Employment Services and Economic Security, Winnipeg hearings)

to describe the essential characteristics that any viable and acceptable supplementation program should possess. This Commission of Inquiry favours the concept of an earnings supplementation program.

An earnings supplementation plan, however, cannot be designed to solve the income support needs of those who are unable to work and are without any other source of income. Therefore, it cannot be truly "universal," since that segment of the population would be excluded. For all others an earnings supplementation program, no matter how modest in the beginning, would be a step in the right direction. It would promote self-help and would do so in a less discriminatory way than the present quasi-income supplement operated under the name of regionally extended Unemployment Insurance benefits. Initially, the amounts of supplementation might not be equivalent to current regionally extended benefits, since other human resource development programs are also proposed, but the funds for this general purpose would be more equitably distributed.

An earnings supplementation plan should improve the options open to a person struggling to establish self-sufficiency through participation in the labour force. It should be designed to ensure that an individual's total income goes up significantly when earnings increase. It is paradoxical that many find themselves in a "welfare trap" when they attempt to get off social assistance. When the level of earnings is relatively low, more work may lead to the same or even less total income,

not in the
welfare trap
can't get off
social assistance

Integrating Income Security with the Personal Tax System

In an article entitled "A Guaranteed Income" in *Policy Options* (January/February 1986), Michael Wolfson assesses the Macdonald Royal Commission's proposal for a Universal Income Security Program (UISP) and proposes a fully integrated Guaranteed Income/Simplified Tax (GI/ST) option.

Wolfson demonstrates that the UISP proposal fails to deal with the interaction and overlap between the direct transfer system and the personal income tax system. To illustrate how this problem could be overcome, his GI/ST would follow the lead of the UISP by abolishing the following programs and tax expenditures: Family Allowances, Guaranteed Income Supplement, Canada Assistance Plan (federal portion), Child Tax Credit, Married and Equivalent to Married Exemptions, and Exemptions for Dependent Children. Unemployment Insurance would be cut back by 40 percent. Then, to

integrate and simplify the overall income tax and transfer system, the GI/ST would go on to abolish the personal exemption; the age exemption; the pension, investment and employment income deductions; and, most importantly, the complex set of marginal tax rates. There would be a single basic federal tax rate of 30 percent and a 15 percent surcharge on total income over \$30,000. Unemployment Insurance premiums would be abolished and the program would be financed out of consolidated revenues.

To replace all the personal exemptions, the GI/ST would provide a set of annual federal income guarantees. For purposes of comparison with the UISP, Wolfson chooses similar levels for this new universal guaranteed income:

- \$2,750 per person aged 18 to 64;
- \$750 per child under age 18;
- \$2,600 per person aged 65 and over;
- \$2,000 additional for single parents;

- \$1,400 additional for single persons aged 65 and over.

These guarantees are consistent with supplementation for the working poor. However, they would be fully integrated with the personal income tax system. Unlike the UISP, tax-back rates on income-tested transfers would not be stacked on top of the personal income tax rates.

Even though they are fiscally equivalent, the distributional consequences of UISP and GI/ST would differ considerably. GI/ST and UISP both redistribute from higher- to lower-income families. The UISP would reduce disposable incomes for almost two-thirds of non-elderly families with children, while under the GI/ST only about one-third of these families would experience net losses. GI/ST tends to be more severe than UISP on the top 10 percent.

if this is 'rel. low' rate - why not use it for IT?

since social benefits and earnings themselves are taxable. Working may leave an individual financially no better off, or even worse off, than before.

Another requirement of an effective supplementation plan is that it have a low and consistent tax-back rate. That is, as income rises, benefits should be reduced at a relatively low rate (such as 40 percent). The rate should also be consistent, to avoid sudden jumps in the tax-back rate as income rises.

"We have a system that forces people to cheat. It forces people not to declare any income that they make, and I think it is wrong." (James Earl Jefferson, London hearings)

Instituting a new Canadian Earnings Supplementation Program would involve a major reform to one tier of the income security system. It would improve the integrity of the Unemployment Insurance program by allowing it to return to its appropriate role as social insurance.

- paid for by gov't's share of UI

Recommendation

8 The Canadian government should work closely with the provinces to develop earnings supplementation programs that complement the proposed changes in the Unemployment Insurance program. These programs should ensure that those who participate in the labour force but have inadequate incomes would be eligible to receive a supplement on the basis of total household income rather than individual income. The tax-back rate, when combined with the income tax system, should be less than 50 percent.

Social Insurance

The Role of Unemployment Insurance

Unemployment Insurance plays a transitional role, that of a partial income replacement for a specific period between spells of work in a given job or between jobs, or between the end of employment and withdrawal from the labour force. In the long run, it helps cushion the impact of unemployment both for the individuals directly affected and for their communities, which are dependent on their continued purchasing power. Since it is a transitional program, it is unlike social assistance, retirement or disability plans that are intended to provide ongoing support to maintain individuals and families at a reasonable level over the long term. It has adaptive, preventive and facilitating functions because it helps individuals who are waiting for their jobs to resume, shifting to other employment, or moving out of the labour force. It is more of a lifeline than a safety net.

The proposed supplementation program would facilitate a reform of the Unemployment Insurance program into a straightforward earnings-related entitlement, bearing no relationship to need or family status as those notions apply for purposes of income support or supplementation. It is impossible to use Unemployment Insurance for income supplementation purposes without subverting its nature and creating unacceptable inequities. In a sense, what is insured by Unemployment Insurance is the earnings on which premiums are paid, rather than the person who gets those earnings. What triggers Unemployment Insurance benefits is the occurrence of unemployment. The meaning of that occurrence deserves closer scrutiny.

what if unemploy. is considered as a 'quit policy' (eg. Crow)?

"Unemployment Insurance has played a critical role as an economic stabilizer. Income from Unemployment Insurance benefits has sustained not only individuals and families, but entire communities, and indeed regions, in times of serious economic hardship." (Government of Manitoba, Department of Employment Services and Economic Security, Winnipeg hearings)

"For us, Unemployment Insurance is a federal social assistance program, whose purpose is to protect against a temporary interruption of earnings." (Fédération des femmes du Québec, written brief)

"As for maternity benefits, the temporary stoppage of work due to maternity, adoption or sickness is, we believe, properly related to work and should be part of a UI program. There are no other processes in place right now that could cover a program of maternity benefits." (Commission des services juridiques, Montréal hearings)

"The worker who quits her job because of pregnancy is not really unemployed, since she still has her job. The benefits paid out to these workers should, therefore, be provided by a program other than Unemployment Insurance – for example, through Family Allowances – and should be entirely financed by the government." (Syndicat des fonctionnaires provinciaux du Québec, written brief)

"We view maternity as a choice. Women should be able to provide for their own leave through a tax-deductible thing just like an RRSP." (Berwick Ferguson Payroll Canada Ltd., Toronto hearings)

"Ideally, we would like maternity leave and all parental rights taken out of the UI Act. We think the ideal would be to have a policy for maternity and for parental rights independent of the UI Act. Since this policy and this law, which would effectively give Canadian women a right to maternity leave does not exist, we think that maternity leave should be kept in the current program and should be improved." (Confédération des syndicats nationaux (CSN), Québec hearings)

"There used to be a perception that people who lived or worked in occupations that were either seasonal or subject to ups and downs more so than other occupations, would generally have better-paying jobs, and that this fact would offset some of this fluctuation and the ability to have full-time year-round employment. Whereas UI was – originally, anyway – conceived as a sort of bridge to prevent people falling below an absolute minimum in periods between jobs." (Ontario–Manitoba Primary Council of the Canadian Paperworkers Union, Thunder Bay hearings)

Job Loss versus Earnings Interruption

The commonsense meaning of unemployment is to be "out of work," but not everyone who is out of work can get Unemployment Insurance and some may get it while they still have a job. Important issues are at stake in the definition of unemployment, because the lines of demarcation between Unemployment Insurance and other programs are implicit in any definition, and the definition can make the difference between qualifying for Unemployment Insurance and not qualifying.

Only those who have worked for a certain number of weeks and then lose their jobs can qualify for Unemployment Insurance. Rules about entrance requirements divide the jobless into two groups: those who do not meet the entrance requirements and those who qualify for coverage. Whatever these rules may be, the point is that those who fail the test must rely on their own resources, those of their families or, failing that, on social assistance.

The present program defines unemployment in a most confusing way. To be unemployed means to suffer an "interruption of earnings" for at least seven days. In the majority of cases, that happens when a contract of employment is terminated since, when that occurs, one stops getting paid. Payments sometimes continue, however, after work has ended. Even more important in the present context, eligibility for Unemployment Insurance benefits may exist even if the contract of employment endures. The Canadian Unemployment Insurance program does something that is not done in many other countries. It covers interruptions of earnings in situations such as maternity, sickness, and short-term layoffs with recall, whereas in other countries these risks are covered by other elements of the social security system. The relatively wide scope of Unemployment Insurance in this country accounts, at least in part, for the relatively large fraction of gross national product that Unemployment Insurance represents (2.4 percent in 1984). — no, unemploy. accounts for it.

Coverage of interruption of earnings arises in three categories of circumstances. An employee who is on sick leave is temporarily "out of work" but is still bound by a contract of employment, as is the employer. Similarly, under some provincial laws employment security is guaranteed to pregnant women. Unemployment Insurance in these cases is a compulsory program providing minimum benefits for all employees and serves a social purpose.

The third situation involves short-term layoffs and seasonal employment, where workers are frequently recalled to the same jobs. Some occupations, such as those in the construction trades, are characterized by a succession of employment spells for the same or different employers. In many cases there is an implicit or explicit contract whereby seniority rights are maintained, pension benefits and contributions continued, and classifications respected. Earnings are interrupted but it is questionable whether job loss has occurred.

The coverage of all of these interruptions of earnings by Unemployment Insurance is not universally accepted. Several arguments are made against it. Some believe that including "interruption of earnings" when there is no job loss is, in principle, inappropriate under an Unemployment Insurance program. For others the question is what risks should be

pooling. Are the risks the responsibility of the employer or of society? Does sickness belong in the same "pool"? With regard to short-term layoffs subject to recall, some argue that the availability of Unemployment Insurance creates an incentive for employers to use layoffs to minimize their costs, when faced with large inventories of finished goods, at the expense of all other employers and employees. As identified in Chapter 2, there is a pattern of usage which suggests that this does in fact happen.

Another source of difficulty is that since 1940, the federal government has acquired the power to legislate an Unemployment Insurance program and to finance it through premiums. If the courts were called upon to ascribe limits to the power of Parliament to define unemployment, it is believed that they would favour a generous interpretation of that power, to the extent that a broad definition would be considered essential for an effective Unemployment Insurance program. Whether interruption of earnings, unaccompanied by severance of the employment contract, would pass that test must await a judicial decision.

Social insurance should be mandatory and universal because it is in the general interest of society to share widely the burden of certain risks. In this respect Unemployment Insurance resembles medical insurance, which is compulsory, with standard premiums and coverage for all – both those with high medical risks and those in good health with low risk. Critics of Canada's Unemployment Insurance program have argued that a "risk" which is certain to occur and is "anticipated" should not be insured. In social insurance plans, however, "pure insurance" is not the goal; the goal is to insure against involuntary interruptions of earnings and to pool that risk among all employers and employees. Some situations which affect workers' earnings are legitimately insurable risks even though they are anticipated. Even when the worker expects to return to the same job after a period of unemployment, the risk that the employer and worker are insuring against is the timing and duration of the interruption of earnings.

In social insurance, the notion of what constitutes a kindred group with sufficiently similar risks is a realm for subjective interpretation. Those who object to the extensive pooling under the present Unemployment Insurance program cannot be proved wrong. The only answer to that objection is to point to past practice and to the lack of any other clear alternatives at this time.

Recommendation

- 9 Unemployment Insurance should provide temporary replacement of earnings in the case of job loss or interruption of employment earnings.
-

Benefit Repayment by High-Income Claimants

Since 1979, high-income claimants have had to repay part of their Unemployment Insurance benefits. This provision affects claimants whose net incomes for tax purposes exceeds 150 percent of the annual maximum insurable earnings. The current threshold income level is \$38,766. The amount repaid is the lesser of 30 percent of net income

surely you're not expecting of employers - should they be punished?

"Costs have risen dramatically in the areas of maternity and sickness leaves under the Unemployment Insurance program. It is the feeling of the Alberta Chamber of Commerce that benefits in these areas do not belong in the program." (Alberta Chamber of Commerce, Calgary hearings)

"In our opinion, it would be a mistake to consider the Unemployment Insurance system as being a true insurance system. Since its beginning, it has been and has developed into a universal transfer system to the unemployed in Canada." (Confédération des syndicats nationaux (CSN), written brief)

(including Unemployment Insurance benefits) in excess of the threshold or 30 percent of benefits received. Thus, an individual who had net income of \$40,000 and had received \$3,000 in benefits would have to repay \$370 (30 percent of the difference between \$40,000 and \$38,766). If net income was \$45,000, then someone who had received \$3,000 in benefits would have to repay \$900 (30 percent of \$3,000).

This provision was introduced in response to concern at the proportion of benefits going to high-income families. It therefore illustrates the current ambivalence about whether the role of Unemployment Insurance is income redistribution or social insurance. Since Unemployment Insurance cannot perform an income redistribution role adequately, this provision should be eliminated as part of the reforms recommended in Chapter 7.

Maternity, Parental and Sickness Benefits

A comprehensive disability program has been under discussion by the federal and provincial ministers of social services. The focus of that discussion is on long-term disability, as distinct from the short-term sickness benefits now provided under Unemployment Insurance. These long-term disability payments include those made under the Canada and Quebec Pension Plans, Workers' Compensation, private long-term disability plans, and provincial programs of assistance to the disabled in Ontario, Alberta and British Columbia.

This initiative is to be commended. Further analysis of the issue should include consideration of the coverage of short-term sickness and maternity, and issues related to the role currently served by Unemployment Insurance in providing these benefits.

In the absence of another, more inclusive, system to protect the income of workers who require leave for maternity or sickness, it is appropriate for Unemployment Insurance to continue to provide coverage. This is in keeping with the definition of unemployment as resulting from either job loss or a temporary interruption of earnings. It is just as reasonable to cover temporary sickness and maternity periods as it is to cover temporary layoffs with recall notices.

Several business groups expressed a desire for a more attractive offset of Unemployment Insurance premiums for those employers with their own disability insurance plans. Currently, employer premium reductions are based on the average cost to the Unemployment Insurance program of providing sickness and maternity benefits for individuals insured under these private plans with costs based on the average annual insurable earnings of those individuals. Many of these groups feel that this method is inadequate because premium reductions are not related to the employers' costs in providing private insurance schemes. It is the cost of providing benefits through the Unemployment Insurance system, however, that should be the benchmark for premium reductions. The methodology of premium reduction should be reviewed to determine whether, in fact, it sufficiently compensates employers.

"On sickness benefits, we have taken the position that they remain within the Unemployment Insurance system . . . UI sickness benefits, as well as all other present benefit systems which provide for income continuity for disabled persons, should be scrapped and replaced with one universal disability system." (Confederation of Canadian Unions, Vancouver hearings)

"The 'unexpected' element, in our view, justifies the inclusion of sickness benefits in our proposed Tier 1 section. We recommend that there be greater differentiation in premiums between employers who provide sickness insurance and those who do not. This would encourage employers to self-insure. Our overriding concern here is that sickness coverage be available to all employees, including those who work for large and small businesses." (Canadian Chamber of Commerce, written brief)

Recommendation

10.1 The Unemployment Insurance program should continue to provide sickness benefits. It should retain the provision for premium reduction equivalent to the saving to the Unemployment Insurance Account from private disability insurance, but the method of calculating the premium reduction should be reviewed.

Two administrative matters related to sickness are of particular concern. The issue of the "medical yardstick" for sickness benefits was one which caused many complaints at the public hearings. It was argued that the yardstick is a "secret chart" which arbitrarily determines the duration of sickness benefits without regard to the recommendations of the client's own physician. While the medical yardstick should continue to be used for guidance, the secrecy surrounding it simply fuels speculation that it is arbitrary and capricious. To avoid such concerns, the medical yardstick should be readily available to claimants.

"How can a book tell how long someone should be sick? That is ridiculous. It should be up to the doctor to say how long the person is going to be sick and it is up to the Commission to accept it." (Labour Council of Metropolitan Toronto, Toronto hearings)

It is also understood that the normal two-week waiting period is currently being waived in some cases of illness, injury or quarantine. This is at variance with the principle of co-insurance under which the insurer and the insured share the costs of the contingency covered by the insurance.

Recommendation

10.2 The medical yardstick for determining sickness benefits should be readily available for client reference. The two-week waiting period for sickness benefits should continue and this requirement should be enforced.

Since its introduction in 1971, the provision of maternity benefits has been changed from time to time, not only to provide for the period of physical incapacity of the mother, but also to allow benefits to be used to cover parental care. This trend is also seen in the 1984 extension of the benefit to adoptive parents.

"We also recommend that both parents have access to maternity-leave benefits, to share between themselves as they choose."
(Canadian Bankers' Association, written brief)

In light of this change, it is surprising that current provisions fail to give the role of the natural father recognition equal to that given to the adoptive father. This Commission of Inquiry shares the view of the Parliamentary Committee on equality rights (the Boyer Committee) on this issue and concurs with its recommendation for the creation of a two-tier system of benefits.¹²

The provision for a two-week waiting period and for a total benefit period of 15 weeks should be maintained. The two-tier system would allow parents to choose how long the mother receives benefits and for the parents to decide which of them would undertake the initial parenting role. Current legislation requires the claimant to prove that it is "reasonable" to remain at home. That principle should be adapted to the two-tier approach.

Recommendation

11.1 A two-tier system of maternity and parental benefits should be implemented, comprised of:

- maternity benefits available during the period surrounding childbirth; and
 - parental benefits available during the period following maternity leave or placement of an adopted child;
 - parental benefits should be available to either or both parents (but not concurrently) such that the total amount of benefits does not exceed the maximum available to one parent; this should be made available only to those who are active labour force participants.
-

“If you are unfortunate enough to be unemployed and, in addition, become seriously ill, you had better have recovered by the sixteenth week. Because this is the time you will lose your right to draw Unemployment Insurance benefits.” (Mouvement action chômage de Trois-Rivières, written brief)

The Boyer Committee also raised the issue of the receipt of special benefits of more than one type (i.e., maternity and sickness). Current legislation limits the duration of special benefits in any combination to 15 weeks. Thus, a parent who claims the full amount of parental benefits is unable to claim sickness benefits within the same benefit period, a restriction the Boyer Committee believed to be “unduly harsh” to natural or adoptive parents who become ill. That view is shared by this Commission of Inquiry and is illustrated in the situation described at the end of this chapter.

Finally, payment of these “special benefits” is currently confined to the “initial benefit phase,” that is, the first 25 weeks of unemployment. This appears to be unnecessarily restrictive and should be amended.

Recommendation

11.2 Section 22(3) of the Unemployment Insurance Act should be amended to remove the present 15-week aggregate benefit limit, so that the availability of sickness benefits is separate and distinct from any maternity or parental benefits to which a person is entitled. Maternity, parental and sickness benefits should be available during any phase of the claimant’s unemployment spell.

“Why should the industries which provide year-round employment have to subsidize those that do not?” (Canadian Petroleum Association, Calgary hearings)

“Construction is identified as an industry which experiences a relatively high degree of temporary unemployment. Yet, it is clear that no imaginable adjustment in UI premiums will prevent employers laying off as major projects come to completion, or to cause companies engaged in work which is impossible in the winter to retain their crew in the colder months.” (Labourers’ International Union of North America, written brief)

Experience Rating

The previous discussion regarding interruption of earnings as it relates to sickness and maternity also raises questions about risks with respect to short-term layoffs and employment in seasonal industries. Interruption of earnings without job loss and the various part-year employment practices of some industrial sectors (for reason of seasonality or otherwise) contribute strongly to industry-to-industry variations in the relationship between contributions and benefits.

Large variations in the use of Unemployment Insurance occur between industrial sectors (see Figure 4.12), and these variations have led to a situation where certain industries – namely those providing relatively stable, year-round employment – are regarded as subsidizing the less stable ones. From that perspective, Unemployment Insurance can have a negative long-term impact on the economy by encouraging unstable industries and discouraging stable ones. Experience rating is often suggested as a means of eliminating or reducing these cross-subsidies.

Figure 4.13
Benefit/Contribution (Benefit/Cost) Ratios of Unemployment Insurance, by Industry, Canada, 1977

Ratio above 1	Forestry	5.09
	Construction	2.46
	Fishing and hunting	2.10
	Recreation (sports, tourism, etc.)	1.67
	Agriculture	1.50
	Personal services	1.40
	Non-durable goods (food and beverages, etc.)	1.24
Ratio below 1	Commercial services	0.91
	Durable goods	0.87
	Retail trade	0.84
	Finance, insurance, and real estate	0.75
	Mining	0.67
	Transportation	0.58
	Teaching	0.38
	Communications	0.36
	Public services	0.15
All industries	1.00	

Source: Canada Employment and Immigration Commission, Task Force on Unemployment Insurance, *Cost Ratio Analysis of the Insured Population*, Technical Study No. 12 (Ottawa: The Commission, 1981), p. 7.

Unstable jobs are declining relative to other jobs in the Canadian industrial structure. Indeed, sectors characterized by higher seasonal variations, such as agriculture, forestry, fishing and construction, have declined in relative importance over time, as noted in Chapter 2.

Although Workers' Compensation programs generally have adopted experience rating, most Unemployment Insurance programs have not, with the exception of those of certain American states.¹³ If the purpose of experience rating is to change behaviour – that is, to induce employers to alter hiring and layoff practices in order to produce more stability in employment – and not to be punitive, then experience rating should be done on a firm-by-firm basis and should not be applied indiscriminately to entire industrial sectors. Generating the quantities of data needed to operate the system is administratively complex, and the benefits of experience rating would have to exceed the implied costs for it to be adopted. In practice, the impact of experience rating on behaviour is mitigated by minimum and maximum contribution rates, even when applied by private insurers, and thus reduces the incentive effect of the system. Finally, the cost of increased Unemployment Insurance contributions for employers with above-average layoffs is very small in comparison with the extra cost of transforming a part-year job into a full-year one. In most cases the impact of that relatively small financial penalty would be negligible.

“If experience rating were by industry rather than company, accurate allocation might not occur. It might encourage some employers to use overtime, rather than to hire employees on a temporary basis, in order to avoid claim charges. On the other hand, it should encourage job sharing rather than layoffs. Experience rating would cause additional administration costs. On balance we believe that the case against experience rating today is stronger than the case in its favour.” (William M. Mercer Limited, written brief)

Recommendation

12 Unemployment Insurance premiums should not be based on experience rating.

"You have an obligation, the government has an obligation, to ensure that any changes made to Unemployment Insurance are assessed in terms of their impact on poverty and income disparity. . . . Unemployment Insurance, in some instances, in some parts of the country in particular, now serves more as an income transfer program, as an income maintenance program, rather than a social insurance program. To go back to the basic principles without replacing the function that UI now provides in terms of income maintenance and income transfer, I think, will inevitably lead to an increase in poverty and income disparity." (National Anti-Poverty Organization, Ottawa hearings)

*programs don't
suffer, people do*

"We would like to see income support systems restructured to become: (a) more creative; (b) free of disincentives to work; and (c) focussed on encouraging individuals to engage in productive activities." (Government of Prince Edward Island, written brief)

Summary and Conclusions

This chapter starts from one central fact: Unemployment Insurance is overwhelmingly important in the context of all social expenditures for income security. Not only is it the single most important program – as measured by its costs – but that importance is even greater if one concentrates on those programs that provide immediate benefits to members of the labour force. That is what makes Unemployment Insurance the link between economic and social policies.

Because of its importance, Unemployment Insurance cannot be modified in any fundamental way without significant effects on the rest of the income security system. Consequently, Unemployment Insurance reform requires corresponding changes in other elements of that system. This does not mean that these changes must happen simultaneously, or even that Unemployment Insurance reform must come first. What must come first is a decision regarding the role that Unemployment Insurance is to play. The implications for other income security programs can then be developed.

As in the past, social insurance continues to be the cornerstone of the social security edifice. Contributory programs producing well-defined entitlements for pensions, Workers' Compensation and Unemployment Insurance under broadly similar rules are found in all industrialized countries. The same cannot be said about other categories of income transfers. In the recent recession and the accompanying period of fiscal retrenchment, social insurance programs have suffered (least) ?

A review of income support programs involves addressing the "welfare trap." The introduction of a Canadian Earnings Supplementation Program, along with tax reform and the phasing-out of regionally extended Unemployment Insurance benefits, holds promise to improve substantially the lives of low- and middle-income earners.

Left to play its proper role as a social insurance program, Unemployment Insurance would still cover a wide variety of risks. Canada has traditionally favoured an extensive pooling of risks, including interruptions of employment earnings as well as job loss, and this tradition should be maintained.

Notes

- 1 Aside from tax expenditures, the only income security programs that provide benefits to active members of the labour force are Family Allowances, the Child Tax Credit and provincial income supplementation programs, for a total of some \$4 billion, or less than half the amount spent on Unemployment Insurance. Workers' Compensation is omitted here since the bulk of these benefits goes to former labour force participants suffering permanent disability.
- 2 Statistics Canada, *Income Distribution by Size, 1984* (Cat. no. 13-207), 1986.
- 3 Canada, Department of National Health and Welfare, Continuing Committee of Officials Reporting to Deputy Ministers of Social Services, *Inventory of Income Security Programs in Canada*, July 1985 update (Ottawa: The Department, 1985), pp. 64-65.
- 4 *Ibid.*, pp. 63-64.
- 5 *Ibid.*, pp. 112-13.
- 6 *Ibid.*, pp. 118-19.
- 7 M. Wolfson, "A Guaranteed Income," *Policy Options* 7 (January/February 1986): 35-45.
- 8 This is Option B of the Macdonald Report. A more generous design is also suggested as Option A, where the personal income tax exemption is also eliminated and fused into the Universal Income Supplementation Program.
- 9 Canada, Royal Commission on the Economic Union and Development Prospects for Canada, *Report*, Volume 2 (Ottawa: Minister of Supply and Services Canada, 1985), p. 797.
- 10 *Ibid.*, p. 798.
- 11 Wolfson, "A Guaranteed Income."
- 12 Canada, House of Commons, Standing Committee on Judicial and Legal Affairs, *Equality for All* (Ottawa: Queen's Printer, 1985).
- 13 W. Nicholson, "Unemployment Insurance Financing: Lessons from the United States," research study prepared for the Commission of Inquiry on Unemployment Insurance, 1986 (unpublished).

Gail Bauman, Secretary, Regina, Saskatchewan



Ms. Bauman's experience illustrates the injustice of the current Unemployment Insurance program's regulation which prevents maternity and sickness benefits from being received concurrently.

In January 1981, I found out I was going to have a baby. The pregnancy was planned and seemingly normal except for prolonged and severe nausea which lasted into my eighth month. This nausea made working so difficult that in May I cut back my

work to part time, and then I took my maternity leave at the beginning of July instead of the end of August – that is, two months earlier than I had planned.

Although I had held my government job full time for almost three years, my UI benefits were based on this part-time salary earned in my last two months . . . Because of circumstances beyond my control, my maternity leave benefits were only a percentage of a part-time salary, not the full-time benefits I feel I was entitled to.

In the last three months of my pregnancy I also began to experience a numbness in my left leg. It would come and go and, though not at that time severe, would force me to cease all activity during the few moments that it lasted. I mentioned the problem to my doctor, who thought it was probably due to the baby pressing on a nerve.

On the evening of September 3, 1981, my leg got worse and we went to the Pasqua Hospital. Hospital personnel assumed I was about to give birth and prepared me for labour, while merely applying hot water bottles to my leg to ease the ache.

Coincidentally, my labour did start that very night and my daughter was born at 7:30 a.m. on September 4, 1981. The labour and delivery were normal and I slept well that night though my leg still bothered me.

The next day, however, the leg swelled and turned red. X-rays taken three days later showed that I had a five-inch blood clot in my left thigh. I was put on blood thinners and remained in hospital for a month.

That month was a nightmare for us. Andy took a month's leave without pay to come to the

hospital every day. My small UI benefits were not sufficient to pay all our bills, and so our savings started to dwindle.

When finally home I knew I would not be able to return to work as early as I had wanted to . . . The circulation in my leg was very poor and my health was broken. I applied for a further six months leave from my job and duly went to report this new development to the CEC. I was told I could not collect any more UI benefits once my maternity benefits ended. This was because I could collect sickness benefits or maternity benefits but not both. Because I was ill and not available for work, I was not eligible for regular benefits either. In effect I was penalized because I became sick as a direct result of pregnancy and childbirth.

I am still angry today at the UI system which let me down at a time when I needed the very benefits I had paid for with nearly four years of premiums. I saw them as a *right*, not a handout.

I look back and ask, why did this happen? Why are we who pay premiums each month not informed of the different types of benefits and how long each type lasts? Why are we not informed of our rights in relation to UI or of the appeal procedure? . . . The UI system effectively denies the fact that women can become ill as a direct result of pregnancy and childbirth, and divests itself of all responsibility towards those of us who do. I shudder to think what would have happened had I been a single parent or in a family which had only one income.

Most women go into hospital, have their babies, come home and continue on with their lives. But for those of us who can't and who still pay into this system, provisions *must* be made!

Four Young People

This is an excerpt from a group interview conducted by Kayro Communications Inc. as part of a study on the social consequences of unemployment.

Luc: I'm nineteen and I live at home. I don't really have much education. I have high school. I've been a busboy, a life guard. I've done a lot of under-the-table work, mostly construction, cabinet making, painting. I'm going to school right now only because I can't find a job. Maybe some more education will give me a better chance of finding one . . . Contacts is the only way I've gotten any of my jobs. I don't have any experience. No one is going to look at me.

Sue: Well, the only training that I have is in wood-work. I had a job for a month once. It was a disaster. The guy hired me on a training grant. Then he said, "I'm not going to train you on what you should have known in the first place." I've been talking to people in the industry. You get one nice job a year usually that you like. You do really awful stuff all the time. I don't know if I want to continue with the course. I don't want to end up working in a job I don't really enjoy.

Simon: My training background goes back to a paper route when I was 12. After that I worked for a pie factory, then as a busboy and as a dishwasher, delivering, a labourer in a mining

camp. I made a lot of money, bought a car and stereo and things I needed for Grade 10. I was a meat truck driver for six months and got fired from my job, which was a good thing. I went to Europe. Then I landed a job as a busboy at a local hotel for six months, then as a bartender there for another six months, and after that I got a job in construction for two months. After that I got a job at the stock exchange working for seven months as phone boy on the floor of the exchange . . . Then went on UI six months and studied music and went to Europe for four months. I decided to go back to school and study music because that's really what I want to do but I went to school and I couldn't cut it. Now I'm unemployed but who wants to do the kind of work that I do to survive? It's all crappy jobs.

Lori: Well, I did babysitting and house-running, sold ice cream. Then I went to eastern Canada and worked for a large company as a typist. I hated that. So I went to the track and looked after horses. Then I went to England and looked after more race horses. I went to school for a year. Then I worked as a gardener. I went to Europe and travelled and worked as a nanny. I lived on a bursary and housecleaning and odd jobs. I guess I've been unemployed for four years. I've never been on unemployment. It gives me a bad self-image

and gets me in a rut. The less I have to do with government the better. I'm going to UBC right now . . . just getting a degree . . . but I'm open to law, medicine and business. If I needed to work, I'd go find it. It might not be what I enjoy doing but I'd do it anyway.

Simon: I live at home and I think for a little while being unemployed can be very enjoyable if you use your time properly, but after a little while it gets to you.

Luc: When you're really looking for a job and you can't find one, it's the most frustrating thing I have ever experienced.

Simon: One good thing about UI is it gives you a chance to really relocate where you are. It gives you a chance to get back on your feet. That's really what it's supposed to be for. You have the money coming in, you're not freaking out worrying where the money is coming from. I'm sure it makes some people lazy, but just about any guy I know who has been on UI goes and works under the table and makes some more money.

Sue: That's mental attitude though. Maybe along with UI there should be group talks and stuff to get people out of just sitting back and accepting it . . . They always told us if we got grade 12 we would get a job.

Lori: I didn't even think about it. I grew up on a little isolated island where a lot of people there didn't need to work or weren't working because they were artists . . . I don't think

school gets you a better job. I think school shows people that you can survive the system. It helps you learn what you can do with your self-potential.

Simon: And when you are looking for a job, you have something to sell and to sell yourself with. A BA in anything is better than nothing. If you're going for months without getting a job, it gets harder and harder to sell yourself. You get to a point where you can't go in there enthusiastically anymore . . . You can't just take a job for now, you have to think about what you're going to do after this job. You need long-term goals . . . There's a lot of competition from university students. Those are the people who are hustling for the jobs because they know you gotta work hard for what you want . . . Eventually most people become motivated. Most of the kids who have had parents who have worked all the time go back to school or trade school and they get full-time jobs. But the kids who are on welfare are the ones whose parents were constantly on UI or welfare.

Lori: Everybody goes through times when it's hard to cope and that's when there should be security from the government, just to help you to get out of that rut. Not just money, but talking. Like if you are on welfare, you should not be just getting money but should be going and getting counselling.

Skills: A Choice of Futures

Introduction

It is generally accepted that better education contributes to a better life. Education enhances the ability to alter one's course in a rapidly changing world. While the unemployed need to improve their chances of getting into the work force, the employed need to maintain their employment in the face of changing skill demands. The inability to foresee the future with precision and certainty only strengthens the importance of being prepared.

The glimpse into the lives of the four young people whose conversation is reproduced here illustrates vividly the need to explore the relationship between education and employment. Their concerns raise significant questions about the relevance of education and training for the work force.

- Does a general education prepare young people adequately for the world of work?
- What kinds of skills does an unemployed worker need?
- What level of training is required?
- Who is responsible for developing a trained labour force?
- Are relevant training and education programs available?
- Is there a role for Unemployment Insurance in developing a skilled labour force?

Canada's capacity to adjust to change, particularly the kind of change that is generated by competition in world markets and by technological advances, is inextricably linked to the ability to develop an appropriately educated and trained labour force. The country needs people with skills and the capacity to adjust effectively to changing requirements. Failure to respond to this challenge will result in lost opportunities for all Canadians and will doom the least successful to a marginal existence on Unemployment Insurance and social assistance. It is therefore essential that education, training and retraining form the foundation of an integrated approach to the development of the nation's human resources.

The underlying premise of this chapter is that an educated work force will have a better choice of futures. A significant proportion of the unemployed have not completed high school. Investing in a strategy to help them reach that level of education is vital. Young people who have left school without completing their education face a particularly high risk of unemployment. The level of adult illiteracy in a prosperous country like Canada is alarming. The adequacy of existing programs, and of the training provisions of the current Unemployment Insurance scheme, must be questioned. Proposals must be developed which will allow Canada to enter the twenty-first century better prepared.

"There are many adults out there who require upgrading training of some sort. If we ignore those people, they are going to be in and out of the labour market, Unemployment Insurance or social assistance for the rest of their lives." (City of Halifax, Social Planning Department, Halifax hearings)

"Very few computer programming courses are available for the number of students attending our high schools in this province. We feel that to keep up with the world system and the high technological values around the world, that we have to meet those needs and implement those types of programs in our educational system, especially at the primary level. We don't have that." (National Anti-Poverty Organization, Ottawa hearings)

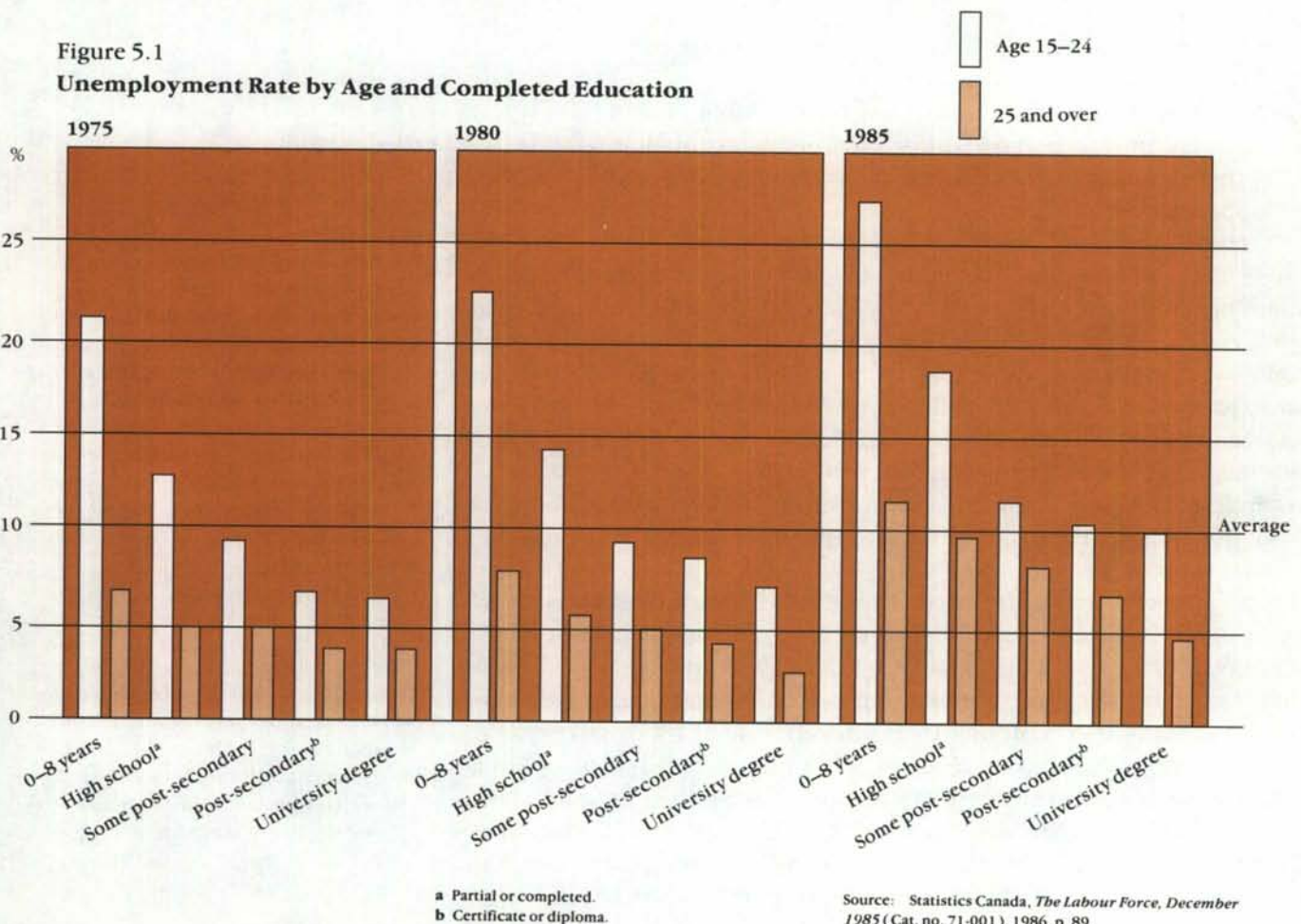
"There should be a planning division for training for future jobs, in occupations and skills for the future, not the past. In other words, UI should be ahead of industrial developments instead of behind them." (Conseil conjoint numéro 91 des teamsters du Québec, Montréal hearings)

The Need for Educational Reform

Unemployment and poverty are highest among those with the least education. While more adequate basic education and skill training will not of themselves create employment, those who are inadequately educated or functionally illiterate will find it increasingly difficult to compete for jobs and will have the greatest difficulty in retraining for new or different work.

What is most alarming is the number of young Canadians who are locked into this situation. The unemployment rate among youth is significant in itself. Youth between the ages of 15 and 24 account for 36 percent of total unemployment and only 21 percent of employment.¹ An even greater concern, however, is the likelihood that youth who are unemployed may remain ill-equipped to function in the labour market for many years to come. In 1986, the Senate Committee on Youth focussed particular attention on the relationship between education and employment, noting that "statistics consistently reinforce the link between education and employment; unemployment rates for young people with less schooling are much greater than for more educated peers."²

"The average age of the recipients of social assistance is dropping like a stone. A full 35 percent of our recipients are now under the age of 24." (Regional Municipality of Ottawa-Carleton, Ottawa hearings)



There is good reason to place some faith in education as a factor in reducing unemployment. Figure 5.1 illustrates the decrease in the rate of unemployment as levels of education increase. The relationship is most dramatic for those aged 15 to 24, at the start of their working lives.

The efforts of the education system must be more clearly defined and resources concentrated at the points where they are most effective. An examination of public expenditures in education and training reveals a tendency to direct resources at the high school level to programs for students who are academically successful, and at the training level to programs for high school graduates and those who are already employed. In other words, higher priority is being accorded to helping those most able to fend for themselves. Those who are disadvantaged, some because of limited abilities but many because of social and economic circumstances, are left to unstable jobs and to reliance on Unemployment Insurance and social assistance.³

In 1985, 75 percent of the unemployed had an educational level of high school graduation or less.⁴ On average between 1976 and 1981, 37 percent of Canadians who reached 18 years of age did not have a high school diploma.⁵ This dropping out of students before high school graduation is a strong criticism of the present state of secondary education. Many participants in the hearings saw grave problems in the way that the educational system prepares Canada's youth – or rather fails to prepare them – for the labour market.

This problem is not limited to Canada. In examining the future of European countries to the year 2000, the European Cultural Foundation identified the need for a fundamental reshaping of secondary education in Europe to make it less selective and less heavily concentrated on preparing students for post-secondary academic studies.⁶ In Canada, as in Europe, streaming students into either an "academic" or a "vocational" program early in their schooling weakens the important role of the educational system in ensuring equality of opportunity. Requiring students to make significant choices at an early stage that will determine their future careers may relegate children from socially disadvantaged backgrounds to "practical" studies that may limit their future education and career options.⁷ It is important that the direction of educational reform be toward greater flexibility. Future participants in the work force must have adequate basic skills to allow a full range of choices. The school system should provide as much flexibility as possible, so that youth may change their course without undue penalty.

Census data for 1981 show that, for those without high school diplomas or equivalent trade certificates, unemployment rates were 72 percent higher than the rates for other groups with those qualifications or better.⁸ A determined effort to raise the level of schooling at the secondary level could pay high dividends.⁹

"By devoting more resources to employment and training measures in a manner complementary to provincial programs, the federal government could help many of Canada's Unemployment Insurance beneficiaries to find work." (Government of Manitoba, Department of Employment Services and Economic Security, Winnipeg hearings)

"Under the new National Training Act, priority has been given to training in the high-technology skills and access to most training programs is restricted to those who have grade 10, and more frequently grade 12. The new Act denies the participation of undereducated Canadians since it makes no provision for basic education programs to help these adults reach the required level." (Canadian Mental Health Association, *Unemployment: Its Impact on Body and Soul*, Toronto, 1983, p. 79)

"The dropout rate before graduation from high school is as high as 50 percent and that really is a bit of a shocking statistic." (Canadian School Trustees' Association, Ottawa hearings)

"The initial schooling and education systems fail to provide students with basic core skills." (Canadian Federation of Independent Business, written brief)

"I think you are well aware of the kinds of problems we have in getting native children to finish high school, let alone finish grade eight." (Saskatchewan Action Committee on the Status of Women, Regina hearings)

"Little has been done to facilitate the transition from school to the world of work for young Canadians, particularly those who lack post-secondary or vocational training and preparation. It is widely believed that Canada must do more to provide its young people with job-relevant training opportunities and a flexible skills base." (OPCAN, written brief)

"CEIC over the years has in fact provided a federal program to sponsor students in academic upgrading in order to build them up to a level where they can enter vocational training. This historical relationship is in some danger of disappearing. It is something we are concerned about, particularly in Saskatchewan, as there is a pretty high level of skill illiteracy. These people need the opportunity to upgrade themselves academically in order to be able to take advantage of training." (Saskatchewan Community Colleges Trustees Association, Regina hearings)

"There is a need to place emphasis on technical and technological training to meet future skill requirements, but this should not be done totally at the expense of other programs, including basic upgrading of workers with low levels of education attainment. A grant/levy system is a necessary response to the problem of skill training in Canada." (Social Planning Council of Metropolitan Toronto, written brief)

Students drop out of school for a variety of reasons. Some students drop out because they do not see their studies as relevant to their lives or to future work. Some drop out for economic reasons, some for personal reasons. Innumerable studies of dropouts have been undertaken, each focussing on different aspects of the problem. Whether students drop out because of poor motivation, lack of financial resources, inadequate curriculum, or the structure of the school system itself, the problem must be addressed. Failure to do so will mean that a high proportion of youth will continue to leave school without the ability to function satisfactorily in the labour force.

The question of how to encourage these students to remain in school has been successfully addressed, at least in part, by programs which provide more flexibility in choice of course, in timetable and in learning methods. Other programs using a competency-based curriculum, a more relevant curriculum (including technological content), and cooperative programs that combine work experience and studies also show promise. These alternatives are effective for some youth. Not all dropouts have the same problem, so one solution is not possible. A variety of alternatives is needed.

The process of bringing about these reforms is a challenge. The history of education in Canada is one of continuing argument and debate about jurisdiction. This poses particular concerns in the case of high school dropouts who are beyond the school-leaving age. Some provinces have considered these young adults to be the responsibility of the federal adult training authorities. The federal government has argued that they represent a failure of the school system and are a provincial problem. The result is that too few programs are provided at either level. The controversy over jurisdiction inhibits a concerted effort to improve the quality and the appropriateness of education. There is an urgent need for leadership on the part of educators and public policy makers to put aside jurisdictional considerations and to deal with the real needs of high school dropouts.

While the complexity of federal-provincial relations makes it difficult to establish educational standards that are nationally recognized and uniform across the country, Canada does have experience in achieving broad national objectives through negotiation and financial incentives. The introduction of the teaching of official minority languages in the nation's school systems may serve as a model. Where the political will exists and each level of government is sensitive to the other's concerns and interests, national programs can be implemented. The \$200 million that the federal government contributes to the bilingualism program, on the basis of a commonly recognized national objective, represents an accepted intervention in the educational jurisdiction of the provinces. What has been learned from this model should be applied to the resolution of a national crisis even more critical

than that of bilingualism. There is a need to establish a comparable standard of high school education across the country to ensure that all Canadians have the general base upon which to build appropriate employment skills and capacities to adjust to complex changes.

It is recognized that high school education is largely within provincial jurisdiction. The education required for a more flexible, and better trained labour force, however, knows no provincial boundaries (see box). The federal government should put forward financial incentives and invite those provinces most ready and willing to participate to enter into federal-provincial agreements to achieve that objective.

Recommendation

13 The federal government should invite provincial governments to undertake measures at the high school level to ensure that a high minimum level of education is achieved by all Canadians and that these measures emphasize:

- flexibility in program requirements;
- the acquisition of general basic skills to grade 12 or an equivalent level;
- cooperative programs that combine work and study; and
- the inclusion of technological content in all programs.

The National Responsibility for Education

Clearly some basic elements of national responsibility arise because in Canada today, as in all modern states:

- education is a right of each citizen, due to each citizen irrespective of his place of residence;
- the standards maintained by schools and universities are of national interest, because a large part of scientific-technical achievement and hence economic and social well-being may depend on them;
- unity of the educational system is of national interest, in order to maintain and guard the freedom of choice (via mobility) of citizens; and
- the educational philosophy of an educational system and the principles underlying its operation are matters of national interest, because cultural and national consciousness depend on it.

Source: Organisation for Economic Co-operation and Development, *Reviews of National Policies for Education: Canada* (Paris: OECD, 1976).

"Functional illiteracy is a major and growing problem in Canada." (College-Institute Educators' Association of British Columbia, written brief)

"In Thunder Bay the level of functional illiteracy has been assessed to be as high as 30 percent. And in the small communities outside of here it is often quite a bit higher. So people do not understand the forms." (Kinna-Aweya Legal Clinic, Thunder Bay hearings)

"When Wayne Tebb visited a lumber camp in northern Ontario five years ago, he noticed a large number of workers were wearing band-aids. Ironically, confided an embarrassed foreman, the injuries coincided with the company's new safety campaign. He went on to explain that management had been puzzled – until it realized that the workers had been imitating the illustrations on the safety posters: they had been unable to read the messages printed underneath telling them *not* to do the things shown." (Morton Ritts, "What if Johnny Still Can't Read?" *Canadian Business*, May 1986, p. 55)

Attack on Adult Illiteracy and Innumeracy

It is disturbing to learn that many Canadians are functionally illiterate and/or innumerate – that their reading, writing and numeracy skills are not adequate to allow them to function effectively. Several studies, including one conducted by UNESCO in 1983 (see box), have indicated that 25 to 30 percent of adult Canadians do not have the capacity to read and communicate beyond a grade nine level.¹⁰ The actual number may be higher than this, since literacy declines over time if it is not practised and many Canadians use their literacy skills to only a limited extent after they leave school.

The inability on the part of almost a third of the adult population to deal with language, numbers and concepts at the necessary level has considerable human and economic costs. One estimate is that the United States economy loses \$20 billion annually as a consequence of illiteracy.¹¹ Functional illiteracy is being recognized increasingly by Canadian industry as a major concern. The Canadian Business Task Force on Literacy, whose 32 members represent such corporations as Petro-Canada, Molson Group of Companies and Abitibi-Price, has as one of its aims the promotion of awareness of this problem.

As one might expect, the level of literacy is related to the level of education. While the highest concentration of Canadians with less than nine years of education is among those 45 years and over, a significant number of young Canadians also face limited employment options because of their low educational levels. The 1983 UNESCO study indicated that approximately 1.5 million Canadians under age 44 and not enrolled in an educational institution did not have a grade nine education; 20 percent of this group were between 15 and 24 years of age. In 1985, of the 3.5 million Canadians aged 25 and over with less than a grade nine education, 1.4 million were in the labour force.¹²

From the perspective of the labour market, the lack of language and numeracy skills is a significant problem. Jobs for those who lack basic skills are rare; consequently they remain unemployed or limited to employment in unstable, low-paid jobs.

It has been estimated that the structural adjustments now taking place within the Canadian economy will require as much as 40 percent of

Literacy and Illiteracy

"Literacy may be considered as the ability to utilize effectively the communication systems of a given society at a particular time and to participate fully in the rights, responsibilities and privileges of citizenship . . . the basic 'print literacy' which until recently has been adequate for Western civilization, is being influenced and partially supplanted by the new requirements posed by technological change and the transformation of communication systems. The ability to interpret these systems, to use them effectively and pro-

ductively, so that they become an enriching rather than an alienating factor, is likely to become essential in coming years. Functional literacy is thus an evolving concept.

" . . . debates about literacy and illiteracy which concentrate on levels of reading and writing are misleading; the real issue is whether people possess the education and skills necessary to participate fully and productively in the life of their society. This is what functionality is about.

" . . . In a country like Canada, one of the richest and most productive in history, such conditions would be disturbing even if massive efforts were underway to improve them. Unfortunately such efforts do not exist, and have scarcely been contemplated."

Source: Canadian Commission for Unesco, *Adult Illiteracy in Canada – A Challenge* (Ottawa: The Commission, 1983), pp. 2-3.

the labour force to retrain or upgrade their skills over the next five years.¹³ For those who are functionally illiterate, such a forecast can mean only continuing frustration and fear. For those seeking to increase the nation's productivity and competitiveness, the existence of an undereducated segment of the adult labour force constitutes a serious barrier. These conditions will be further exacerbated as technical standards are increased, requiring even higher levels of literacy and numeracy. Thus, in addition to helping more youth complete high school, something must be done to help the more than 4 million adult Canadians who have less than a grade ten education.

Over the past decade, the United States, Britain and other industrialized countries have made substantial commitments and developed innovative approaches to the eradication of adult illiteracy and innumeracy. In Canada, no country-wide effort has been mounted. A new awareness of the crisis is developing and a national campaign to eliminate illiteracy could have considerable social and economic impact. The involvement of the labour, business, educational and non-governmental communities should be sought. The expertise of organizations such as Frontier College would help to establish a delivery network that stresses accessibility and flexibility in order to reach those who need it most (see box).

If Canada continues to ignore the illiteracy crisis and fails to mount a cooperative and sustained effort to eliminate it, a large proportion of the work force will continue to be limited in their ability to comprehend and interact with the world around them. As part of the new Ontario Training Strategy, \$25 million will be spent annually over the next five years to help individuals upgrade their primary job-entry skills and work-related literacy and numeracy skills. This initiative should be commended and might serve as a model for other provinces.

"Problems are encountered in the large urban centres by people who could not read and write when they attempted to complete Manpower forms. Where do native people turn for help when they try to collect benefits? . . . Individual recipients should be allowed to approach employers of their choice for on-the-job training in a preferred occupation. Without a preferred training option we will be a long time moving from a non-wage to a wage economy." (Dene Band, Fort Simpson, written brief)

Recommendation

- 14** The federal government should invite provincial governments to cooperate in mounting a sustained effort to eradicate functional illiteracy and innumeracy among the adult population.

Frontier College

Since its inception in 1899, Frontier College has provided basic educational services on the geographic frontiers of Canada – the mid-North and the Arctic. While continuing to work in remote areas, the college has also initiated projects over the last few years in the social frontiers of urban Canada.

By 1919 more than 600 instructors, mainly university students, had established a pattern of working side by side with immigrant and native workers on

railroad gangs and other projects during the day and providing an informal, practical education program during breaks and in the evenings. This labourer-teacher model, retained to this day, enables the teachers to establish a unique rapport with their workmates that overcomes resistance and barriers to learning.

Community educators from the college work in disadvantaged and remote communities. They are employed by the communities and the curriculum

they adopt emerges from the concerns of everyday community life.

Currently the college is working in disadvantaged and native communities, railroad gangs, lumber mills, mines, fishing villages, camps for legal offenders and urban communities. The college has developed a unique expertise in the development of teaching methods and the recruitment and training of volunteer literacy tutors. In 1977 it was recognized by UNESCO for its meritorious work in literacy and basic education.

"... the development and continuation of the Basic Training for Skill Development courses involves the federal government in financing a program of academic upgrading for adult drop-outs of the provincial school system." (*Job Creation, Training and Employment Services*, Nielsen Task Force on Program Review)

"Another point about the training courses the federal government provides is that they are aimed at a more sophisticated clientele than these people I have spoken to you about. Many of our people are not ready for the level of courses the federal government provides." (Regional Municipality of Ottawa-Carleton, Ottawa hearings)

"We see the economy demanding ever more changes by individuals in their adaptation to work. That means that training and retraining will become an important part of the future." (Business Council of British Columbia, Vancouver hearings)

"The very few who have taken advantage of these programs have failed to complete them due to various causes such as lack of special training institutions geared specifically to the Métis and Non Status Indian people, very few native enterprises and/or entrepreneurs willing or capable of on-the-job training of the native people; lack of sufficient native teachers who understand better the capability and ability of the native trainee." (Ontario Métis and Non-Status Indians' Association, written brief)

Training and Retraining

Basic knowledge and skills are a fundamental precondition of a skilled and flexible work force. The necessity for the labour force to adapt quickly and effectively to changing requirements calls for more emphasis on employment training and retraining. The effectiveness of training programs has been studied exhaustively, most recently by the Nielsen Task Force.¹⁴ The criticisms noted in these studies were repeated by many participants at the public hearings. The new Canadian Jobs Strategy has blurred the lines between job creation and training. The training programs upon which previous evaluations were based have been subsumed by the new strategy. The new objectives sound laudable but the evidence on which to evaluate the effectiveness of the new approach is not yet available.

An estimated \$2.3 billion will be spent on employment training in 1985/86, the largest component of which is funded under the National Training Act (approximately \$1.7 billion). Under that Act, agreements between the provinces and the federal government specify the level and type of training which will be financed by Ottawa in the occupational training field. Although the Canadian Jobs Strategy has led to a revision of the components of the National Training Program, two broad categories of training continue to be funded. They are:

- Institutional Training, which supports academic courses and training within provincial schools, industries, community colleges and vocational institutes. In 1983/84, 77 percent of participants were unemployed. This program has been the major focus for training people while they are receiving Unemployment Insurance benefits. In 1984, 37 percent of institutional trainees (92,742) qualified for Unemployment Insurance benefits.
- General Industrial Training, which provides assistance to employers who initiate on-the-job training or retraining programs for their employees. A more targeted component, Critical Trades Skills, supports extended training in selected skills in areas identified as having chronic shortages of trained workers. During the past 10 years, on-the-job training has received an increasing share of federal training resources. This approach to training is commendable and effective. It serves to upgrade workers' skills and may prevent them from becoming unemployed because of "skill obsolescence."

Previous reports, in particular the report of the Senate Finance Committee¹⁵ and the report of the Task Force on Labour Market Development in the 1980s (the Dodge Report),¹⁶ recommended giving priority to training in more highly skilled occupations and reducing the level of federal support for basic education and skills development.

Evidence presented at the public hearings does not support these recommendations. Employers repeatedly complained that they could not find workers able to solve problems. Many reported that they were not looking for highly skilled specialists – they needed workers with general skills, able to adapt and learn new technical skills as job requirements change.

Another criticism concerned the lack of success in targetting training programs to women, members of visible minorities, natives and disabled persons. As a result of policy directions that have shifted the emphasis in the National Training Program to occupational skills and on-the-job training, an increasing proportion of trainees in 1983/84 were male, over 25 years of age, and with more than 11 years of education.¹⁷ While the age factor can be said to reflect demographic changes, it does not explain the increasing proportion of male trainees or their higher educational levels. One objective of the Canadian Jobs Strategy is to increase the proportion of four targetted groups – women, native people, disabled persons and members of visible minorities – in order to correct these traditional training imbalances. No strategies have been designed for the functionally illiterate and those with low levels of education. These individuals, even when they belong to a targetted group, are unlikely to overcome their particular barrier unless special provision is made for them.

“In private sector training programs, only 25 percent of training positions were assigned to women. Employers sponsor three men for every woman they train.” (National Action Committee on the Status of Women, written brief)

Employers and workers are cynical about the ability of programs to train for occupations in which there are shortages. In 1983/84 almost 65 percent of trainees were registered in programs in areas of occupational surplus.¹⁸ It is not clear how much of the incorrect matching of training to jobs is caused by incorrect forecasting and how much by failing to follow forecasts. There is widespread concern, however, that occupational forecasts currently produced are not accurate and are perhaps inadequate to the task.¹⁹

“In many cases over the past number of years they have trained people for jobs that don’t exist.” (New Brunswick Federation of Labour, Moncton hearings)

The practice of involving Local Advisory Councils representing all segments of a local labour market, and the increased emphasis on employer participation through on-the-job training, as developed within the Canadian Jobs Strategy, should lead to more effective matching of training to jobs.

“In the Territories we are training people – supposedly on the assumption that they are going to gain employment. And we find that we are training truck drivers and there are no jobs. Either there are no trucks or there is no use for the trucks. So maybe the problem is that there has got to be a relationship between training and what we are training people for.” (Yellowknife Chamber of Commerce, Yellowknife hearings)

Finally, there has been criticism about the method of funding training programs. Under National Training Act agreements with the provinces, seats in training courses are purchased from community colleges and training institutions on an annual basis. This practice often limits the capacity of trainees and their counsellors to select the most appropriate course available. The Nielsen Task Force and the Macdonald Royal Commission proposed direct-to-student funding through a voucher system. Another proposal is that training funds be directed to institutions on the basis of their ability to demonstrate a 70 percent placement rate for their graduates within three months of graduation. Funding would be adjusted according to the success rate of the institution in providing relevant and responsive training. While this idea has much appeal, it would pose great hardship on institutions in areas of high unemployment. Neither of these options is therefore recommended. The current practice of seat purchase, however, is clearly unsatisfactory. If the reorientation of training and retraining programs is to be effective, the problems discussed above must be addressed.

“We specifically recommend that the Unemployment Insurance system allow and encourage functionally illiterate people and marginally illiterate people to receive Unemployment Insurance benefits at the same time as they take basic literacy, and/or English as a second language.” (College-Institute Educators’ Association of British Columbia, written brief)

Recommendation

15 Training programs and funding arrangements under the National Training Act should be modified to:

- assign high priority within the Institutional Training Program, or its replacement, to providing courses in functional literacy, basic training for skill development, and educational upgrading;
- recognize programs that enable functionally illiterate workers to gain basic literacy skills as a legitimate component of on-the-job training; and
- replace the current funding arrangement with one that will increase the relevance and responsiveness of training institutions to the labour market.

"People wanting to change skills or increase their skills should be permitted to attend a training course or an educational institution while in receipt of UI benefits." (Social Planning and Review Council of British Columbia, Vancouver hearings)

Unemployment Insurance and Training

Section 39 of the Unemployment Insurance Act provides benefits to Unemployment Insurance recipients who undertake full-time training (at least 25 hours per week) in courses approved by the Canada Employment and Immigration Commission. Benefits are paid at the regular Unemployment Insurance rate. If claimants qualify for a training allowance under the National Training Act, they can receive the training allowance rate or their Unemployment Insurance benefit, whichever is the greater. In addition, authorized trainees can receive benefits for an extended period to support them while they complete training and search for a job, provided the total benefit period does not exceed 104 weeks. The federal government pays for these extended benefits from general revenue. Training constitutes a very small proportion of total Unemployment Insurance activity – just over 2 percent of beneficiaries and of the amount of benefits paid.²⁰

"There is the difficulty of updating one's education while on a claim. This isn't full-time study, just one or two work-related courses. Unfortunately, the only education that's recognized by the UI Commission is Manpower-approved courses, and that bypasses a lot of occupations entirely." (Charmaine Wood, Halifax hearings)

There are several concerns about the operation of Section 39. All unemployed individuals should have an opportunity to upgrade skills and improve their employability, but Section 39 has been limited in scope through the interpretation used by the Canada Employment and Immigration Commission. Consequently, the current system is administered in a fairly rigid and limited manner. In 1984/85, fully 42.9 percent of beneficiaries authorized to undertake training were involved in apprenticeships.²¹ Rather than placing more emphasis on basic literacy skills, the current system heavily favours those who already have substantial skills.

"There should be UI payments for training, but not for an extended period. Training is something that in this country, especially for our young people – you can't spend enough money on it." (Wood Product Manufacturers Association of Nova Scotia, Charlottetown hearings)

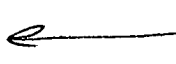
Furthermore, the extension of benefits while a person is on training is inequitable. Claimants should be neither rewarded nor penalized for taking training of a certain duration. There is no reason why Unemployment Insurance benefits should be extended for training well beyond normal entitlement. In order to maintain the integrity of the insurance principle and the relationship between contributions and benefits, benefits to trainees should be paid for no longer than regular entitlements. The fact that these extended benefits are paid for from general government revenue and not from premiums does not alter the argument. The real and perceived inequity between trainees and other Unemployment Insurance recipients is the issue.

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Employment training is a valuable activity, but it should not be funded directly from employer and employee premiums. The role of Unemployment Insurance should be more limited. Training should be supported by Unemployment Insurance benefits to the extent of waiving job search requirements for claimants undertaking approved programs, including literacy, educational and skills upgrading, and apprenticeship programs. Approval of the individual claimant and the program of studies would continue to be required, to avoid the possibility that Unemployment Insurance could become a general student grant program. The administration of this approval process, however, should be reviewed in light of the criticism made of its limited scope and rigid interpretation.

"The use of Unemployment Insurance to pay training allowances should be discontinued, particularly for apprentices taking technical training." (Government of the Northwest Territories, written brief)

Special mention should be made of the apprenticeship program. Several presentations addressed problems in the training of apprentices – noting in particular the inadequacy of the level of support provided by Unemployment Insurance and unnecessary delays in payments. This Commission of Inquiry considers Unemployment Insurance to have a very limited role to play in supporting claimants who pursue this training. The operation of the apprenticeship program should be reviewed by the appropriate federal and provincial authorities.

"Allowance for apprentices taking training are, to say the least, improperly handled under UI administration." (Canadian Federation of Labour, written brief)

Finally, claimants who qualify for educational and training allowances designed to cover expenses related to training (such as transportation, child care, books and equipment) should not have their benefits affected. In other words, reimbursement of such expenses should not be considered as earnings on claim.

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Recommendation

- 16** Section 39 of the Unemployment Insurance Act should be rescinded and provision should be made to:
- waive job search requirements for approved beneficiaries undertaking approved training programs (including literacy, educational and skills upgrading);
 - establish a review process to monitor these approvals;
 - exclude allowances for expenses from computation of earnings on claim; and
 - initiate a review of the operation of the apprenticeship program by the appropriate federal and provincial authorities.

“Young people, especially disadvantaged youths, tend to make low wages. If Unemployment Insurance benefits are reduced, our board recommends that the government provide support for youth, especially disadvantaged ones, to assist them into training programs leading towards permanent employment.” (Windsor Youth Employment Counselling Centre, Windsor hearings)

“We must therefore encourage our youth to go afield, whether that be Australia or Halifax, Africa or Moose Jaw. Before they go, however, they must have some work experience. To this end young people should be placed in private business, or indeed the Civil Service, to the ‘ex quota’ so as not to disturb the existing work force, for a period of two years, with the first year wage at the minimum rate, plus 15 percent in the second. The first year would be totally subsidized by the federal and provincial governments and the second 50/50 by government and the employer.” (Corner Brook Chamber of Commerce, written brief)

Youth Opportunities

Those members of society who are currently in the 15–24 age group need special attention. The baby boom generation has already flooded into the labour market and produced high youth unemployment. While the aging of the baby boom generation means that youth unemployment will be a decreasing problem in the near future in terms of absolute numbers, options will always be needed for those young people who are ill equipped to enter the labour force or have difficulty adjusting to the demands of adulthood. Furthermore, those who immediately follow the baby boomers will find it difficult to compete with these more numerous, older and more experienced workers already established in the labour market. Therefore, there will be a continuing need to provide special programs for those in the 15–24 age group who are particularly disadvantaged.

In an educational system primarily directed toward preparing students for higher education, those who drop out of school are offered few opportunities later. The Scandinavian countries are giving serious consideration to the notion of a “Youth Guarantee” as a response to the problems that many youth have in finding their way into employment (see box). The Scandinavians believe that a deliberate strategy is needed to ensure that *all* youth are given an opportunity to gain appropriate education and employment. The guarantee focusses on providing equal access to secondary school education; ensuring an alternative to college and university for those who need both additional schooling and a transitional experience between school and work; and the use of various forms of wage subsidies to ease full entry into the labour force.

Young people who drop out of school before graduating risk joining the ranks of those whose employment is likely to be marginal, part time and sporadic. They are prime candidates for long-term unemployment. These young people need a comprehensive program, similar to the Scandinavian one, that will allow them to attain education, skills and

Youth Guarantee – Swedish Model

All Swedes under 20 years of age who are not enrolled full time in an educational institution, are eligible for placement in either a vocational training program or in a special “youth job.”

Those young people who leave school prior to graduation are placed in vocational programs designed to channel them back into regular high school.

Youth jobs guarantee four hours of work daily at union wages within three weeks of registration at the local Employment Service. Local committees comprised of unions, employers and community organizations coordinate the efforts of schools, local authorities and the Employment Service.

The “guarantee” is viewed as a major measure to facilitate the transition from school to work – a transition that is recognized as becoming increasingly difficult with the disappearance of many entry-level jobs. Many other European nations have adapted the “Youth Guarantee” model to their particular circumstances.

work experience. It should be aimed at all 15-to-24-year-olds who are high school dropouts or otherwise disadvantaged and are having difficulty in obtaining adequate employment. To be successful, a Youth Opportunities Program needs to be flexible, locally based, and to combine education and work experience. Students would be assessed when they enter the program and a learning and work contract would be developed to suit each individual's needs. The final phase of the program would be geared as much as possible to future employment and would include direct work experience. Work in community-service activities, the public service, and their own entrepreneurial ventures might all be included.

) Does the program require money?

Unlike earlier youth programs such as Katimavik, a program of this type would be directed toward those youth who are the least motivated or suited to conventional schooling. The cost of the program should be considered in relation to the future costs of failing to integrate large groups of youth into the mainstream of Canadian socio-economic life.²² For young Canadians who lack the necessary educational and employment skills for steady and satisfying work, the development of a Youth Opportunities Program would provide an alternative to unstable and low-paid work, and unemployment – an alternative to frustration and dependence. As a bridge between school and work, the program would offer an experience that parallels that of university and college. It would be targeted at those lacking the necessary academic qualifications and interest, and would give them an innovative “second chance” to develop their capacities.

“I think you would find many of our members here in Saskatchewan share the view that as a nation we have done a pretty poor job of training and redevelopment, and that perhaps in that regard the European and even the Asian countries are showing us an example. The programs on that scale, to change the skills and the ability to deal with technology, can only be coordinated through a national strategy under the jurisdiction of a ministry so charged to do it.” (Saskatchewan Chamber of Commerce, Regina hearings)

At present there are a number of initiatives within the federal government directed toward youth. With the creation of a new Ministry of State for Youth it is opportune to consider the concept of a youth guarantee program similar to the one described.

Recommendation

17

The Minister of State for Youth should consider implementation of a comprehensive Youth Opportunities Program. The program would combine basic education, counselling, life skills and work experience for young people aged 15 to 24 years who do not have a high school diploma or are otherwise disadvantaged and are having difficulty entering the labour force.

Summary and Conclusions

The range of options, for individuals and for Canada, can be greatly increased through investment in education. For the individual, developing literacy and employment skills will improve opportunities in the labour market. For Canada, upgrading the basic skills of the labour force will improve the country's ability to compete internationally.

Education is a continuum of lifelong learning and experience. Within the context of a human resource development strategy, four major reforms are proposed:

- establishing a country-wide minimum level of education so as to encourage more young people to complete high school;
- undertaking a decade-long campaign to eliminate adult illiteracy and innumeracy;
- emphasizing basic training and skills development in training programs; and *or opposed to advanced skills*
- developing a Youth Opportunities Program with the objective of providing life skills, education and work experience for high school dropouts.

Over \$34 billion will be spent on all levels of education in 1986/87. Elementary and secondary levels will account for 65 percent of that spending, post-secondary education for 29 percent, and vocational training for 6 percent. At the post-secondary level, 71 percent will be spent by universities and 29 percent by colleges.²³ There are always competing interests for educational resources. Discussions about the distribution of these resources must be broadened to include improvements in basic education and expansion of our capacity to retrain and upgrade occupational skills. Resources for education and training should be distributed in a manner that will ensure a better mix of education and skill levels in the labour force.

Redistribution of existing resources is not enough. The suggested mix of remedial and preventive initiatives will require additional resources. Efforts to achieve a minimum standard of education, to eliminate adult illiteracy, and to establish a Youth Opportunities Program would be appropriate uses for some of the savings generated by the proposed Unemployment Insurance program reform. Money spent on education is a wise investment.

Notes

- 1 Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.
- 2 Canada, Senate, Special Committee on Youth, *Youth: A Plan of Action* (Ottawa: Minister of Supply and Services Canada, 1986), p. 79.
- 3 *Ibid.*, pp. 46, 74.
- 4 Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986, p. 89.
- 5 Statistics Canada, *School Attendance and Level of Schooling* (Cat. no. 92-914), 1984.
- 6 European Cultural Foundation, *Education Without Frontiers* (London: Duckworth, 1976).
- 7 Special Senate Committee on Youth, *Youth*, p. 72.
- 8 Statistics Canada, *School Attendance and Level of Schooling* (Cat. no. 92-914), 1984.
- 9 An estimated \$15.8 billion has been suggested as the cost of a systematic effort to bring all Canadians aged 45 or under with the requisite ability to the grade 12 educational level by 1995. This sum is the cost of providing an accelerated program both for those now aged 15–34 who left school before completing grade 12 and the estimated number of students under age 15 in school who are likely to drop out before graduating. If the costs are spread over a ten-year period, they would amount to approximately \$1.58 billion per year.
Grade 12 was chosen as the minimum educational threshold for an advanced industrial economy. The costs are the maximum possible based on a 100 percent “take-up” rate. The actual costs would be considerably lower, since the proportion of school dropouts likely to enroll in and complete an accelerated catch-up program is unlikely to approach 100 percent.
Source: C. Forget, “Educational Policy Goals for Canada: Major Trade-Offs and Other Issues,” in *Ottawa and the Provinces: The Distribution of Money and Power*, Vol. 1 (Toronto: Ontario Economic Council, 1985).
- 10 Canadian Commission for Unesco, *Adult Illiteracy in Canada – A Challenge* (Ottawa: The Commission, 1983).
- 11 Jonathan Kozol, *Illiterate America* (Garden City, N.Y.: Anchor Press, 1985).
- 12 Statistics Canada, *The Labour Force, December 1985* (Cat. no. 71-001), 1986.
- 13 Canada, Skill Development Leave Task Force, *Learning a Living in Canada: Background and Perspectives* (Ottawa: Minister of Supply and Services Canada, 1983), p. 26.
- 14 Canada, Task Force on Program Review (Nielsen Task Force), *Job Creation, Training and Employment Services* (Ottawa: Minister of Supply and Services Canada, 1986).
- 15 Canada, Senate, Standing Committee on National Finance, *Federal Government Support for Technological Advancement: An Overview* (Ottawa: Minister of Supply and Services Canada, 1984), p. 34.
- 16 Canada, Task Force on Labour Market Development, *Labour Market Development in the 1980s* (Ottawa: Minister of Supply and Services Canada, 1981).
- 17 Canada, Department of Employment and Immigration, *Annual Statistical Bulletin, National Training Program 1984–1985* (Ottawa: The Department, 1986).
- 18 Task Force on Program Review, *Job Creation*.
- 19 “In the consultation process, representatives from business and labour expressed doubts that the Canadian Occupational Projection System (COPS) of CEIC will fill this gap.” Task Force on Program Review, *Job Creation*, p. 31.
- 20 In 1985, about 25,000 individuals received training benefits under the Unemployment Insurance program, for a total cost of \$235,000, according to unpublished data provided by Employment and Immigration.
- 21 Department of Employment and Immigration, *Annual Statistical Bulletin, National Training Program 1984–1985*.
- 22 Half a million young Canadians aged 15–25 are unemployed. The 30 percent of them who have not completed high school have a greater chance of staying unemployed than their peers.
Helping these young people obtain jobs and skills as well as upgrading their education in a Youth Opportunities Program would cost about \$15,000 for each participant, based upon an educational catch-up program now operating in Manitoba. If the entire backlog of 150,000 young people were cleared over a ten-year period, the total cost would likely be a maximum of \$225 million a year. Based on the Manitoban participation rate, the national cost of the program would be \$90 million a year.
- 23 Statistics Canada, *Advance Statistics of Education, 1986–87* (Cat. no. 81-220), 1986.

Gail Morriscey, Welder, Ottawa, Ontario



Ms. Morriscey is a woman who successfully used the Canada Employment and Immigration Commission's career counselling and training programs to learn skills in a non-traditional occupation and increase her opportunities in the labour market.

I've been a waitress, sales clerk, cashier . . . even worked in construction and demolition. When I was 22, I wanted to find an occupation but didn't know what to choose. I went to Manpower, took three hours of tests, and spoke to a counsellor. The counsellor exposed me to all the kinds of things I could do and told me that I could do especially well in either drafting or computers.

First I thought I'd try drafting. I upgraded my math and passed grades 11 and 12 . . . But after waiting two years to get into community college, I wasn't getting anywhere. I went to Manpower and spoke to the counsellor again and this time she got me into the INTO^a program. From all the choices that we discussed in those classes I decided that I was interested in trades. I went into the welding shop and I guess that really struck something with me . . . I really liked it. So then I took welding under the WITT^b program.

Now I'm a member of the women's advisory committee for the WITT and PATH^c programs at the community college where I took the courses. We review the courses themselves, make suggestions, volunteer time a couple of times a year to help the program and people coming after us.

At the beginning of my training I worked part time as a waitress and received a training allowance. But the later programs were quite a handful . . . There was too much pressure . . . So I stopped working and collected UI.

Deciding to become a welder hasn't paid off for me financially, but that doesn't mean that all the trades are that way. I have been welding for close to two years and I'm getting to the point where it's difficult to move ahead. In Ottawa, without a union a good welder with a lot of experience would be lucky to make \$9.00 an hour . . . I don't make that much. And the working conditions aren't very stable. So now I'm thinking of doing something else.

I'm still thinking non-traditional in my head, because of the schooling, the training and all the knowledge I've gained from the programs. I really am glad I took them . . . I feel I'm sort of one step ahead of a lot of other women.

I think that since I first went to get job counselling four years ago they've become very aware of programs for women and the fact that a lot more women are interested in going through for a non-traditional occupation. They were trying their best, but in my case they didn't know the programs very well. I understand that, because they send people off and they don't hear anything . . . They're at one end, the program's at the other and they don't really ever meet. They don't see the results . . . They don't get any feedback.

The counsellors were there if I ever needed to speak to them. I am glad to have had the financial support. That made quite a difference. It would have taken me a lot longer to go through things without that. But this time, I don't really want to take a training allowance or anything like that. I'd like to do it myself if I could. I feel that Manpower has helped me quite a bit and I don't want to continue relying on them to retrain me.

I recommend non-traditional occupations to other women, especially when I know they're working in dead-end jobs. I feel that I can take things that are challenging. I've got a different attitude now . . . It's more positive. I feel that I can handle a lot more.

a Introduction to Non-Traditional Occupations.

b Women in Trades and Technology.

c Path into High Technology.

Five Women

This is an excerpt from a group interview conducted by Kayro Communications Inc. as part of a study on the social consequences of unemployment. Maria is an immigrant worker. Diane is an older woman who was recently widowed. Michèle is trained in work that is traditionally performed by men. Rachel is a single parent living on welfare. Joanne is a native woman.

Maria: My training/work background is quite mixed. The last job I had lasted for five years. It was at a neighbourhood house. I was hired because they needed someone able to speak Portuguese. I learned a lot, took workshops, courses and got an rsw certificate – registered social worker. I was underpaid, so after five years I had had it . . . I quit. That was in December 1984, so I have been unemployed for just over a year. I wasn't sure what I wanted to do, so I went on UI and took my time. I enjoyed the summer. I wasn't worried. In the fall I started applying for jobs and concluded that I wasn't going to get into the social work field. I don't have enough training or experience . . . I thought that maybe I should go back to school, but I had to work because I was going to run out of UI. I thought, what else can I do? . . . So I started applying for different things. I have been talking to everybody I know and I haven't got anything yet. I am not aggressive . . . and it seems to be getting worse, you know, the self-confidence. It's really going down . . .

Diane: I find being unemployed very, very frightening . . . I always have to think about my age. There are a lot of younger people . . . who are better educated than I am, so I think, what chance have I got out there? . . . So rather than put myself in that position, I don't go out. I hide out . . . I don't go any place where I might run into someone I used to work with . . . I don't want to explain anything to anybody.

Maria: You see, there are all these problems . . . I see them in so many women, especially our age bracket (40's). A few years ago you could get a job and learn on the job. You can't do that any more. I never thought I would be so terrified. I was never terrified looking for work, never before.

Michèle: I went back to school last March and took a course on computer maintenance upgrading – how to repair computer peripherals, disk drives and stuff. I have applied for 265 electronics jobs since April 1984. I had 47 interviews. I have written 34 technical exams with these 47 interviews and passed them all and have not been hired . . . I am considering getting out of electronics. My Unemployment Insurance ran out months ago. I worked under the table while collecting Unemployment Insurance. I am also a licensed make-up artist and I cut people's hair . . . I'm doing the maintenance on a building – I do plastering and miscellaneous stuff, and I stand in for somebody else and teach for the Vancouver School Board. I teach courses on basic electricity and basic house wiring and I manage not to feel like I'm useless and don't know anything . . . I have been unemployed coming up to two years. I don't know how long I expect to be unemployed. I'm asking around among my friends, because that is how people get jobs . . . it's ridiculous, you don't get jobs out of the newspaper, you don't get jobs from Canada Employment.

Diane: I don't think I blame myself for being unemployed. I could do any number of things really well and become loyal to the company and produce good work. I know I'm capable of that. It's not that I'm not trying or that I'm not competent. It's that I don't fit in any category.

Rachel: I get frustrated when I think of being unemployed. I usually go to my own family and they tell me things about my skills that I need to hear and to get out of that depression that I'm feeling about myself when I'm unemployed. There is a struggle to make ends meet. You feel humiliated and you can't keep up with your friends because they are going out and entertaining themselves because they are working. You get left behind . . . you hate explaining yourself. I isolate myself until I can pull myself back up and go at it again.

Joanne: The world is the way it is and we're so out of touch with the way we should be living. You have to compromise . . . I don't want to work at McDonald's. I have to find something where I can fit in. I don't want to work at what I don't believe in.