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Social Programs: Tail or Dog

Social policy critics like to portray social programs as a drain on the economy. What they fail to recognize is the extent to which the economy acts as a drain on social programs.

There is no doubt that Canada's social programs need to be reformed. Ottawa has recognized this need by announcing its intention to carry out a comprehensive review of social programs. While we hope the review will be far reaching and include such areas as old age pensions and the tax system, it will focus primarily upon two social programs: Unemployment Insurance (UI) and welfare.

UI has been criticized on the grounds that certain of its features – notably the regionally extended benefits that provide extra assistance to claimants who live in areas of high unemployment – have skewed the labour market. These features are seen to impede the mobility of workers, support unstable industries and sustain economically depressed regions of the country. [1]

Some aspects of provincial welfare systems create obstacles for people trying to move into the labour market. Welfare recipients who find casual employment, for example, are permitted to keep only a small portion of their earnings. The net gain from working is minimal. [2]

Moreover, some critics argue that the very existence of a 'generous' income safety net distorts the labour market by giving workers an 'independence' that they otherwise would not have. For example, it provides an alternative source of income so that they are not obliged to take the first poorly-paid job that becomes vacant.

The federal review no doubt will study these criticisms and determine to what extent UI and welfare actually do interfere with the optimal functioning of the labour market and create disincentives to work. It will recommend ways to reduce or remove these obstacles through fundamental reforms to these programs.

Social policy reform is necessary and long overdue, but not sufficient in itself. Focussing only upon social programs misses the funda-mental point: the key disincentives to work lie in the labour market.

Unemployment has reached its highest level since the Great Depression of the 1930s. It peaked at 11.6 percent in 1992 and is now hovering at around 11 percent. And this is the 'best case' scenario because official rates do not count the numbers of people who gave up looking for work. Nor do they take into account those who are underemployed – i.e., their jobs do not utilize their skills or capabilities.

In addition to high rates of unemployment, Canadians now experience longer bouts of unemployment than ever before. In 1980, the duration of unemployment averaged 15 weeks. By 1989, the average period had grown by 20 percent to 18 weeks.[3]

The structure of the labour market has changed as well. The available work is being polarized increasingly into 'good jobs' and 'bad jobs.'[4] 'Good jobs' refer to high-skilled employment that pays decent wages and provides benefits, such as pensions or disability insurance. 'Bad jobs,' by contrast, pay low wages and have few associated benefits, such as employer-sponsored pensions, and health and dental plans.

The growth of bad jobs is not the only problem. It has been accompanied by a rise in 'non-standard employment.' Many new jobs are part-time, term, casual or contractual in nature. Even former full-time jobs are being converted to non-standard work. Both good jobs and bad jobs are assuming non-standard forms.

This trend suits the needs of employers very well. It allows them greater flexibility to expand or contract their workforce as required. Moreover, they can reduce their labour costs not only by paying lower wages but also by avoiding the contributions they are required to make towards their employees' UI and Canada/Quebec Pension Plans. The avoidance of payroll taxes through non-standard employment has become a major form of tax evasion.

While the new labour market might suit the needs of employers, it has serious implications for employees. Real earnings (taking into account the effects of inflation) and real family incomes have stagnated for the first time in decades.

In short, the changing labour market – its inadequacies in terms of wages and benefits and its uncertainties with respect to job security – have generated substantial pressures on social programs. UI and welfare caseloads have soared because of the unprecedented volatility of the labour market. The number of UI and welfare recipients rose from around 2 million in the 1970s to 3 million throughout the 1980s. It reached 4.1 million – or 15 percent of Canadians – in 1992. [5] Social programs clearly have borne the brunt of economic change.

The lessons of this 'hindsight' should help guide the work of the newly-announced federal review. It will have to address three key issues.

First, it must confront the fact that, in future, there will be many more Canadians who will be considered 'working poor.' While these households derive most of their income from paid employment, they hover just above or even below the level of benefits that they would receive on welfare. For most working poor families, the line between work and welfare is a thin one indeed; many households are simply not 'better off working.' And paid employment is certainly no guarantee against poverty; in act, poverty may be the only guarantee that many jobs now provide.

The second problem that the review will have to address is the issue of 'flux.' [6] There will be greater movement in and out of the labour market as workers shuffle between short-term jobs. The phrase 'bouts of employment' – commonly used to describe periods of joblessness – may soon shift to 'bouts of employment' to describe the labour market of the future. Moreover, it may not be all that long before the notion of a 'career path,' involving movement up an organizational ladder, gets written into the book of conceptual archives.

Third, the federal review will have to come to grips with the fact that the changing labour market is not only generating income insecurity for workers right now. It will create serious problems down the road. Lower wages and unstable jobs mean that fewer workers have extra money to set aside for retirement; they can barely meet their current financial requirements, let along their future income needs. The limited coverage of occupational pension plans – fewer than half of employees work for employers who provide pension plans – will drive more retired Canadians onto the public system.

The growing pressure on the public pension system is all the more serious given demographic trends; by 2021, 18.6 percent of the population will be age 65 or over. By early in the next century, close to one in five Canadians will be eligible for a pension, and many will have to rely on public plans for most or all of their income. [7]

All this adds up to one key message. Any redesign of social programs must look, in the first instance, at the impact of the changing labour force, at the impact of the changing labour market and the drain that the economy places upon these programs. There must be explicit acknowledgement that the dog *is* wagging the tail.

This is not to deny the act that social programs affect the economy. They do. However, their impact should be studied not simply from a cost perspective. Social programs make an important contribution by ensuring a healthy, stable and well-educated workforce. They represent an investment in human well-being – arguably the most important component of any economy

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Endnotes

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