CHAPTER 15

Work and Pay : *The Functioning of Labour Markets*

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Labour-Force Trends, Past and Future

The Canadian labour force grew very rapidly in the period that followed the Second World War and particularly during the late 1960s and the 1970s. In the 1980s, that rate of growth has slowed and, according to predictions, will continue to do so. Rapid growth has reflected both a very substantial increase in the source population[1] and some increase in the percentage of that population which participated in the labour force.[2] As Commissioners demonstrated in more detail in Part III of this Report, however, such aggregate trends may conceal more than they reveal. For example, much of the growth in the source population resulted from the coming to working age of the "baby-boom generation". The number of 15- to 24-year-olds in the source population reached a peak of nearly 4 600 000 in 1980 and is now declining. The labour force of the near future will be aging, as well as growing, less rapidly.

The story of labour-force/participation rates is more complex. The modest overall increase in those rates is a composite created by a dramatic rise in the participation rate of women aged 25 and over, a moderate decline in that of adult men, and a slight upward trend in that of youth. As a result of these changes in demography and participation rates, youths and adult women became a much larger proportion of the labour force, and adult men became a smaller one.

It is projected that the trends in participation rates of all three groups will continue, although some considerable uncertainty exists on this point. If, for example, Canadian courts find that compulsory retirement at age 65 is illegal, some elderly persons may choose to prolong their participation in the labour force. Canada's labour force will become significantly larger, too, if female-participation rates continue to rise. This possibility creates a complex situation, and one that is difficult to project. While more women of all ages

have been joining Canada's work-force since 1956, very distinct age profiles characterize female participation: the figures peak sharply for women in their early twenties and drop off sharply for those beyond the age of 50. If that pattern continues as the population ages, the combination of the two processes will reduce overall female participation rates.

A whole range of other factors also affects labour-force participation. These demographic, sociological, generational, attitudinal and other components are even more difficult to forecast, and their effect in determining the numbers of Canadian women who will decide to participate in the labour force is only partly understood. Conditions of work, availability of child care, and other circumstances probably influence these numbers as well.

Not surprisingly, the demographic characteristics of the Canadian labour force have been a principal focus of discussion. Other features however, are also important. Employment in the service industries and, with it, part-time and white-collar jobs expanded rapidly between 1956 and 1979, especially before 1973. The manufacturing sector accounted for a declining share of labour-market activity, and employment in primary industries declined in absolute numbers. Women were, and remain, employed principally in services, manufacturing and trade, though the proportion of female employees in all industrial groupings has increased substantially. Women and youths are far more likely than adult men to seek or to hold part-time jobs. The number of households with more than one member in the labour force also increased greatly over this period.

Notes

1. Roughly speaking, the civilian, non-institutional population 15 years of age and over, excluding inhabitants of the Territories and of Indian Reserves which are not covered by the Labour Force Survey.
2. In general, those who are working or actively searching for employment.

Labour-Market Imbalances and Unemployment[1]

Unemployment is often discussed in terms of labour-market imbalances. There are two basic types of imbalance: structural and aggregate. Structural imbalance occurs in situations where there are mismatches between the characteristics or circumstances such as skills, experience, or location of individuals seeking work and the requirements of vacant jobs. Aggregate imbalance is usually cyclical, occurring as a result of an excess supply of, or excess demand for, labour in general, regardless of individual characteristics or circumstances. Unemployment resulting from aggregate imbalances is often termed "cyclical" or "demand deficient".

A complicating factor in dealing with unemployment is that even when the labour market is in overall balance, the result is not a neat, day-by-day "fit", with each worker in a job and no job vacancies or unemployment. Gaps and dislocations are characteristic of the constant flux of any "real life" labour market. Jobs and firms open, change and expire. Workers enter the labour force and leave it, re-enter, and change jobs, employers and locations. Each of these adjustments takes time. Unemployment that results from this labour-market turnover and from the time workers need to adjust to it is referred to as "frictional". In practice, of course, frictional, structural and demand-deficient, or cyclical, unemployment are not always easy to separate from one another.

The rates of frictional plus structural unemployment constitute, at any given point in time, the non-accelerating inflation rate of unemployment (NAIRU): the extent of unemployment remaining when that caused by deficiencies in aggregate demand is eliminated. Cyclical unemployment must be dealt with by appropriate demand-management measures, as discussed in Chapters 7 to 10 of this Report. However, any policies which can reduce the NAIRU by lessening structural and frictional unemployment serve as very important means of increasing both the efficiency of our economy and the earnings of individuals.

It is very important for those who are genuinely concerned with alleviating the impact of high levels of unemployment on individual Canadians not to misunderstand the concepts involved. The NAIRU is not a fixed figure. It can be lowered by the intelligent application of policies such as training, education, mobility grants and other adjustment programs, and by the careful design of our major income-transfer systems. The currently estimated NAIRU of 6.5 to 8 per cent is too high, and it is essential that any government that wishes to deal with the real problems of unemployed Canadians seek to lower it very substantially. That is the major objective of Commissioners' recommendations with respect to the structural and frictional unemployment problem in Canada.

Structural unemployment and the policies which will help to alleviate it are fairly well understood. We deal with them in other sections. Frictional unemployment is a more recent and less well understood concept, but to understand it is important for those who wish to deal effectively with the unacceptably high levels of unemployment of the 1980s. Commissioners deal with it at some length here, since it is our conviction that the easy nostrums of the past will not provide effective guideposts for the future.

Frictional unemployment has been the subject of important analytical and empirical research in the past decade. In practice, it reflects the effects of such factors as the scarcity of information about job openings or employee availability, and the time and other resources it takes to acquire such information and to act on it. While some frictional unemployment is not only inevitable but desirable in a changing economy, an efficient labour market requires that its extent not be excessive. This requirement, in turn, means that government programs must be reviewed to ensure that they do not inadvertently promote excess frictional unemployment. The analysis of what has come to be called "the new unemployment" bears on this policy need. As with many new branches of analysis, its proponents sometimes overstate this case. Commissioners therefore note that our conclusions with respect to the "new unemployment" analysis are that it is a significant contribution to our knowledge of the phenomenon of unemployment, but that it is important to balance that awareness with a broader understanding of labour markets.

The Analysis of the New Unemployment

In what most analysts would now agree is rather an overstatement, one of the first persons to draw attention to "the new unemployment" wrote in 1973:

> *Most macroeconomic analyses of unemployment are based on ideas about the causes and structure of unemployment that are inappropriate and out of date ... The conventional view of postwar unemployment might be described as follows: "The growth of demand for goods and services does not always keep pace with the expansion of the labor force and the rise in output per man. Firms therefore lay off employees and fail to hire new members of the labor force at a sufficient rate. The result is a pool of potential workers who are unable to find jobs. Only policies to increase the growth of demand can create the jobs needed to absorb the unemployed."*
>
> *This picture of a hard core of unemployed workers who are not able to find jobs is an inaccurate description of our economy and a misleading basis for policy. A more accurate description is an active labor market in which almost everyone who is out of work can find his usual type of job in a relatively short time.* The problem is not that these jobs are unavailable but that they are often unattractive. *Much of the unemployment and even more of the lost manpower occurs among individuals who find that the available jobs are neither appealing in themselves nor rewarding as pathways to better jobs in the future.*[2]

The Economic Council of Canada in its more balanced 1982 analysis of labour markets in the 1980s notes:

> *This conclusion has led many labour market analysts to suggest that appropriate measures to reduce unemployment should focus on facilitating rapid job search and increased job holding, rather than on increasing the number of available jobs.*[3]

It seems, then, according to supporters of the "new employment" view, that some of the unemployment originally thought to have been caused by deficiencies in aggregate demand, was, in fact, frictional. This means that the

best method of dealing with it is not through monetary and fiscal policies, as had been thought at first, but through labour-market policies. Indeed, as we noted in Chapter 10, to try to deal with frictional unemployment by the former means would amount to an attempt to lower the general level of unemployment below the NAIRU. The eventual result, according to many economists, would be failure to lower unemployment and increased inflation.

This school of analytic thought developed two sub-branches, which are known as "search theory" and "implicit contract theory". We shall consider them briefly here.

Search Theory and Evidence

Theory

The basic premise underlying search theory is that knowledge of the characteristics of available jobs and workers is neither perfect nor free. As a consequence, and because of the very substantial differences among workers and jobs, any labour market offers a variety of wages and job characteristics. Thus, when an employee becomes dissatisfied with a particular situation, it must be because of a possibility that the job she or he holds is inferior to others that might be available. Alternatively, it might be said that workers know their actual wages and, at least in a general way, the distribution of wages in the market. They do not know where jobs of a particular kind, paying particular wages are to be found. Thus, having resolved to find other jobs, they seek a "good", or relatively well-paid, position. The process of search continues as long as the expected returns from keeping on at it exceed the costs. These costs can be reckoned as the sum of additional forgone earnings, out-of-pocket expenses, and psychic discomfort experienced as a result of unemployment.

Given that people search for employment, the question arises: Why might they choose to do so while unemployed, rather than before leaving a previous job or after accepting a temporary one? The suggested answer is that a person can sometimes gather and disseminate information more efficiently while unemployed and thus able to specialize in collecting information.[4]

Answers to several different questions would have to be obtained in order to evaluate the importance of search behaviour in relation to overall unemployment. These questions might include the following: Does the improved access to generally available sources of labour-market information offset the loss of information that is available only in the work-place? Does it also make up for loss of access to internal promotion ladders? Is the additional efficiency of unemployed search, plus the value of any additional leisure that may be enjoyed, great enough to compensate for the forgone earnings, plus the adverse signals to employers and any psychic discomfort that may result from being unemployed? The answers to the first two questions will probably depend on the characteristics of the particular labour market. As for the third, income-maintenance schemes such as unemployment insurance (UI) affect the individual's choice, for such payments reduce the costs of unemployed search and so can be expected to increase its duration.

Evidence

In view of the nature of search theory and related behaviour, one would expect to find both unemployed and employed job searchers, depending on the circumstances of the persons looking for work. One would also expect wage demands to decline as a period of unemployment lengthens. The authors of a recent analysis of employed and unemployed job search found evidence of both types of search behaviour.[5] (See Table 15-1.) They find that employed search is most prevalent among men, part-time workers, the highly educated, and workers in managerial, professional and service occupations. Among a group of unemployed searchers, there was also some evidence that wage demands were lowered as the period of unemployment lengthened. The study also showed that UI beneficiaries search longer than non-beneficiaries, and that search duration declines as unemployment rates rise. These last two results suggest that job searchers have some control over the duration of their search. Other studies have confirmed this effect of UI entitlements on the duration of periods of unemployment; these are examined below.

TABLE 15-1 Employed and Unemployed Job Searchers

	(Canada's annual averages, 1975–1983)			
Year	(1) Employed (thousands)	(2) Unemployed (thousands)	(3)=(1)/(2)	Unemployment Rate (per cent)
1975	266	596	44.3	6.9
1976	247	642	37.9	7.1
1977	268	765	36.0	8.1
1978	300	828	36.0	8.3
1979	348	762	45.5	7.4
1980	360	783	45.7	7.5
1981	389	811	48.1	7.5
1982	387	1200	37.9	11.0
1983	435	1359	32.0	11.9

Source: Statistics Canada, *Labour Force Annual Averages, 1975–1983*, Cat. No. 71-529 (Ottawa: Minister of Supply and Services Canada, 1984), pp. 342–50, 369–77, 412–20.

Table 15-1 also demonstrates that the ratio of employed to unemployed job searchers changed abruptly between 1976–78 and 1979–81. In 1979, the unemployment-insurance program was amended to reduce benefits and tighten qualification requirements. These revisions had a demonstrable effect on rates of unemployment.[6] It is estimated that NAIRU dropped by nearly half a percentage point after 1979.[7] The discontinuity between 1978 and 1979, as shown in Table 15-1, suggests that searchers, faced with an increased relative cost of unemployment, tended to substitute employed for unemployed search. In 1982 and 1983, the proportion of unemployed job searchers rose dramatically. The increase paralleled the marked economic decline of that period and may well mean that many Canadians no longer had the option of

employed search and were engaged in involuntary search for any job, rather than a better one.

There are also a number of less intensive or "discouraged" searchers outside the labour force as defined by Statistics Canada. These people have not searched for jobs within the past four weeks, as required of those classified as unemployed; nevertheless, they indicated, in response to special labour-force surveys, that they wanted and were available for work, but were not seeking it for "labour-market/related reasons". The data suggest that the number of "discouraged" searchers, although smaller than the number of employed searchers, is hardly negligible. Both the number of discouraged workers and the proportion who believe that no work is available seem to be positively related to the unemployment rate.

The authors of one study have concluded that search theory contributes to an understanding of labour-market behaviour in Canada, but that it cannot account for more than half of the unemployment recorded in 1977. They expressed concern that individuals are too prone to quit their jobs and to search too long for new ones, and that too much search is unproductive, leading to no job or no wage gain.[8] A more general and safer conclusion, however, might be simply that the insights of search theory contribute to Canadians' understanding of the labour-market behaviour of both the employed and the unemployed. The importance of voluntary search varies with time, with macro-economic conditions, and with individual circumstances.

Implicit Contracts

The theory of implicit contracts was developed to explain an aspect of the new unemployment phenomenon that search theory cannot explain: instead of embarking on a job search, some employees simply wait for re-employment during lay-offs. This theory is concerned with attempts by firms and their workers to reach an understanding about variations in wages and employment in the face of economic uncertainties. Whenever a firm invests in the search for workers, or workers invest in search and preparation for employment, an incentive is created for the firm and the worker to remain together in order to realize returns on their investment. Temporary lay-offs, with appropriate understandings about recall, can be viewed as a device for keeping employees and employers together while they adjust to temporary reductions in demand.

A firm facing fluctuations in the demand for its goods and variations in the price it receives for its products can adjust in a variety of ways: it can produce steadily and use inventories as a buffer; it can rent (or buy) its non-human inputs on a variable basis; or it can adjust its labour costs by reducing either working hours or the number of employees. Under what circumstances, then, will variations in employment (lay-offs) be preferred to other forms of adjustment? The theory of implicit contracts suggests that under some special, but not improbable, circumstances, both employers and employees might consider that lay-offs can represent the best choice.

As with search theory, unemployment insurance again enters the picture because it lowers the costs of being "on lay-off". This development, in turn,

may lower the wage which must be paid to workers who risk lay-off and increase the likelihood of their waiting for a recall. Moreover, with a few exceptions such as "developmental" uses, UI is available to laid-off workers, but not to support other means of adjustment such as reduced hours. Thus, when UI payments involve a subsidy, that is, when the premiums of a given group of employers and employees do not cover the full costs of their unemployment benefits, there is an incentive for the subsidized firms to adjust through lay-offs.

While implicit contract theory contributes to our understanding of certain labour-market behaviour, it has limited application for lay-offs, which account for a relatively small proportion of total unemployment. Moreover, only 30 per cent of lay-offs end in an employee's return to the original employer.

Search and Implicit Contract Theory: Conclusions

Inevitably, there will be some frictional unemployment arising from job-search, and as long as demand for particular products fluctuates, there will also be periodic lay-offs. The extent of job-search unemployment depends on the availability of labour-market information, customs with respect to hiring, the relative cost and efficiency of employed and unemployed search, and the level of turnover in employment. Temporary unemployment because of lay-off depends on the extent of cyclical and seasonal variations in demand; price and wage flexibility; the amount of subsidy provided by unemployment insurance; and the relative costs of adjusting to variations in sales through changes in inventory and production, rather than by varying labour and other inputs.

Unemployed job search is, indeed, partly a process of productive investment in information. In that sense it differs to some degree from both demand-deficient and structural unemployment. There is a desirable level of search behaviour, and too little may be as costly for society as too much. Given demand fluctuations in particular markets, lay-off unemployment, too, may perform a useful economic function when adjustment by other means, such as inventory accumulation, is very costly or even impossible.

While the "new unemployment" analysis cannot be used to explain all aspects of frictional unemployment, it does focus attention on specific labour-market policies to reduce employment instability, and to ease and speed job search. In particular, it has ensured that perverse incentives deriving from some features of unemployment insurance and minimum wages have been subjected to especially searching scrutiny.

Labour-Market Turnover and Duration of Unemployment

When considering the nature and effect of unemployment, it is particularly important not merely to look at the total numbers of unemployed people, but also to consider the rate of movement of people into and out of jobs and the labour force. The data now available to us demonstrate that the "flows" of people into and out of the ranks of the unemployed are very much larger than

the total "stock" of unemployed at any given time. In 1977, for instance, an average of 850 000 persons were unemployed in Canada, but there were over 4 000 000 entries into, and exits from, unemployment. This record implies, of course, that the average completed spell of unemployment must have been fairly short: something in the order of two to three months. Similar results were obtained for each of the years from 1976 to 1980.

To measure the duration of periods of unemployment is a large and complex task which cannot be fully explored here. However, the length of spells of unemployment as reported directly in periodic surveys, such as the Labour Force Survey, is seriously misleading for two reasons. The surveys intercept spells of unemployment in progress, thus underestimating the complete duration of the period they interrupt; they also under-represent the number of very short spells which may be started and completed in the interval between surveys. Research designed to overcome these problems suggests that the average duration of completed unemployment spells is short, lasting, on average, two-and-a-half months, but it also emphasizes that a good deal of unemployment is accounted for by those unemployed for long spells.[9] An example will help to illustrate this. Suppose that five people experience unemployment. Four of these are unemployed for one month, and one for eight months. The average duration of their periods of unemployment is thus 1.8 months, but two-thirds of the total extent of unemployment is accounted for by the one person's long spell without work.

The duration of periods of unemployment differs by age-sex and regional groupings, with younger persons and women experiencing shorter stretches of unemployment than adult men.[10] This record implies that observed higher unemployment rates for young persons and women are the result of higher frequency or incidence of unemployment that more than offsets their shorter periods of joblessness.

The length of periods of unemployment depends on such economic variables as unemployment levels, labour-force/participation rates, and changes in Unemployment Insurance regulations.[11] There is a considerable tendency for unemployment to be concentrated among relatively few people, since some persons suffer long and/or repeated spells without work.[12] These chronic sufferers are found in all demographic and regional groupings.

The brevity of the average spell of unemployment has been cited in the United States as evidence that unemployment was voluntary during a time when jobs were readily available.[13] More recently, however, other American observers have argued that this inference is unwarranted because many unemployment spells did not end in employment, but in exit from the labour force. Unemployment that ended with the finding of a job lasted, on average, much longer. The total period of joblessness – of being unemployed and out of the labour force because of discouragement – might be much longer than the average "duration of unemployment" as measured by standard labour-force surveys, and for those involved, the two states may well be indistinguishable.[14] In Canada the pattern is similar. Some 45 per cent of all unemployment spells end in withdrawal from the labour force. Here, too, spells ending in employment are longer, on average, than those ending in labour-force

withdrawal. A large proportion of unemployed workers drop out of the statistically measured labour force. Moreover, unemployment is highly concentrated: that is to say, a relatively "small number of workers out of work a large part of the time" bear a large proportion of it.[15]

Commissioners consider this last finding highly important for purposes of labour-policy formation, particularly when it is combined with the findings that chronic unemployment particularly affects prime-age and older workers and is not highly concentrated by region. It is partly for this reason that we lay so much stress on the need to expand programs that will facilitate major labour-force adjustments, particularly when the adjustment to change is likely to involve a lengthy period of unemployment.

Increases in Unemployment in the 1960s and 1970s

As Commissioners have stated, in Part III of this Report, the standard explanation for the rise of unemployment in Canada in the 1960s and 1970s was that it reflected, in part, an increase in the NAIRU. That rise, in turn, was attributed to the rapid growth in working-age population, to rising work-force/participation rates, particularly of women, and to increases in frictional unemployment, stimulated by social legislation, particularly by amendments to the Unemployment Insurance Act. As the labour force grew during the 1960s and 1970s, our economy did generate additional jobs at a fairly rapid rate, but the supply of jobs did not quite keep up with the growing supply of labour. As a result, both employment and unemployment grew. Indeed, over the 1970s, the employment-to-population ration (an alternative to the unemployment rate as an indicator of economic performance) actually rose. As our analysis in Part III indicated, over long periods, the unemployment rate will be virtually independent of the rate of labour-force growth. In the short term, however, a rapidly growing population and labour force can present difficult challenges for a nation as it tries to create an adequate supply of jobs.

The 1960s and 1970s also saw a change in the demographic composition of the labour force. Women and youths became a much larger proportion of the total work-force and adult men a smaller one. In this period, the unemployment rates of women and, particularly, of youth have typically been higher than those of adult men. Thus, even if every other circumstance had remained the same, this expansion of groups with higher unemployment rates would, by itself, have raised average unemployment rates. Investigators have found that the effect of this change in labour-force composition has been positive, but small: something in the order of 0.3 percentage points.

Not all of these changes occurred wholly independently of social legislation. A number of researchers have shown that work-force participation rates, especially those of youths and women, increase with the generosity of unemployment insurance payments,[16] and that teenage participation in the labour force responds to changes in minimum wages.[17]

There is, however, another aspect of the rapid growth of the female- and youth-labour force that may be important in analysing labour-force trends. If

job requirements are characterized by age-sex differences, demographic groups that grow more rapidly will experience greater difficulty in finding work, and their unemployment rates will rise. This will occur if characteristics that are genuinely relevant to the production process are associated with sex and age. Young entrants into the labour force, for instance, however energetic or well educated they may be, must, of necessity, be inexperienced. Women, too, have, on average, skills and occupational characteristics that differ from those of men, and females seek full- and part-time work in different proportions from males. If the production process is designed, at any given moment, to use fairly rigid mixes of different skills and occupations, structural unemployment can result from disproportionate growth among various elements of the labour force, especially if relative wages do not adjust to changing supply conditions in the labour market. This structural demographic problem may have been quite important over the past decade, adding approximately one percentage point to the average rate of unemployment.[18]

There were other changes in the 1970s that empirical evidence would indicate have raised the NAIRU. One which has been extensively examined is that of labour-market legislation, particularly that governing unemployment insurance and minimum wages. Minimum wages can make permanently unemployable some workers whose contribution to output falls below its level. They can also make it difficult for young unskilled applicants to obtain jobs with a large training component which, initially, represents a cost, rather than a source of income to the employer. This reality forces such entrants into unpleasant, dull, dead-end jobs which they quit and change frequently, and between which they are unemployed or out of the labour force. In Canada, minimum wages rose rapidly, relative to the prevailing average level of wages, in the early 1970s, and as a result, unemployment increased.[19]

We have already seen how unemployment insurance makes unemployment less costly to those covered. That result is, of course, a primary objective of the program, but taken too far, it can also have deleterious effects. Despite some offsetting influences, this protection can increase both employee turnover and the duration of unemployed job search, and it can encourage lay-offs as a form of adjustment to a firm's demand fluctuations. The 1971 revisions of the Unemployment Insurance Act, which increased the generosity of the UI scheme in several respects, are generally considered to have increased unemployment by some 1 to 2 percentage points.

Thus, in consequence of both demographic and legislative developments, the NAIRU rose in the late 1960s and the 1970s. The forces involved, however, largely spent themselves during the 1970s. The rate of growth of the labour force, both domestic and immigration-related, has declined, and a further decline is projected, quite aside from cyclical circumstances. Offsetting this decline are projections that women's participation rates will continue to rise, though perhaps less quickly. The baby-boom generation has now largely reached working age, and its successors are a smaller cohort of youth. Minimum wages have been declining in relation to the average wage and in relation to prices. The 1971 Unemployment Insurance revisions were soon

followed by a gradual tightening of both law and administrative regulations that culminated in the 1979 revisions. In brief, most of the forces which caused the NAIRU to rise from 1966 to 1977–78 should now be causing it to decline, albeit slowly.

Rapidity of change can also affect the extent of frictional and structural unemployment. When change occurs rapidly, there will be a temporary increase in structural unemployment as the labour market adjusts. Recently economists have started to examine whether the increased volatility of the economic environment since the late 1960s has contributed to a rise in structural unemployment.[20] There is some indication that this has, in fact, occurred, although there is so far no agreement on the importance of this factor relative to other factors such as demography and social legislation.

This review of economic theory and empirical evidence is somewhat optimistic in that it suggests that even with the current range of policies, the NAIRU should, in the future, go no higher, at least, than its present level. There are less-optimistic possibilities, however, and the most common is that rapid economic and/or technological change will raise the level of structural unemployment. In this Commission's judgement, the evidence in favour of these less-optimistic possibilities is weak, though it cannot be dismissed entirely. Nevertheless, even if these latter possibilities are given some weight, they strengthen, rather than weaken, the very strong case that we see for labour-market policies that will reduce the NAIRU from its current excessive level of 6.5 to 8 per cent.

Notes

1. This section draws on the paper by S.F. Kaliski, "Trends, Changes, and Imbalances: A Survey of the Canadian Labour Market", in *Work and Pay: The Canadian Labour Market*, vol. 17, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
2. Martin Feldstein, "The Economics of the New Unemployment", *Public Interest* (Fall 1973), pp. 4 – 5 (emphasis in original).
3. Economic Council of Canada, *In Short Supply: Jobs and Skills in the 1980s* (Ottawa: Minister of Supply and Services Canada, 1982), p. 48.
4. See A.A. Alchian, "Information Costs, Pricing, and Resource Unemployment", in *Microeconomic Foundations of Employment and Inflation Theory*, by E.S. Phelps *et al.* (New York: Norton, 1970), p. 29.
5. Abrar Hasan and Surendra Gera, *Job Search Behaviour, Unemployment and Wage Gain in Canadian Labour Markets* (Ottawa: Economic Council of Canada, 1982).
6. C.M. Beach and S.F. Kaliski, "On the Design of Unemployment Insurance: The Impact of the 1979 Unemployment Insurance Amendments", *Canadian Public Policy* 9 (June 1983): 164–73; Pierre Fortin and Keith Newton, "Labor Market Tightness and Wage Inflation in Canada", in *Workers, Jobs, and Inflation*, edited by Martin Neil Baily (Washington, D.C.: Brookings Institution, 1982), pp. 243–78; and W.C. Riddell and P.M. Smith, "Expected Inflation and Wage Changes in Canada", *Canadian Journal of Economics* 15 (August 1982): 377–94.
7. See Riddell and Smith, "Expected Inflation and Wage Changes in Canada", p. 390. See also Beach and Kaliski, "On the Design of Unemployment Insurance".

8. Hasan and Gera, *Job Search Behaviour, Unemployment and Wage Gain.*
9. See C.M. Beach, S.F. Kaliski, and V.H. Skulmis, "Analyzing Unemployment Durations for the Annual Work Patterns Survey", paper presented at the Canadian Economics Association meeting, 1983. Another data set – a sample of the Longitudinal Labour Force Data Base covering workers insured by Unemployment Insurance – also largely confirms these findings: S. Magun, "Unemployment Experience in Canada: A Five-Year Longitudinal Analysis", paper presented to the Canadian Economics Association meeting, 1982.
10. See C.M. Beach and S.F. Kaliski, "Some Aspects of Labour Market Behaviour in Canada: A Study Based on Gross Flows Between Labour Market States, 1976–80", paper presented to the Eastern Economic Association meeting, 1982; and A. Hasan and P. de Broucker, "Duration and Concentration of Unemployment", *Canadian Journal of Economics* 15 (November 1982): 735–56.
11. See C.M. Beach and S.F. Kaliski, "On the Design of Unemployment Insurance: The Impact of the 1979 Unemployment Insurance Amendments", *Canadian Public Policy* 9 (June 1983): 164–73.
12. See Hasan and de Broucker, "Duration and Concentration of Unemployment". Some of their results are based on two sets of longitudinal data: the Labour Force Tracking Survey (LFTS) and the Annual Work Patterns Survey (AWPS).
13. See M.S. Feldstein, "Temporary Layoffs in the Theory of Unemployment", *Journal of Political Economy* 84 (October 1976): 937–57.
14. See Kim B. Clark and Lawrence H. Summers, "Labor Market Dynamics and Unemployment: A Reconsideration", *Brookings Papers on Economic Activity* 1 (1979): 13–60.
15. See Hasan and de Broucker, "Duration and Concentration of Unemployment".
16. See, for example, Tom Siedule, Nicholas Skoulas, and Keith Newton, *The Impact of Economy-Wide Changes on the Labour Force: An Econometric Analysis* (Ottawa: Economic Council of Canada, 1976).
17. Robert Swidinsky, "Minimum Wages and Teenage Unemployment", *Canadian Journal of Economics* 13 (February 1980): 158–71.
18. See Frank Reid and Douglas S. Smith, "The Impact of Demographic Changes on Unemployment", *Canadian Public Policy* 7 (Spring 1981): 348–51.
19. See Pierre Fortin and Louis Phaneuf, "Why Is the Unemployment Rate so High in Canada?", paper presented to the Canadian Economics Association meeting, 1979.
20. See M.F. Charette and B. Kaufmann, "Short Run Variations in the Natural Rate of Unemployment" (mimeo, 1984). An analysis of these studies appears in the Commission paper by S.F. Kaliski, "Trends, Changes, and Imbalances: A Survey of the Canadian Labour Market", in *Work and Pay: The Canadian Labour Market*, vol. 17 (Toronto: University of Toronto Press, 1985).

Youth Unemployment

The problem of youth unemployment warrants special attention because of the serious nature of the employment difficulties facing Canadians under twenty-five. Concern about youth unemployment grew during the 1970s as the number of young workers (15- to 24-year-olds) and the unemployment rate of this group rose. The increase was particularly large for young females, a factor which reflects, in part, the general rise in female-unemployment rates.

The youth-unemployment rate has typically exceeded that of adults because entry into the labour force often involves a period of "search" unemployment and because the transition from school to work involves experimentation with a variety of jobs and the accumulation of job-related skills and experience. These relatively constant factors could scarcely account, however, for the increase in the ratio of youth to adult unemployment: that ratio rose from about 1.8 in the early 1950s, to 2.1 in the mid-1960s, to 2.5 in 1976–77. To make matters worse, this increase occurred at a time when unemployment in general was rising. The greater rise in youth unemployment primarily reflects the fact that the various forces – demographic factors and changes in social legislation – accounting for the rise in the non-accelerating inflation rate of unemployment (NAIRU) had a proportionally greater impact on the youth-labour market. As a result, throughout the 1970s, youth accounted for approximately one-quarter of the labour force, but about half of the unemployment.

Since 1977, the ratio of youth to adult unemployment has fallen significantly – from about 2.5 in 1977 to 2.1 in 1983 – though this improvement is offset by the higher unemployment rates of both groups. In part, this change may reflect the reversals noted earlier in demographic trends and social legislation. However, the decline appears to reflect cyclical, in addition to secular, forces. The recent recession resulted in a significant decline in the youth work-force/participation rate as many 15- to 24-year-olds remained in, or returned to, schools, colleges and universities. Furthermore, although young workers are particularly susceptible to cyclical economic downturns – they are often among the first to be laid off, and new entrants into the labour force, because of their limited work experience, have difficulty competing for the available jobs – the recession was severe enough to affect many adults as well.

Future employment prospects hinge on this combination of secular and cyclical influences. The longer-term prospects for youth employment appear favourable. Projections of future unemployment rates for different age-sex groups are, of course, subject to considerable uncertainty. Nonetheless, most projections indicate significant declines in the unemployment rate of youths, relative to that of adults, and some forecast very substantial declines.[1] The most important factor in this respect is the declining size of the youth cohort entering the labour force. The demographic trends which worked to the disadvantage of the "baby boom" generation will work to the advantage of future cohorts of young workers.

On the other hand, the medium-term prospects for youth unemployment appear much less favourable. This situation reflects several factors: the currently high unemployment rates among today's youth; the cyclically depressed work-force/participation rate, indicating that a significant number of young people will be entering or re-entering the labour force as employment expands, thus keeping the unemployment rate high; and the projections of a slow return to more normal levels of employment. Because of these circumstances, employment policy should focus more on the current generation of youth, many of whom have little experience of stable work, rather than on the smaller cohorts of youth expected to enter the labour force in the future. The most important contribution which policy can make to the labour-market prospects of the current generation of 15- to 24-year-olds is a more rapid return to full employment, an issue Commissioners addressed in Part III of this Report. In addition, proposals we make with respect to adjustment assistance and education and training are intended to contribute to improved prospects for this group.

Many Canadians considered that the "new unemployment" view, presented earlier in this section, was particularly relevant to youth, a group with high labour-market turn-over and short spells of unemployment. Subsequent research has shown, however, that this assessment of youth unemployment was overly simplified, as it was for unemployment in general. It is true that the average duration of completed spells of unemployment is shorter for youth than for adults, and thus the higher youth-unemployment rate is accounted for by more frequent spells of unemployment. Nevertheless, these averages tell only part of the story. As with adults, youth unemployment is highly concentrated. While a majority of young people find jobs relatively quickly after becoming unemployed, an important minority do not, and this group accounts for much of the sector's unemployment. Furthermore, a significant fraction of youth-unemployment spells end in withdrawal from the labour force, which means that the total duration of joblessness is understated by our usual measures of labour-force status.

Youth unemployment tends to be highest among the least educated, particularly school drop-outs. For example, in 1982, the unemployment rate among 15- to 24-year-olds stood at 18.8 per cent, but at 32 per cent among those with less than eight years of education and at 10 per cent among those with university education. Other factors accounting for prolonged periods of unemployment are location in areas of slow growth and high unemployment, and lack of success at finding a first job. These factors suggest the need for structural policies relating to education and training, the transition from school to work, and regional mobility; these issues are addressed in subsequent parts of this chapter.

Commissioners have noted that, from the long-term perspective which is this Commission's primary responsibility, youth unemployment is a current problem which is expected gradually to disappear. An issue of potential concern for the medium to long term, however, is the prospects for the current generation of youth. Will this group become the unemployed adults of the future? The central question here is whether individuals who suffer

unemployment as teenagers or young adults are to some extent permanently "scarred" in the sense of having relatively high probabilities of adult unemployment or less-rapid earnings growth. Unfortunately, research on this important question is limited to the U.S. experience and is generally inconclusive.[2] Improved general employment prospects are clearly necessary, and the improvement, when it materializes, may be sufficient to reduce unemployment within this cohort. Still, continued monitoring of its labour-market situation will be needed. It would be unfortunate to have in place a range of special programs for youth at a time when the groups facing the greatest labour-market difficulties were the 25- to 34- or the 35- to 44-year-olds.

Notes

1. For example, one recent study projects youth unemployment rates falling below those of adults before the end of this decade. See David Foot and Jeanne Li, "The Demographic Determinants of Unemployment in Canada", paper presented at the conference "Unemployment: Can It Be Reduced? An International Perspective", sponsored by the Centre for Industrial Relations, University of Toronto, Toronto, November 28–30, 1984.
2. See the studies in R.B. Freeman and D.A. Wise, eds., *The Youth Labor Market Problem: Its Nature, Causes, and Consequences* (Chicago: University of Chicago Press, 1982).

Unemployment Insurance[1]

The Unemployment Insurance (UI) system was established in 1940, following the recommendations of the Royal Commission on Dominion-Provincial Relations and the resolution, through a constitutional amendment, of the difficulties which had caused the Employment and Social Insurance Act of 1935 to be declared *ultra vires* the British North America Act. From 1940 to 1971, gradual and modest changes were made in provisions governing the coverage, eligibility, benefits and financing of the Unemployment Insurance Act. Dramatic changes to these key features of the Act were made in the 1970s, primarily in 1971, but also later in the decade. After 1971, the size of the UI system grew dramatically. Expenditures increased from approximately $700 million in 1970, to almost $2 billion in 1972, and further to almost $12 billion in 1983. With current and projected expenditures of approximately $11 billion per year, Unemployment Insurance is the largest operating program of the federal government.

Unemployment insurance is intended primarily to provide income protection for those who suffer loss of earnings because of unemployment. In addition to its contribution to economic security, however, UI can affect the attainment of other basic goals: in particular, income distribution or equity and economic efficiency. Furthermore, there will generally be trade-offs among these goals, so that designing an optimal system involves difficult choices. Because of its size and the extent of its coverage, the UI system has numerous effects on the functioning of the labour market. Some of these are consistent with the objectives of the program, while others are chiefly unintended adverse consequences. It is Commissioners' intention, in proposing certain changes to the existing UI and other income-support programs, to encourage higher levels of employment, while easing any difficulties of transition for Canadians who will have to seek out new employment opportunities.

Objectives of the UI System

While the primary goal of the UI system is to provide insurance against the loss of income associated with unemployment, other objectives have also been pursued or recommended. These include facilitating labour-market adjustment, redistributing income, and contributing to macro-economic stability. In addition, the program has important effects on economic efficiency and equity.

Unemployment insurance can improve the operation of the labour market if its benefits help workers to find stable employment or contribute to a better matching of abilities with job requirements. Similarly, UI benefits may help unemployed persons to finance job search in locations where employment prospects are more favourable. On the other hand, the program may impede labour-market adjustment if it encourages labour-force participants to remain in regions or occupations with poor employment prospects.

UI can contribute, too, to overall economic stability by acting as an "automatic stabilizer", although this achievement is not a primary objective

of the program. It performs this function by contributing to a government deficit and increasing aggregate demand in recessions, and by contributing to a surplus and decreasing aggregate demand in "booms". At the same time, it has become better recognized in recent years that social programs financed by payroll taxes can contribute to economic instability if their financing provisions result in increases in premiums during recessions, when program expenditures rise.[2] For example, the substantial increase in UI-premium rates in 1983, when the economy was just emerging from the most severe recession of the post-Second World War period, probably contributed to a slower recovery.

Should the UI system be used to redistribute income and wealth in Canada's economy? Views differ, and the issue has been the subject of debate. Of course, at any point in time, UI redistributes income from those who are currently employed and paying UI premiums to those who are unemployed. The fulfilment of this insurance function, however, does not necessarily imply that a broader redistribution among income classes, regions or occupations is in process.

Some Canadians believe that the UI program should concern itself strictly with social insurance, leaving income redistribution to programs specifically designed for that purpose. Others have suggested that unemployment insurance should contribute to our accepted social objectives relating to income distribution. The UI system has gradually moved in this direction, by such means as extending coverage to workers in seasonal industries, relating benefits to regional unemployment rates, and imposing a surtax on higher-income UI recipients.

This Commission is vitally concerned with poverty and, more generally, with the distribution of income and opportunity among Canadians. Our view, however, is that income redistribution does not constitute an appropriate application of the UI system. There are several reasons for this conclusion. Canadian income-distribution objectives focus on family income and need, while UI benefits are directed to the individual worker and are unrelated to other income or assets. To contribute to redistributive goals, UI benefits would have to be related to family income, and this adjustment would involve testing for other income and assets. In addition, the accounting period (the period over which benefits and income are reconciled) would have to be substantially lengthened, since the weekly accounting period presently in use is much shorter than that usually considered appropriate for income-support programs intended to reconcile income and needs. To change the UI system along these lines would be bound to interfere significantly with the program's social insurance objective which, in Commissioners' view, should be the primary focus of unemployment insurance.

This emphasis on the social insurance function of the UI program does not imply that this Commission opposes programs with redistributive objectives. On the contrary, our view is simply that unemployment insurance is an inappropriate means by which to attempt this important objective, and that explicit income-security programs are much more likely to be effective for this purpose. Yet although Commissioners place primary emphasis on the

insurance objective, the benefit and financing provisions of the UI system should also facilitate, rather than retard, labour-market adjustment; they should contribute to economic stability and be designed to promote equity and economic efficiency within the Canadian economy.

If Canadians accept the social insurance function as the primary purpose of the UI system, a fundamental issue arises: Should unemployment insurance be provided by our governments or by the private sector as are most other forms of insurance? Commissioners believe that there is a sound rationale for publicly provided unemployment insurance. This rationale follows from the fact that private insurance companies are unlikely to offer comprehensive insurance against the risk of unemployment, except possibly in very narrowly specified circumstances. For this reason, there is a place for state-supported unemployment insurance. Society as a whole benefits from a comprehensive scheme which allows the risk of unemployment to be diversified, to some degree, across employers and employees, across regions and over time.

For two reasons, private insurance companies would not find it profitable to offer comprehensive insurance against the risk of unemployment. First, it is often impossible for the insurer to determine the risk that a particular insuree represents. Since low-risk individuals are less likely to purchase insurance, the company might find that only high-risk individuals would buy protection, thus making the sale unprofitable. If, to circumvent this possibility, an insurance company raises its premiums, it might attract a smaller group of customers with an even higher risk of becoming unemployed. Compulsory UI coverage avoids this "adverse selection" problem.

Secondly, individuals can control, to some extent, the risk of becoming or remaining unemployed. To deal with this "moral hazard" problem, insurance companies would seek to obtain the sorts of broad monitoring and surveillance powers that our Canadian society does not wish to grant to private companies. Under our present system, the relationship between unemployment insurance and Canada Employment Centres makes it relatively easy for our society to deal with the moral hazard problem.

Unemployment Insurance and Unemployment

Earlier in this chapter, we Commissioners noted that changes in the UI system have been identified as a factor contributing to rising unemployment rates, and we observed that UI reform would be one way of lowering the non-accelerating inflation rate of unemployment (NAIRU). To demonstrate, however, that making unemployment insurance less generous would lower the NAIRU is not, by itself, a sufficient reason to make such changes. If the Canadian government's sole objective were to lower the NAIRU, it could eliminate unemployment insurance. The issue, rather, is whether UI reforms would benefit Canadian society as a whole. Fortunately a number of the changes that this Commission has to suggest would, in our opinion, both benefit Canadian society *and* lower the NAIRU.

Empirical studies provide very strong support for the view that changes in the UI system – in particular the very substantial changes made in 1971–

72 – have had a significant effect on Canada's unemployment rate. Prior to 1971, the UI benefit rate (benefits as a proportion of previous earnings) varied between 43 and 53 per cent, depending on the existence of dependents; it was raised, in July 1971, to 66.6 per cent of actual insurable earnings, subject to a ceiling on those earnings. Claimants with dependents, who had made low earnings or suffered prolonged unemployment, received 75 per cent of insurable earnings. Whereas the legislation formerly required a minimum of 30 weeks of employment during the two preceding years, the new provisions lowered this requirement to eight weeks for the preceding year. The regulation that every two-week period of employment qualified the claimant for one week of UI payments was changed to a maximum entitlement of 44 weeks of payments for a minimum employment period of eight weeks. The program's coverage was expanded significantly, and extension periods were established on a regional basis. Thus the UI program's eligibility criteria were broadened to cover far more people than ever before, and its benefits were made more "generous". The effects of these changes on expenditures and financing requirements were soon evident. In 1970, UI expenditures stood at approximately $700 million; in 1972, they approached $2 billion. Expenditures have continued to grow very rapidly.

Another important set of changes occurred in 1979.[3] These lowered the benefit rate to 60 per cent and raised qualification requirements for new entrants and re-entrants into the labour force and for repeat users (that is, claimants who had already drawn substantial benefits in their qualifying periods). Their effect was therefore to make the UI program somewhat less generous. These changes, although much less extensive than the 1971–72 revisions, have also had a significant effect on unemployment, in this instance, reducing the NAIRU.

Unstable Employment: Seasonal and Cyclical

Our Canadian government's current method of financing the unemployment insurance system tends to subsidize industries with unstable employment patterns and to tax those with stable employment patterns. As Table 15-2 demonstrates, the extent of this cross- subsidization is very large. The reason is that premium rates are the same for all industries and employees, although employees in some industries draw much more extensively on unemployment insurance than do others. Without an unemployment insurance system, industries with unstable employment, either seasonal or cyclical, would have to pay a wage premium to attract workers, while industries with very stable employment patterns could pay lower wages and still attract employees. The existence of unemployment insurance as currently funded makes industries with unstable employment patterns more attractive than they would be in the absence of cross-subsidization and thus allows them to pay a smaller wage premium. Conversely, industries with unusually stable employment become relatively less attractive and thus have to pay comparatively higher wages. These differences in wages paid in various industries affect labour costs and, ultimately, product prices. Costs and prices rise in industries with stable employment and decline in industries with unstable employment. Purchasers

of the products react to these changes in relative prices by buying less of a higher-priced product and more of a relatively lower-priced product. Thus, as a consequence of cross-subsidization, a larger proportion of output and employment will be characteristic of industries with unstable employment patterns, and a smaller proportion will characterize industries with stable employment patterns.

TABLE 15-2 Benefit/Contribution (Benefit/Cost) Ratios of Unemployment Insurance, by Industry, Canada, 1977

Industry	Ratio above 1	Ratio below 1
Agriculture	1.50	
Forestry	5.09	
Fishing and hunting	2.10	
Construction	2.46	
Non-durable goods (food and beverages, etc.)	1.24	
Recreation (sports, tourism, etc.)	1.67	
Personal services	1.40	
Teaching		0.38
Public services		0.15
Communications		0.36
Mining		0.67
Finance, insurance, and real estate		0.75
Retail trade		0.84
Commercial services		0.91
Transportation		0.58
Durable goods		0.87
Total	1.00	

Source: Canada, Task Force on Unemployment Insurance, *Cost Ratio Analysis of The Insured Population*, Technical Study No. 12 (Ottawa: Employment and Immigration Canada, 1981), p. 7.

Because premium rates are the same for all firms and industries, there is less incentive for firms to "smooth out" their employment patterns to attract workers. In Canada's dynamic and open economy, changes are continually occurring in the demand for various goods and services. Our climate, too, causes important seasonal variations. Firms can adjust to these fluctuations in various ways: through controlling inventories; diversifying product lines; altering the time lag between receiving orders and making shipments; saving work for slack periods; adjusting employees' working hours; or laying off and rehiring employees as a means of adjusting their numbers. Firms will choose the least-cost method of adjustment. Unemployment insurance, of course, lowers the cost of adjusting through lay-offs and "rehires", relative to other methods of controlling for demand fluctuations.

A disproportionate share of unemployment is generated by Canada's seasonal industries, often concentrated in depressed regions, and by individuals with unstable work attachments 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. We Canadians cannot

alter our climate, but we can ensure that our economic policies do not add to the effect of the the forces of nature in creating high unemployment. The unemployment-insurance subsidies that are an integral part of the infrastructure of Canada's forestry, construction, and other industries make them larger, less stable, and more attractive to workers than they would be without this support. Similarly, the intrinsic taxes on stable-employment industries make these industries smaller than they would be without this drain on their resources. Moreover, there are some workers in all industries and regions who prefer a lifestyle of intermittent work punctuated by regular spells of unemployment subsidized by UI benefits. All of these effects raise our economy's average rate of unemployment and lower its level of real output.

The results of one study[4] of the effect of UI provisions on Newfoundland and Alberta indicate that if the "generosity" of the program in the high-unemployment regions were extended to the whole of Canada, the extent of unemployment and short-term employment would increase significantly. The authors conclude that the main differences in regional unemployment stem from the fact that individuals in regions with high unemployment rates experience many short periods of unemployment as compared to the other regions, where unemployment more commonly occurs during one long period or a few. Such conclusions tend to confirm the hypothesis that the UI program reinforces the concentration of unstable and short-term jobs in regions with high unemployment and a heavy concentration of seasonal industries.

An earlier study[5] found that for the great majority of industries and provinces, the trend toward reduced seasonality moderated or even reversed after 1971. The estimated decrease in seasonality was particularly large for construction, the industry most heavily subsidized by unemployment insurance.

A general method of dealing with these effects is to relate premiums to a firm's lay-off rate or to the rate at which UI benefits are paid to its workers. Most other insurance systems, both those applied by private sector firms, such as automobile insurers, and those used in the public sector, such as the worker's compensation system, are based on "experience-rated" financing structures. (These firms, however, are experience-rated by group rather than individually.) Experience rating of premiums would also reduce the incentive which now exists for firms to use lay-offs as a means of responding to demand fluctuations instead of resorting to employment sharing, inventory accumulation, and reserving work for non-peak periods.

In the United States, where various experience-rating programs operate in different States, a number of empirical studies[6] have been conducted. They generally agree that inadequate links of premiums to risks explain a significant proportion both of short-term employment and of unemployment. Thus American analysts substantially agree about the effect on job instability of the UI schemes currently in place in their country.

The degree to which Canada's UI system should be experience rated is a matter which will require more detailed analysis and discussion. It seems clear, however, that some such modification of our current UI financing system would improve the incentive structure of the program and lower the NAIRU.

Duration of Job Search

Adjustments in the benefit structure of the UI system would change Canada's unemployment rate in a number of ways. They would affect the duration of job search, for higher benefits lower the cost of search for the individual. Table 15-3 shows that the effect of UI benefit payments on the duration of unemployment has been investigated quite extensively in both Canada and the United States. Commissioners consider the results of U.S. studies in this Report for two main reasons. One is that American UI programs differ from one State to another, and this circumstance provides a clear advantage for research into the ways that different schemes affect the duration of unemployment. The second is that the U.S. studies, especially those conducted since 1976, deal with data on individual UI claimants. This information is of prime importance to any attempt to determine the effect of the system on work incentives. The Canadian studies are also very helpful in that they provide estimates of the effect of the profound changes made in Canada's UI program in the 1970s.

TABLE 15-3 Estimated Impact of an Increase in UI Benefits on Duration of Unemployment in Canada and the United States

Studies[a]	Additional Weeks of Unemployment
Canada[b]	
Green and Cousineau (1976)	+1.4
Rea (1977)[c]	+1.5
Maki (1977)	+2.0
Lazar (1978)	+2.0
United States[d]	
Chapin (1971)[e]	+0.4
Marston (1975)	+1.0
Ehrenberg and Oaxaca (1976)	+1.5
Classen (1977)	+1.1
Holen (1977)	+1.0
Burgess and Kingston (1977)	+1.0

a. These studies are listed in the notes to Chapter 15, except as noted.

b. Increase from 43 per cent (before 1971) to 67 per cent (1972) in the earnings-replacement ratio.

c. For the overall impact, Rea obtained a maximum estimate of four weeks.

d. Simulated impact of an increase from 50 per cent to 60 per cent in the earnings-replacement ratio.

e. Gene Chapin, "Unemployment Insurance, Job Search, and the Demand for Leisure", *Western Economic Journal* 9 (March 1971): 102–7.

The first part of Table 15-3 shows, in condensed form, the effect that the 1971 changes to the UI program had on the duration of unemployment as estimated in four Canadian studies. Two of these studies[7] estimate that the changes prolonged the duration of unemployment by two weeks. The other

two, using a somewhat different approach, obtained slightly lower estimates of 1.4 and 1.5 weeks.[8]

More recently, a study examined the effect on duration of unemployment of the 1979 UI amendments.[9] The authors found that the reduction in the benefit rate from 66.6 to 60 per cent shortened periods of unemployment for all age-sex groups. Other recent studies[10] also found evidence of significant UI effects on the duration of job search. A study[11] prepared for this Commission notes that the ratio of employed to unemployed searchers rose between 1976–78 and 1979–81. This suggests that faced with the increased costs of unemployment initiated by the 1979 amendments, searchers looked for work while employed, rather than while unemployed.

One U.S. study[12] compared UI claimants with those unemployed persons who receive no UI benefits. This approach has *prima facie* appeal, but it suffers from considering populations with characteristics that are not easily comparable. Three independent studies[13] using micro-economic data on the duration of unemployment for UI claimants estimated that the average duration of a spell of unemployment is extended by one additional week for each 10 percentage/point increase in the earnings-replacement ratio of UI benefits. The methodology used in these studies consists in studying differences in the length of unemployment among a number of American States with various UI programs, taking into account the particular characteristics of the population and the economic situation. An earlier study[14] had appeared to obtain a slightly higher estimate of 1.5 weeks, but this result applied to one specific group, that of men over 45. For the other groups considered, the estimated impact was lower.[15] Given the diversity of the data and methods used, the results are robust: in the United States, a rise of 10 percentage points in the earnings-replacement ratio between two States can result in an unemployment period that is longer by one week; in Canada, the 1971 increase, which was almost double that percentage figure, led to an increase of nearly two weeks in the duration of unemployment. U.S. and Canadian results therefore appear to be consistent. For the authors of two other works[16] in the same field, the empirical results are so conclusive that they consider the matter to be resolved.

Consequences of Longer Duration

The longer duration of unemployment inherent in a more generous UI benefit structure may be socially beneficial if it leads to more productive job search. That is to say, the UI benefits represent an investment in job search, and it is important to evaluate the returns from this investment. Greater investment may be justified if it leads to more intensive job search, to higher post-unemployment earnings, or to obtaining a more stable job.

Less is known about these questions than about the effect of benefit levels on unemployment duration. One study,[17] however, has addressed the issue of search intensity. Its authors, using a large sample of American UI claimants, estimated that prolonging the benefit period by one month or increasing the earnings-replacement ratio by 8 percentage points results in a *reduction* of 6.5 per cent in the average number of hours devoted each week to job search: that

is, the intensity of the search diminishes. Thus, the total amount of search is affected by two UI-related factors that offset each other: the number of search weeks increases, but the number of search hours per week decreases.

The empirical results for the effect of UI programs on post-unemployment earnings are diverse, varying between 0.0[18] and 12.3 per cent.[19] Given the significant methodological difficulties associated with this question,[20] it is difficult to draw firm conclusions from the evidence. As for the effect of UI benefits on post-unemployment job stability, only one study is available,[21] and the method it uses is crude. It finds no evidence of a link between the level of UI benefits and the subsequent job stability of the claimants. Thus the empirical studies do not succeed in identifying the benefits of the UI program as clearly as they do its costs.

Interregional Labour-Market Adjustment[22]

The general historical pattern of interregional migration has been for movement to occur from regions with relatively low earnings and poor employment opportunities to regions with relatively high income and good employment opportunities. Since the 1930s, Ontario, Alberta and British Columbia have generally experienced net in-migration, while our other provinces have generally experienced net out-migration. These migration flows constitute an important part of adjustment to economic change. Since the movement generally travels out of regions with low wages and/or poor employment prospects into regions with higher wages and better prospects, migration increases the overall level of income in Canada and reduces structural unemployment.

Unemployment insurance can be expected to slow this adjustment process, as it makes location in regions with poor employment prospects relatively more attractive than it would be otherwise. In 1971, the UI program was regionally differentiated: shorter qualification periods and longer benefit entitlements periods were introduced in regions with high unemployment rates. Thus it is likely that the UI program has retarded migration from high-unemployment regions even further since 1971.

Parallel to the 1971 reform of our federal UI program, a historic change occurred in interprovincial migratory flows. Whereas, before that date, the four Atlantic provinces had experienced net out-migration, they began to experience net in-migration from 1971 onwards. Some authors have tried to determine whether at least part of this change in migratory patterns could be explained by the revisions of the UI program. One study[23] restricted to the flows between New Brunswick, Nova Scotia and Ontario, did confirm that there was a significant reduction in out-migration from the two Atlantic provinces, where earnings are low and unemployment rates are high, toward Ontario, where incomes and job prospects are more attractive. The estimated reduction in out-migration associated with the reform of the UI program amounted to 3000 individuals per year. The author rejected the hypothesis that the program also caused return migration.

A more general study,[24] covering the impact of all regional transfer payments on the interprovincial allocation of Canada's human resources,

focused particularly on our UI program. On the basis of a very large and detailed micro-economic sample, it also concludes that the post-1971 reduction in out-migration from the Atlantic provinces into the rest of Canada corresponds to a change in the major elements of the UI program. For the Atlantic provinces as a whole, the effect is estimated as constituting a reduction of 8000 out-migrants per year, other circumstances being equal. A more recent Canadian study,[25] the only indigenous one to examine the pattern of migration between Census metropolitan areas, also finds strong effects of unemployment insurance on migration, especially after 1971.

Overall, then, it would appear that Canada's UI program does slow labour-market adjustments, in particular, out-migration from lower-income, high-unemployment regions. This effect seems to have become especially strong since the 1971 amendments of the UI Act, which introduced regional differentiation into the program. This relatively new factor contributes to the level of structural unemployment in Canada and to lower living standards for our population as a whole. Commissioners recognize the important equity objectives embodied in the regional differentiation of the UI system. Nevertheless, we believe that these objectives can be attained through other policies which would have fewer adverse effects on unemployment and income.

Summary and Conclusions

Comissioners believe that the present unusual extent of unemployment in Canada is caused by insufficient aggregate demand. Under the circumstances, the UI program is of great help to many Canadians. Moreover, at the macro-economic level, it can stabilize the economy's consumption by automatically supporting the income of the unemployed during a recession. Although its role in automatic stabilization has been reduced in recent years because of changes in the financing of the program, unemployment insurance probably stopped unemployment from reaching an even more dramatic level in the recent severe recession.

On the other hand, it is evident that certain UI provisions affect the incentive structure and adjustment mechanism of our national labour market. On reviewing the evidence compiled by a number of researchers, Commissioners have concluded that the unemployment insurance program:

- Contributes to an increase in the duration of unemployment
- Increases the volume of temporary lay-offs
- Reinforces the concentration of temporary and unstable jobs in high-unemployment and low-wage regions
- Provides too generous a subsidy to Canadians whose labour-force behaviour is characterized by repeated unstable employment.

We are convinced, therefore, that Canada's UI program does not fully satisfy the objectives of facilitating adequate adjustment in the labour market and developing stable and productive jobs. Consequently, the UI system should be revised to make it more efficient in the coming years. We would recommend,

however, that these revisions be implemented gradually as the Canadian economy returns to full employment.

On the financing side, an important reform would be to relate premiums more closely to the risk of lay-off. This process of experience rating should be done on a firm-by-firm, rather than on an industry-group, basis. This Commission views experience rating as the most important change that should be made to Canada's existing UI system. This reform would obviate the need for special programs to encourage work-sharing.[26] Unemployment insurance financed by common premium rates biases employers and employees towards lay-offs, rather than reductions in working hours, as a form of response to temporary fluctuations in demand because UI benefits are programmed for persons out of work for a whole week. To offset this unintended bias, a short-term compensation policy was introduced in 1982. While the program has succeeded in encouraging work-sharing, it has cost considerably more than common UI benefits, and its administrative costs are high. Each work-sharing project must be certified on an individual basis by the employer, the employees and the Unemployment Insurance Commission. To remove the bias against work-sharing by introducing experience rating is thus a more sensible approach than the existing system comprised of a financing structure which discourages work-sharing combined with an expensive special program designed to counteract that effect.

While little is known about the degree to which unemployment insurance has contributed to Canada's macro-economic stability, the system's stabilizing properties deteriorated as UI financing was modified between 1976 and 1980. The result of these changes is that most cyclical variations in program costs fall on the private sector. Amendments should be made to the financing arrangements to improve the stabilizing properties of the UI program.

The other unemployment-insurance reforms Commissioners propose relate to benefits. We intend only to indicate the general nature of these changes, since precise details would require further analysis and discussion. In our opinion, an appropriate set of reforms would comprise an approach such as the following:

- Reduce the benefit rate to 50 per cent of earnings
- Raise the entrance requirement to 15 to 20 weeks of insured work over the preceding year
- Tighten the link between the maximum benefit period and the minimum employment period: for example, establish a ratio of two or three weeks of work to qualify for one week of benefits
- Eliminate the regional differentiation of the Unemployment Insurance program.

To eliminate the regional differentiation of the UI program would encourage rather than discourage—as does the present system—labour movement towards regions with higher levels of employment. The existing system tends to perpetuate regional unemployment differentials, and this situation, together with the absence of experience rating, tends to reinforce the

concentration of temporary and unstable jobs in high-unemployment and low-wage regions.

The other suggested changes to the benefit structure are meant to encourage steadier job attachments, more intensive job search during periods of unemployment, and a higher proportion of job search while employed. The recommended benefit ratio of 50 per cent is based on an estimate of the costs and benefits of unemployment insurance, and a subsequent calculation of the rate which would yield the greatest net benefits.[27]

The proposed changes to the benefit structure also reflect this Commission's view that the UI program has become too large relative to other labour-market programs, and that the employment opportunities for Canadians would be improved by switching some funds from UI support to programs organized to facilitate adjustment to technological and economic change.

The net effect of such changes on the present incentives for unstable work patterns would be dramatic. Under the current scheme, workers with as little as ten weeks of insured work can draw as much as 40 weeks of benefits at 60 per cent of their average insured earnings. Thus they can obtain benefits equal to 240 per cent of their individual earnings. Under the proposed changes, such persons could draw benefits equal only to 17 per cent of earnings from a pattern of repeated unstable work. At the same time, the system preserves a full year of benefit entitlement for individuals who have worked steadily for the preceding two or three years.

The main intent of Commissioners' proposals is to redistribute the funds provided by premiums and by general taxation to more productive ends such as the creation of durable and well-paid employment, better labour-market adjustment, and adequate protection of workers experiencing difficulty in the labour market. We firmly believe that these changes should be considered as part of a package of income-security and labour-market/program reforms. In particular, proposed changes to the UI system should be examined in the context of the Transitional Adjustment Assistance Plan (TAAP), described in the next section, and the Universal Income Security Program (UISP) described in Chapter 19, below. The UISP would provide income-supplementation benefits which would offer additional support to low-income Canadians, whether their basic income derived from work or from work and unemployment insurance. Thus the impact of the UI changes would be cushioned, especially for low-income Canadians with family responsibilities who lose their jobs. In these circumstances, the UISP, in combination with UI, would actually provide more income than current arrangements during the UI entitlement period. It would also provide continuing income supplements for individuals and families who must accept lower pay to re-enter the labour force. We must emphasize, however, that our reformed package would never make it more financially advantageous to avoid work than to participate in the labour force as some income-security programs and some combinations of UI and social assistance may do today.

The suggested changes to UI benefits would have a significant effect on benefit costs. The reduction in benefit rates from 60 to 50 per cent of insurable earnings would result in program savings of at least 17 per cent of

basic benefits. The extended benefits, currently financed from consolidated revenues, are equal to about 21 per cent of regular benefits. It is not possible to calculate the savings from heightened entrance requirements and the closer link between the maximum benefit period and the length of employment, since these factors depend on complex behavioural assumptions. Use of the UI system would also be reduced somewhat by the experience-rating component, the reduction of benefit levels, and the closer link of benefit periods with qualifying periods. Overall, the costs of UI benefits would likely be reduced by not less than 35 to 40 per cent or about $4 billion at 1985 levels of unemployment. Commissioners believe that these monies should be used to facilitate labour-market adjustments through the creation of a Transitional Adjustment Assistance Program.

Notes

1. This section draws on five research papers prepared for the Royal Commission on the Economic Union and Development Prospects for Canada: J.M. Cousineau, "Unemployment Insurance and Labour Market Adjustments", and Jonathan R. Kesselman, "Comprehensive Income Security for Canadian Workers", in *Income Distribution and Economic Security in Canada*, vol. 1; S.F. Kaliski, "Trends, Changes, and Imbalances: A Survey of the Canadian Labour Market", in *Work and Pay: The Canadian Labour Market*, vol. 17; Morley Gunderson, "Alternative Mechanisms for Dealing with Permanent Layoffs, Dismissals and Plant Closings", in *Adapting to Change: Labour Market Adjustment in Canada*, vol. 18; and John Vanderkamp, "The Efficiency of the Interregional Adjustment Process", in *Disparities and Interregional Adjustment*, vol. 64 (Toronto: University of Toronto Press, 1985).
2. See, for example, M. Ellman, "Recent Dutch Macro-Economic Experience", in *Foreign Macroeconomic Experience: A Symposium*, vol. 24, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), and "The Crisis of the Welfare State – the Dutch Experience", in *The Economics of Human Betterment*, edited by K.E. Boulding (London: Macmillan, 1984).
3. Since 1971 there have been frequent changes to the UI Act, the regulations it imposes, and the administrative practices that relate to it. For details see G. Dingledine, *A Chronology of Response: The Evolution of Unemployment Insurance from 1940 to 1980*, Task Force on Unemployment Insurance, Technical Paper 2 (Ottawa: Employment and Immigration Canada, 1981); and J. Kesselman, *Financing Canadian Unemployment Insurance* (Toronto: Canadian Tax Foundation, 1983).
4. G. Glenday and J. Alam, "The Labour Market Experience of Individuals: Unemployment Insurance and Regional Effects" (Ottawa: Employment and Immigration Canada, Task Force on Labour Market Development, 1982).
5. S.F. Kaliski, "Some Aspects of the Nature and Duration of Unemployment in Canada", in *Issues in Canadian Policy (II), Proceedings of a Conference*, edited by R.G. Wirick and D.D. Purvis (Kingston: Queen's University, Institute for Economic Research, 1979).
6. See, for example, Martin Feldstein, "The Effect of Unemployment Insurance on Temporary Layoff Unemployment", *American Economic Review* 68 (December 1978): 834–46; Robert H. Topel, "On Layoffs and Unemployment Insurance", *American Economic Review* 73 (September 1983): 541–59; Arlene Holen, "Effects of Unemployment Insurance Entitlement on Duration and Job Search

Outcome", *Industrial and Labor Relations Review* 30 (July 1977): 445–50; Frank Brechling, "Unemployment Insurance Taxes and Labor Turnover: Summary of Theoretical Findings", *Industrial and Labor Relations Review* 30 (July 1977): 483–94; Henry Saffer, "The Effects of Unemployment Insurance on Temporary and Permanent Layoffs", *Review of Economics and Statistics* 65 (1983): 647–51; and Harry C. Benham, "Unemployment Insurance Incentives and Unemployment Duration Distributions", *Review of Economics and Statistics* 65 (February 1983): 139–43.

7. See Dennis R. Maki, "Unemployment Benefits and the Duration of Claims in Canada", *Applied Economics* 9 (September 1977): 227–36; and Fred Lazar, "The Impact of the 1971 Unemployment Insurance Revisions on Unemployment Rates: Another Look", *Canadian Journal of Economics* 11 (August 1978): 559–70.
8. See Christopher Green and Jean-Michel Cousineau, *Chômage et programmes d'assurance-chômage* (Ottawa: Economic Council of Canada, 1976); and Samuel A. Rea, "Unemployment Insurance and Labour Supply: A Simulation of the 1971 Unemployment Insurance Act", *Canadian Journal of Economics* 10 (1977): 263–78.
9. Charles M. Beach and S.F. Kaliski, "Measuring the Duration of Unemployment from Gross Flow Data", *Canadian Journal of Economics* 16 (1983): 258–63.
10. See Abrar Hasan and Surendra Gera, *Job Search Behaviour, Unemployment and Wage Gain in Canadian Labour Markets* (Ottawa: Economic Council of Canada, 1982); and Glenday and Alam, "The Labour Market Experience of Individuals".
11. S.F. Kaliski, "Trends, Changes, and Imbalances: A Survey of the Canadian Labour Market", in *Work and Pay: The Canadian Labour Market*, vol. 17, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
12. Stephen T. Marston, "The Impact of Unemployment Insurance on Job Search", *Brookings Papers on Economic Activity* 1 (1975): 13–48.
13. See Kathleen P. Classen, "The Effect of Unemployment Insurance on the Duration of Unemployment and Subsequent Earnings", *Industrial and Labor Relations Review* 30 (July 1977): 438–44; Holen, "Effects of Unemployment Insurance Entitlement on Duration and Job Search Outcome"; and Paul L. Burgess and Jerry L. Kingston, "The Impact of Unemployment Insurance Benefits on Reemployment Success", *Industrial and Labor Relations Review* 30 (October 1976): 25–31.
14. Ronald G. Ehrenberg and Ronald L. Oaxaca, "Unemployment Insurance, Duration of Unemployment, and Subsequent Wage Gain", *American Economic Review* 66 (December 1976): 754–66.
15. *Ibid.*, p. 765.
16. Benham, "Unemployment Insurance Incentives"; and Robert H. Topel and Finis Welch, "Unemployment Insurance: Survey and Extensions", *Economica* 47 (August 1980): 351–79.
17. John M. Barron and Otis W. Gilley, "The Effect of Unemployment Insurance on the Search Process", *Industrial and Labor Relations Review* 32 (April 1979): 363–66.
18. Classen, "The Effect of Unemployment Insurance on the Duration of Unemployment and Subsequent Earnings".
19. Burgess and Kingston, "The Impact of Unemployment Insurance Benefits on Reemployment Success".
20. Finis Welch, "What Have We Learned from Empirical Studies of Unemployment Insurance?", *Industrial and Labor Relations Review* 30 (July 1977): 451–61.
21. Classen, "The Effect of Unemployment Insurance on the Duration of Unemployment and Subsequent Earnings".

22. For a detailed review of the empirical studies on migration in Canada see the paper by J. Vanderkamp, "The Efficiency of the Interregional Adjustment Process", in *Disparities and Interregional Adjustment*, vol. 64, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
23. Jean-Michel Cousineau, "La mobilité interprovinciale au Canada: le cas de l'Ontario, du Nouveau-Brunswick et de la Nouvelle-Écosse", *L'Actualité Économique* 55 (1979): 501–15.
24. Stanley L. Winer and Denis Gauthier, *Internal Migration and Fiscal Structure: An Econometric Study of the Determinants of Interprovincial Migration in Canada* (Ottawa: Economic Council of Canada, 1982).
25. Paul Shaw, *Inter-metropolitan Migration in Canada: Changes and Determinants over Three Decades* (Ottawa: Statistics Canada, 1984).
26. For a more detailed discussion of the relationship between UI and work-sharing see the paper by Frank Reid, "Reductions in Work Time: An Assessment of Employment Sharing to Reduce Unemployment", in *Work and Pay: The Canadian Labour Market*, vol. 17, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
27. See Martin Neil Baily, "Unemployment Insurance as Insurance for Workers", *Industrial and Labor Relations Review* 30 (July 1977): 495–504, and "Some Aspects of Optimal Unemployment Insurance", *Journal of Public Economics* 10 (1978): 379–402; and J.S. Flemming, "Aspects of Optimal Unemployment Insurance", *Journal of Public Economics* 10 (1978): 403–25.

The Transitional Adjustment Assistance Program (TAAP)

We Commissioners remarked in the previous section that while unemployment insurance (UI) constitutes an essential centrepiece of modern labour-market policy, some elements of the UI program create important barriers to labour-market adjustments. We noted, too, that any steps the Government of Canada can take to lower structural and frictional unemployment by helping Canadians to adjust to new labour-market opportunities will assist efforts to develop high levels of employment at low levels of inflation. To this end, we believe that it is important for the government to consider reinforcing the UI reforms suggested above by means of a program that will encourage positive adjustment to labour-market requirements.

The Transitional Adjustment Assistance Program (TAAP) would assist members of the Canadian labour force to adjust to emerging employment opportunities. To this end, it should focus on skills development and on helping Canadians to achieve labour-force mobility. It might also have occasional use in support of changing development opportunities in communities otherwise subject to serious declines. TAAP benefits would generally be available to workers who had exhausted UI benefits or whose lay-offs appeared to be permanent even if their benefits were not exhausted. Commissioners recommend that the main elements of the TAAP should include:

- *More funding of on-the-job training programs* or, when new jobs can be identified, of programs offered in institutional settings. TAAP beneficiaries might carry with them to new employment an on-the-job/training subsidy or a combination of training-place/purchase money plus larger training allowances. Given that TAAP beneficiaries would usually have experienced considerable uncertainty and frustration in the labour market, it is doubly important that TAAP-related training be associated with real job prospects and not mere make-work projects.
- *Portable wage-subsidy programs.* Since TAAP beneficiaries might often have been without jobs for some time, and since most would probably belong to older age groups, they might often be at a competitive disadvantage in seeking employment. This disadvantage could be largely or entirely overcome by providing them with a portable wage subsidy.
- *Early retirement plans* are often attractive to workers in their late 50s or 60s and might be preferable to other arrangements which would uproot older workers. TAAP benefits should be available for this purpose.
- *Mobility grants* have not so far constituted a major part of Canadian government interventions in the labour force. They might, however, provided that they are large enough, be a very important means of encouraging workers with family responsibilities to search for new job opportunities in new locations. For prime-age workers (those between 25 and 54 years of age), one of the greatest impediments to mobility is often the potential loss of equity in their homes. This is a particularly acute problem when workers face a move from a declining one-industry town to a

more economically successful region, usually associated with a relatively large urban centre. For workers facing such a situation, TAAP benefits should provide some support in the form of compensation for equity loss. TAAP mobility grants might therefore cover removal costs and provide some compensation for lost-asset value in housing.

- *Special projects financing.* Occasionally it might be possible for laid-off workers, faced with a plant closure, either to purchase the plant and reopen it on a co-operative basis or to band together to create new economic development opportunities in the affected community. In some instances, TAAP assistance could be used to support such activities. Nevertheless, this Commission urges the utmost caution in using this approach. TAAP benefits might be available only once in a lifetime or after a very long requalifying period. It would therefore be tragic for many Canadians if they were to lose their TAAP benefits in hopeless economic enterprises.

While it is not possible within the limits of this Report for Commissioners to spell out in detail how the TAAP might operate, we would recommend the following general structures and procedures:

- Eligibility for UI should not be affected by TAAP. Workers should retain their normal UI-benefit entitlements under the reformed UI provisions recommended above. This Commission does not recommend that basic UI entitlements be made contingent on undertaking some form of adjustment-related program such as on-the-job training, although we do support the current developmental uses of unemployment insurance. Instead, we believe, the current "active job-search" requirement is appropriate.
- Eligibility for TAAP benefits might be established on the basis of length of time in the labour force or according to age, or by some combination of these requirements. In general, Commissioners believe that TAAP should be directed to prime-age and older workers (between 25 and 64 years of age), with a labour-force attachment of at least five years.
- Canadians' entitlement to use TAAP must be based on their willingness to undertake adaptive behaviour. TAAP benefits would be provided after UI benefits were exhausted provided that the recipient used the income transfer in one of the ways outlined above. They would be directly related to the costs of adjustments to the recipients and their families and could cover the full costs of adjustment up to a maximum amount. Total benefits available would be proportional to length of time in the labour force up to a maximum of about 15 to 20 years' labour-force attachment. UI recipients might opt to undertake TAAP programs before their benefits were exhausted; if they did so, their basic UI benefits might be added to the TAAP entitlement. TAAP benefits would not be made available if a high probability existed of recall to a previous job. Probably, therefore, they should not be made available in the first few weeks of a period of unemployment unless it were very clear that no opportunities for reasonable employment would open up locally.
- TAAP programs could be delivered through UI/Canada Employment offices, where counselling support would also be available. It might also be possible to contract out the delivery of TAAP, but it would be important to ensure

that contractors, who would also provide counselling, had access to accurate labour-market information and were carefully monitored.

In order to finance the TAAP, Commissioners recommend that UI savings financed from the employer/employee premium accounts of the unemployment-insurance system be passed along, initially as reduced premiums. These savings would accrue from reduced benefit levels, extended entrance requirements, and the closer link between weeks of employment and the maximum benefit period. The government should then raise personal income taxes by an amount sufficient to equal the premium savings and contribute that money to a special Transitional Adjustment Assistance Fund. The fund should be further augmented by the value of the Regional Extended Benefits program. Any other UI cost reductions created by the effects of the benefit changes and of the improved labour-force adjustments which, we hope, would result from the TAAP could simply be passed on to the public in the form of lower premiums.

Since the federal government occupies, on average, only about 66 per cent of the personal income-tax field, it could not automatically capture the equivalent of all of the reduced UI premiums without resorting to a tax increase substantially larger than the UI reduction would offset. For the same reason, provincial governments would capture about one-third of the extra personal income tax as a tax "windfall". The total TAAP funds available to the federal government would therefore be in the order of $3.3 billion, and the provinces would gain about $650 million in additional tax revenue. Commissioners hope that provincial governments, too, would earmark these funds for labour-market/adjustment programs, and that joint federal-provincial TAAP arrangements would be funded on an approximate basis of an 80 per cent federal contribution and a 20 per cent provincial contribution.

Alternatively, it might be preferable for the federal government to capture all of the value of the UI premium reduction and to operate TAAP as a purely federal program in order to minimize federal-provincial entanglements. If this arrangement should prove to be desirable, it would be appropriate to introduce a federal-tax surcharge to finance the TAAP. In this way the recaptured funds would be excluded from the base on which provincial taxes are collected, and all of the funds saved would accrue to the federal government. Since this tax would have a specific purpose, it might be appropriate to refer to it as the "TAAP surcharge".

The Transitional Adjustment Assistance Program could make a very substantial difference to many Canadians and could contribute very considerablly to the flexibility of our country's labour markets. In 1984, there were an average 253 000 Canadian workers over 25 years of age who had been unemployed for a year or longer. Under the arrangement Commissioners suggest, these people would be the primary TAAP beneficiaries. If the $4 billion TAAP pool were targeted primarily to help these workers, the benefits available to each would average $13 700. If only 150 000 Canadians took advantage of the program, the benefits would average $26 700. Amounts of this size would often be enough to cushion the costs of adjustment very substantially.

In addition, benefits accruing from the Universal Income Security Plan (UISP), described fully in Chapter 19, below, would be available to supplement the incomes of Canadians. These would cushion the effect of lower wages that might be paid in new jobs as TAAP workers "started again" in new locations. Of course, UISP and TAAP portable wage subsidies could combine virtually to eliminate the effect of lower wages for many workers undertaking adjustments.

The individual elements of the TAAP package are not new. Governments have experience in dealing with each of them, and that experience should make it possible to deliver the proposed program efficiently and effectively. What is new is the extent of the adjustment effort, which is larger by a significant margin than current government efforts, even though no net increase in the dollar size of the public sector is inherent in this program. Commissioners believe that an effort of this degree is needed to assist Canadians to make the adjustments required to move our economy successfully into the twenty-first century. We suggest that there is one positive advantage of making the UI changes we propose and initiating the TAAP program: the two undertakings would have a cumulative effect. Our proposals, we believe, would replace the anti-adjustment features of unemployment insurance with the positive adjustment features of TAAP. This double effect should serve greatly to enhance labour-force flexibility and adaptability.

Minimum Wages

Another factor which might have contributed to the rise of unemployment rates in the 1960s and 1970s was changes in the minimum wage. Legislation specifying minimum wages has been in existence for over 40 years. Its stated objectives have varied over time, but the most important and enduring aim has been to reduce poverty. Originally, minimum-wage laws applied only to women and children, but coverage was later extended to most of the labour force. Today, the main exclusions are domestic service and farm labour.

Table 15-4 shows the existing minimum-wage provisions in the various Canadian jurisdictions. The minimum wage for experienced adult workers varies from $3.50 to $4.30 per hour. Most jurisdictions also have a minimum wage for younger workers and students, and this varies from $3.00 to $3.85 per hour.

Significant numbers of Canadians are still ranked as "working poor", despite the substantial growth in well-being that has occurred since the Second World War. This Commission is vitally concerned with the problem of Canada's working poor, and Commissioners have therefore examined various methods for raising their incomes. Low incomes among these people result from two causes: low wages and poor employment prospects. Clearly, policies which operate to improve both the income and the employment prospects of low-wage earners will be most effective. The minimum wage must be evaluated on the basis of these criteria.

The fundamental difficulty with using a minimum wage as a tool to reduce poverty is that increases in that figure can be expected to reduce employment

opportunities for low-wage earners. There are two main reasons for this. Firms faced with raising the wages of low-paid, low-productivity labour, relative to the price of other inputs into the production process, will find substitutes for the relatively more expensive element. This usually involves the more extensive use of machinery and equipment, though it may also require greater use of higher-wage, higher-productivity labour, which is made relatively more attractive by an increase in the minimum wage. The other reason for reduced employment opportunities derives from the higher labour costs faced by firms accustomed to using low-wage labour. While, initially, a firm may absorb these higher costs by taking lower profits, it will eventually pass them on in the form of higher prices to the consumer of the product, which will lead, in time, to reduced sales and production. This reduction in the scale of operation typically involves an eventual—if not immediate—reduction in employment. Firms employing low-wage labour are typically small and operate in highly competitive industries. Increases in labour costs relative to those of substitute products can have substantial effects on employment, sometimes forcing firms out of business. In addition, labour costs usually amount to a significant proportion of total costs in these industries, which makes employment rates quite sensitive to changes in labour costs. Increases in minimum wages will benefit some low-wage earners: those whose employment opportunities are not reduced. Others, however, will suffer from the reduced employment opportunities. The ones who suffer may well be those with the least skills and the fewest opportunities.

A number of empirical studies have confirmed the "disemployment" or job-loss effects of increases in the minimum wage. The reduction in employment opportunities typically increases the unemployment rate and reduces the labour-market/participation rate of low-wage workers. That is, in response to reduced employment opportunities, some affected workers search for work, while others drop out of the labour force. A recent Canadian study, which examined the effects of changes in the minimum wage on six age-sex groups (males and females in the 15–19 year, 20–24 year, and 25-plus age groups) concluded:

> *The minimum wage exerts a significant negative effect on the employment and labour force levels of most of the age-sex groups analysed here. Taking the employment and labour force effects together, our results indicate that the minimum wage has a significant positive effect on the unemployment rates . . . of all six age-sex groups. The employment and labour force effects of the minimum wage are neither sufficiently small nor sufficiently offsetting to prevent significant increases in unemployment in face of higher minimum wages. It is important to emphasize that the minimum wage adversely affects not only the unemployment rates...of teenagers, but also those of adult workers. Thus, the analysis here indicates that the effect of the minimum wage on employment and unemployment is stronger and more pervasive than heretofore appreciated.*[1]

Earlier Canadian studies also found significant effects of changes in the minimum wage on employment, unemployment and labour-force participation. On the basis of these studies, it is estimated that a 10-per cent increase in the minimum wage, relative to the average wage, will raise the unemploy-

TABLE 15-4 Minimum Wages for Experienced Adult Workers and Young Workers and Students

Jurisdiction	Experienced Adult Workers	Effective Date	Young Workers and Students[a]	Effective Date
Federal	$3.50	01/05/81	Employees under 17: $3.25	01/05/81
Alberta	$3.80	01/05/81	Employees under 18 not attending school: $3.65	01/05/81
British Columbia	$3.65	01/12/80	Employees 17 and under: $3.30	01/05/81
Manitoba	$4.30	01/01/85	Employees under 18: $3.85	01/01/85
New Brunswick	$3.80	01/10/82		
Newfoundland[b]	$3.75	01/01/83		
Nova Scotia	$4.00	01/01/85	Under-age employees 14 to 18: $3.55	01/01/85
Ontario	$4.00	01/10/84	Students under 18 employed for not more than 28 hours in a week or during a school holiday: $3.15	01/10/84
Prince Edward Island	$3.75	01/10/82	Employees under 18: $3.54	01/10/82
Quebec	$4.00	01/10/81	Employees under 18: $3.54	01/10/81
Saskatchewan	$4.25	01/01/82		
Northwest Territories	$4.25	01/08/82	Employees under 17: $3.75	01/08/82
Yukon[c]	$3.60	01/05/81		

Source: Compilation by the Commission.

a. New Brunswick, Newfoundland, Saskatchewan and the Yukon Territory have no special rates for young workers or students.
b. Sixteen years of age and over.
c. Federal rate plus ten cents.

ment rate by 0.2 to 0.5 percentage points.[2] The disemployment effect is even greater than these figures indicate, for some of the reduction in employment leads to reduced labour-force participation in addition to that which leads to increased unemployment.

Raising minimum wages also affects the training opportunities available in the labour market. This effect is particularly important for younger workers whose training and labour-market experience is limited. The expense of providing on-the-job training is often covered by the payment of low wages to employees undergoing a training period: in effect, the training is partly financed by the trainee. Higher wages and higher productivity come into play in the post-training period. High minimum wages tend to discourage such financing methods and, with them, on-the-job training and subsequent wage increases. European countries such as Germany, Austria and Switzerland rely much more on apprenticeship programs than does Canada, for smoothing the transition from school to work. Apprentices' wages are typically quite low compared to those of trained workers: in Germany, for example, the average wage for first-year apprentices is about one-fifth the economy's average industrial wage. However, as the data in Table 15-4 confirm, youth minimum wages in most Canadian jurisdictions are equal to a substantially higher proportion of average industrial wages. Several analysts have suggested that this factor accounts for much of the apparently-low incidence of apprenticeship programs and other on-the-job training in Canada.

The setting of minimum wages also tends to discourage wage flexibility in our economy. Changes in labour-market demand occur in particular regions, occupations or industries and minimum wages inhibit wage adjustment as a mechanism for responding to decreases in demand in particular labour markets, especially those with wages at, or just above, the minimum. As a result, adjustment to change slows down, and unemployment rises, more job vacancies occur, and living standards fall.[3]

This Commission fully accepts the important social objectives of minimum-wage legislation. Good intentions, however, do not necessarily lead to good policies. The evidence that disemployment resulted from the rapid increases in minimum wages of the 1970s suggests that Canadian governments should be careful in the future not to allow minimum wages to rise too quickly. Because increases in the minimum wage can be expected to have several adverse consequences, Commissioners prefer other approaches to reducing poverty among low-wage earners. We favour two chief options: supplementing the income of the working poor and improving opportunities for employment training in order to raise productivity and earnings.

Notes

1. Joseph Schaafsma and William D. Walsh, "Employment and Labour Supply Effects of the Minimum Wage: Some Pooled Time-Series Estimates from Canadian Provincial Data", *Canadian Journal of Economics* 16 (February 1983), p. 96.
2. See Pierre Fortin and Keith Newton, "Labor Market Tightness and Wage Inflation in Canada", in *Workers, Jobs, and Inflation*, edited by Martin Neil Baily (Washington, D.C.: Brookings Institution, 1982), p. 253.

3. For a detailed discussion of this point in the context of regional adjustment, see J. Vanderkamp, "The Efficiency of the Interregional Adjustment Process", in *Disparities and Interregional Adjustment*, vol. 64, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

Equal Opportunity and Equal Pay in Canada's Labour Market

Equality in the Labour Market

The efficient use of Canada's human resources requires not only flexibility and adaptability in our labour markets, but also the assurance of equal opportunities for all Canadians. In the absence of equality of opportunity, the skills and talents of some Canadians will be underused, and the total income produced by our economy will be lower than it need be. At least as important as the combined effect of these deficiencies is the effect of inequalities of opportunity on individual Canadians. In this Commission's hearings, representations were made on behalf of groups as diverse in their needs as women, the physically disabled, Native people, visible minorities, youth, and the elderly, against all of whom society directs discrimination and prejudice. Commissioners heard many tales of opportunities denied for reasons that have nothing to do with inherent ability or motivation. We were told that for many decades, there have been substantial differences in the earnings of men and women, and that over the years, these differences seem to have resisted change. In 1911, for example, employed women earned 53 per cent of the income of employed men. In 1982, women employed on a full-time, full-year basis still earned only 64 per cent of the income of men employed on the same basis. Clearly, issues relating to discrimination in the labour market must be an important concern of this Commission, just as they must be of all Canadians.

While problems relating to equal opportunity have always affected a large number of Canadians, the dramatic growth in the numbers of women in the labour-force has increased concern about equal opportunity and equal pay. In particular, since the numbers of Canadian women working outside the home began to rise rapidly, more attention has been paid to the differences in the earnings of men and women, as well as to the distinctive employment patterns between the sexes. In keeping with the depth of concern about differences in male/female employment opportunities, we Commissioners have focused much of our attention on that aspect of the equal-opportunity problem. However, many of the same points can be made about other aspects of inequality in the work place, and our comments should not be considered applicable to women's issues only.

Empirical Evidence[1]

The most important factor in carrying out empirical work on discrimination is to allow for the influence of productivity-related characteristics, such as education, training and experience, which can cause legitimate differences that are not based on discrimination in earnings and employment opportunities. The difficulty of distinguishing between discriminatory and non-discriminatory differences is compounded by the fact that while data exist on many wage-determining factors such as education and training, they are not always available for such factors as labour-market experience and types, not merely years, of education. Furthermore, because of data limitations, studies

carried out to investigate discrimination focus on measures of income or earnings and do not deal with fringe benefits or other factors such as the pleasantness of the working environment, the risk of job-related injury or illness, and the flexibility of working hours. Thus, even the most careful empirical studies need to be interpreted with caution.

There are a number of ways to standardize, or control for the influence of, productivity-related factors, and variations of most of these different procedures have been used in the various Canadian empirical studies. Table 15-5 gives the ratio of female to male earnings, both before and after the adjustments were made (by means of the different procedures) for

TABLE 15-5 Female/Male-Earnings Ratio Unadjusted and Adjusted for Various Productivity-Related Factors in Various Canadian Studies

Study	Year and Data	Gross Unadjusted Ratio	Net Adjusted Ratio
Ostry (1968)	1961 Census	0.59	0.81
Robson & Lapointe (1971)	University faculty 1965/66	0.80	0.90
Gunderson (1975)	Narrowly-defined occupation same establ., 1968/69	0.82	0.93
Shrank (1977)	University faculty 1973/74	0.83	0.95
Robb (1978)	1971 Census, Ontario	0.60	0.76
	males *cf.* single females over 30	N.A.[a]	0.94
Gunderson (1979)	1971 Census	0.60	0.77
Stelcner (1979)	University faculty 1976/77	0.91	0.94
Walmsley *et al.* (1980)	Sask. organization, 1980	0.80	0.87
Gunderson (1980)	1971 Census, Ontario	0.60	0.76
Shapiro & Stelcner (1980)	1971 Census		
	Canada public	0.65	0.83
	Canada private	0.57	0.72
	Quebec public	0.66	0.87
	Quebec private	0.56	0.74
Stelcner & Shapiro (1980)	1971 Census, Quebec,	0.60	0.82
	single over 30	0.83	0.82
Kapsalis (1980)	1975 Survey of Cons. Finance	0.61	0.87

Source: Morley Gunderson, "Discrimination, Equal Pay and Equal Opportunities in the Labour Market", in *Work and Pay: The Canadian Labour Market*, vol. 17, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

a. N.A. = not available.

differences in productivity-related factors. While the range of estimates is fairly substantial, reflecting, among other variations, the different data sets and methodologies used, a number of generalizations can be made.

In most studies[2] that look at the full-time/full-year earnings of individual Canadians across different establishments, occupations, industries and regions, the basic unadjusted ratio of female to male earnings is about 0.60. Adjusting for differences in such measured productivity-related factors as education, experience and broad occupational groups tends to raise the ratio in this comparison to approximately 0.80. Of necessity, however, the adjustments in these studies are often crude, since data limitations preclude controlling for differences in the detailed industrial or occupational distribution. By contrast, studies based on hourly wages in narrowly defined occupations in the same establishment or on case-studies (which automatically control for establishment, region, industry and, sometimes, for occupation) show unadjusted ratios of about 0.80 or higher and productivity-adjusted ratios of 0.90 to 0.95.[3] Thus adjusting for differences in productivity-related factors tends to raise the ratio of female to male earnings, although a wage gap of 5 to 10 per cent still seems to prevail within the same establishments. This differential, involving comparisons within the same establishment and occupation, can be thought of as representing narrowly-defined wage discrimination. It does not, however, include the portion of the male-female/earnings difference that can be attributed to occupational segregation.

The component of the 0.40 overall-earnings gap that can be attributed to occupational segregation is more difficult to establish. It is difficult, too, to determine how far that wage gap reflects discrimination inside, as compared to outside, the labour-market, and to decide what career, educational and other choices may or may not indicate discrimination. Empirical studies limited to using broad occupations and industry groupings cannot capture the occupational segregation within such groupings. However, studies based on job-evaluation point scores can provide some information, since they compare or evaluate different occupations. In such studies, differences between wages paid for predominantly male-performed jobs and predominantly female-performed jobs of the same value, as measured by a job-evaluation score, can be taken as a measure of the extent of pay differences arising from the occupational segregation of women into predominantly low-paying jobs traditionally performed by females.

Of course, with respect to occupational segregation, job-evaluation procedures do not enable observers to determine the importance of labour-market as compared to pre-labour-market discrimination or the significance of occupational "choices" that may or may not reflect discrimination. Women may be assigned to low-paying, predominantly female-performed jobs by their employers. Alternatively, they may apply for those jobs in disproportionate numbers because they were streamed into them by their educational and training choices; or because they have little choice, given their household responsibilities; or because such jobs are compatible with a preferred life-style. In all likelihood, the explanation is a combination of all of these factors, and the readily available supply of women to do these jobs means that employers may not be under pressure to raise wages in the predominantly

female-performed jobs. Job-evaluation analysts do not consider such supply factors in determining the job-evaluation point scores; these point scores are administratively determined, while wages may well be market determined, because of the influence of supply and demand.

Job-evaluation studies tend to find that females are paid approximately 80 per cent of what males are paid for the same productivity, as measured by a job-evaluation point score. This finding indicates the existence of a gap of 0.20, which reflects the occupational segregation of females into lower-wage jobs. This situation suggests that occupational segregation is likely to be more important than wage discrimination as a source of discriminatory-earnings differentials.

The 0.20 portion of the earnings gap attributable to discriminatory occupational segregation applied to predominantly female-performed occupations (that is, about half of the entire gap of 0.40) is likely, for several reasons, to constitute an overestimate. Not all of the differences apparent in the occupational distribution are likely to reflect discrimination. Moreover, it is difficult to contend that a gap as large as 0.20 is sustainable under the forces of competition, since employers would be under profit-maximizing cost pressures to do most of their hiring to fill positions in the low-paying occupations (assuming that employee functions are at least somewhat interchangeable across the segregated occupations), and this demand pressure should serve to close the discrimination gap. Again, a pay gap of 0.20 for equal productivity, as measured by equal job-evaluation point scores, reflects not only the "undervaluation" of predominantly female-performed jobs, but also the "overvaluation" of male-performed jobs. In addition, job evaluations are more likely to be carried out when there is a wide difference in earnings between predominantly male- and female-performed jobs, and they are less likely to be carried out when there is a small difference.

In sum, evidence suggests that approximately half the earnings gap of 40 per cent can be attributed to non-discriminatory productivity-related factors. Most of the remainder appears to be the result of occupational segregation, and narrowly defined wage discrimination accounts for 5 to 10 percentage points of this portion of the gap.

To some observers, this assessment, which reckons that approximately half of the overall earnings gap of 40 per cent reflects discrimination in the labour market, will seem an insultingly low estimate of a phenomenon which they consider of manifestly greater proportion. To others, it will represent a gross overestimate, failing to account properly for unmeasured characteristics and for choices that reflect the comparative advantage of the groups compared, and entirely inconsistent, in the long run, with competitive economic forces.

Neither of these perspectives can or should be dismissed out of hand as so often happens when this issue is debated. An extremely wide discrimination gap is unlikely to exist, given the forces of competition, but a gap of something like 15 to 20 per cent, reflecting both wage discrimination and occupational segregation, does seem to be credible in a labour market riddled by other imperfections.

In saying that existing evidence indicates that the discriminatory wage gap is approximately 15 to 20 per cent, a proportion equal to, or slightly less than

half of, the overall earnings gap, Commissioners do not mean to minimize the problem. A discriminatory earnings difference of this extent is certainly neither inconsequential nor, in our view, tolerable. Nor is it the only disadvantage operating against women in the labour force. However, it is important to recognize the implications of this assessment for policies such as equal pay and equal opportunity, designed to remove discrimination in the labour market. In particular, if our assessment is approximately correct, such policies, if successful in fully eliminating this type of discrimination, would narrow the overall earnings gap from the current 0.60 to approximately 0.80, leaving a remaining gap of 0.20 attributable to non-discriminatory factors.

Changes over Time

Earlier, Commissioners noted that substantial earnings differences between men and women have existed for decades. One of the most controversial aspects of documenting the extent of the discrimination problem pertains to changes in the earnings gap that have occurred over time. It is important to identify such changes, not only to determine if the problem is growing, but also to establish whether competitive and other forces are reducing the extent of discrimination. Unfortunately, little empirical work has been done on this subject, partly because of the lack of consistent time-series data on the unadjusted and productivity-adjusted earnings gap.

It has been determined, on the basis of narrowly defined occupational wage-rate data for Ontario[4] that the earnings gap tended to widen over the 1950s and 1960s; however, it narrowed somewhat over the 1970s, even after control for the effect of equal-pay policies. It has also been documented, on the basis of 1981 census data,[5] that the wage and earnings gap narrowed throughout Canada during the 1970s, partly because of the predominance of younger workers where the gap is smallest. The narrowing of the gap in recent years has also occurred in most other OECD countries.

A rigorous analysis of the extent to which the *discriminatory* wage gap is changing is complicated by the variety of other factors that are also changing over time. One might have expected the gap to widen over time, since the influx of women associated with the dramatic increase in the female labour force could have served to depress the wages of female workers. This outcome might quite well have happened because new entrants into the labour force are likely to be less experienced than the average worker, and therefore paid less.

On the other hand, the gap might have narrowed for a number of other reasons: competitive forces might have dissipated discrimination; increasing female participation in the labour force might have led to the accumulation of work experience, as well as to the reduction of sex stereotyping and prejudice; the larger proportion of youths in the labour force might have reduced the average earnings gap, since the gap is smaller among youths; the increased demand for white-collar workers and their greater degree of unionization might have helped females disproportionately; policy initiatives might have made discrimination more costly. The fact that many of these factors were operative in the 1970s, and that many of the factors giving rise to a widening

of the gap were more prominent in the 1960s, might account for the possibility that the gap widened in the 1960s, but narrowed in the 1970s. However, in the absence of a thorough empirical analysis of the trends and the relative importance of myriad offsetting factors that are at work, it is possible, at this stage, only to speculate on what is happening today and why. It may be, for example, that policy initiatives and competitive pressures are working to narrow the earnings gap, but that they have been able barely to offset the expanding pressure associated with the dramatic influx of women into Canada's labour force.

Expected Future Patterns

The future is even more cloudy than the present. Technological change may help women to the extent that they are less affected than men by the possible decline in job opportunities in the manufacturing sector. Women, however, may also be adversely affected by office automation.

If deregulation occurs on any substantial scale, it is likely to benefit minorities by opening up new jobs (possibly at lower pay) that may devolve to the new entrants into Canada's labour market. Trade liberalization, on the other hand, is likely to affect women adversely, given their predominance among workers in textiles and light manufacturing; but if the process is accompanied by positive adjustment assistance, workers may have the opportunity to leave low-wage, declining sectors of employment for expanding ones. Public sector retrenchment is likely to bear disproportionately on women, both because of their predominance in public sector jobs, and because there tends to be less discrimination in the public than in the private sector. An expanding economy, by contrast, is likely to help break down discriminatory barriers and to provide a disproportionate number of job opportunities for women and minority groups.

Future labour-market developments then, are likely to have substantial implications, both positive and negative, for the future of women in our Canadian labour market. On the one hand, changing circumstances are likely to open up new opportunities for women. On the other hand, there is also likely to be resistance from incumbent workers whose own jobs and pay are threatened. These developments seem to Commissioners to highlight the importance of policy initiatives that will work to establish employment opportunities which will ensure that women have at least equal access to the new jobs. These initiatives are likely to prove more important than policies to encourage equal pay, at least to the extent that wage discrimination is less likely to occur in new jobs where traditional hierarchies are less firmly established.

Dramatic changes which have occurred in the educational and career choices of younger women in the last 15 years will also have important implications for the future. During this period, the numbers of women attending university and continuing their studies past the undergraduate level rose much faster than the comparable figures for men. Thus, in 1966, women comprised 33.7 per cent of undergraduate registration and 18.0 per cent of graduate enrolment; by 1981, these proportions had increased to 46.6 and

37.3 per cent respectively.[6] Table 15-6 shows the very substantial increases in the proportion of women receiving bachelor's and first professional, master's and doctoral degrees from 1966 to 1980. Table 15-7 illustrates the dramatic increases in female enrolment in the traditionally male-dominated areas of engineering and applied science, medicine, law, commerce and business administration. These statistics supply evidence of a very significant decline in occupational segregation, at least as indicated by university enrolment.

TABLE 15-6 Women as a Percentage of Total Recipients of Degrees Awarded by Canadian Universities and Colleges

Year	Bachelor and First Professional	Master's	Doctorate
1966–67	34.1	20.0	8.1
1967–68	35.2	20.0	9.7
1968–69	36.9	22.0	7.9
1969–70	38.4	21.6	9.3
1970–71	38.1	22.0	9.3
1971–72	39.4	24.8	9.3
1972–73	39.8	26.8	11.2
1974	41.5	27.2	12.3
1975	44.4	28.2	16.1
1976	46.3	30.5	18.8
1977	47.7	31.3	18.0
1978	48.5	32.8	18.2
1979	49.2	36.0	20.5
1980	49.6	37.4	23.0
1981	50.3	39.2	24.2

Source: Thomas H.B. Symons and James E. Page, "The Status of Women in Canadian Academic Life", in *Some Questions of Balance* (Ottawa: Association of Universities and Colleges of Canada, 1984), p. 192.

These developments clearly augur well for the future reduction both of the earnings gap and of occupational segregation. As stated in a recent study published by the Economic Council of Canada, "Over the next few years, it will be mainly the young women who, between 1971 and 1981, succeeded in changing traditional female labour patterns who will be able to move up the promotional ladders in their places of work."[7]

As with many predictions about future developments, however, analysts differ about how large these reductions in the earnings gap and in occupational segregation will be, and about how quickly any change will occur. Any optimistic assessment should not be allowed to obscure the fact that the equalization of earnings and opportunities has been an extremely slow process, and that even the potential acceleration referred to here is unlikely to produce a fully satisfactory rate of progress.

TABLE 15-7 **Women as a Percentage of Total Full-Time University Undergraduate Enrolment for Selected Fields of Specialization, Canada**

Year	Fine and Applied Arts	Engineering and Applied Science	Medicine	Law	Commerce and Business Administration
1966	61.8	1.4	13.0	6.3	7.8
1967	61.2	1.5	13.8	7.3	8.4
1968	57.4	1.6	15.1	8.8	8.2
1969	56.9	1.6	17.1	10.9	8.5
1970	56.8	1.8	18.1	12.7	10.2
1971	53.9	2.4	20.3	14.9	13.9
1972	57.8	2.6	22.3	18.0	16.1
1973	58.2	3.3	24.3	20.3	18.1
1974	59.1	4.5	26.2	23.7	19.9
1975	60.8	5.5	27.2	26.7	22.3
1981	62.3	10.6	38.5	39.9	37.2

Sources: Statistics Canada, *Historical Statistics of Canada*, 2d ed. (Ottawa: Statistics Canada, 1983), Series 444, 443, 446, 451 and 441); and Thomas H.B. Symons and James E. Page, "The Status of Women in Canadian Academic Life", in *Some Questions of Balance* (Ottawa: Association of Universities and Colleges of Canada, 1984), p. 206.

Implications for Public Policy

The persistence of at least some discrimination in the labour market suggests that there is considerable scope for policy initiatives to create improvements. Such initiatives might move in the direction of equal pay and equal employment opportunities.

Conventional equal-pay legislation dealing with substantially similar work which basically involves the same occupation has some potential function. That function is limited, however, by the fact that its maximum effect is likely to be on the 5 to 10 percentage points of the earnings gap that can be attributed to narrowly-defined wage discrimination within the same occupation and establishment.

Recruiting and promotion policies that deal with equal-employment opportunity could have a broader function, since they can affect occupational segregation, which is generally believed to occur more often and to affect more workers, possibly accounting for 10 percentage points or more of the overall earnings gap. Even though the principle of "equal pay for work of equal value" deals with pay and not with employment opportunities, it could also have a broader function, since it, too, can deal directly with earnings differentials based on occupational segregation. In fact, "equal-value" policies have been advocated specifically to enable comparisons across occupations and thus to overcome the limitations of conventional equal-pay policies which are designed to apply to substantially similar jobs. The scope for equal-value

legislation is likely to correspond to about 10 percentage points of the earnings gap, a figure that is consistent with cases of the actual implementation of the equal-value principle; the correspondence could, however, range as high as 20 percentage points if the legislation ultimately addressed pay increases as high as those applied to "overvalued" male-performed jobs. Of the two policy approaches, the equal-pay principle has been given more emphasis in Canada. This initiative has evolved through a variety of forms, each with a different potential effect.

Equal Work

The earliest legislative initiatives relating to the equal-pay principle – that of Ontario in 1951, for instance – required equal pay for "equal work". This stipulation significantly hampered the application of the equal-pay principle, since it was interpreted to allow even minor job differences to negate the assertion that equal work was being performed. Comparisons were also restricted to "equal work" within the same company.

Substantially Similar Work

The legislation was then broadened to allow comparisons to be made when there were minor differences in work, as long as that work was "substantially similar". That expression was often defined in terms of the inputs of skill, effort and responsibility, and according to working conditions, but these criteria were usually assessed independently of one another. This meant that the work had to be substantially similar in *each and every* area of comparison. It was not possible to compensate for a slight shortcoming in one area with a greater amount of some other component.

Composite Approach

The "composite" approach to job evaluation, by contrast, requires only that the work be substantially similar in the *composite* of components of skill, effort, responsibility and working conditions. This broader approach allows a shortcoming in one component to be compensated for by a greater amount of another. It makes the assessment of comparability more difficult, however, because it is often necessary to make trade-offs among the components: to know, for example, whether a bit more responsibility exactly offsets a little less skill.

The composite approach is consistent with the way in which economic forces determine the value of a job. Market forces, for example, do not require two jobs that pay the same to correspond identically in skill, effort, responsibility and working conditions, but only that the market's evaluation of each of these components sum to the same total. While this approach is consistent with basic economic principles, it does add the requirement that somehow the value of each of these components must be traded off against another.

The composite method of assessing equal work begins to approach the "equal-value" or "comparable-worth" concepts, except that the former usually requires that comparisons be limited to jobs involving substantially the same kind of work. If it allowed for the comparison of dissimilar jobs, then the composite approach would be an equal-value approach.

Equal Value

The principle of equal pay for work of equal value allows dissimilar jobs to be compared and evaluated as equal as long as the "value" of the job, as determined, for example, by a job-evaluation scheme, is the same or sufficiently close to be considered so. The procedure allows comparisons across dissimilar occupations and, in fact, is often supported on the ground that this broadened scope enables it to deal both with wage differences arising from occupational segregation and with unequal pay within the same occupation. In that respect, its scope is much broader than that of conventional equal-pay legislation. However, while comparisons across quite dissimilar jobs are possible in theory, in practice those carried out to date have not involved highly dissimilar jobs, partly because job-evaluation procedures become more tenuous as the jobs under examination become less similar.

Equal-value comparisons tend to be regarded as the strongest form of intervention in support of the equal-pay principle. This is primarily because they cover the broadest range of types of work that can be compared.

Proportionate Value

If, however, there is a logic to using the administrative concept of value as determined by a job evaluation scheme – and this is a possibility that remains to be discussed later – then it would seem illogical (except on grounds of expediency) to allow comparisons between jobs only when they are of *equal* value. Such a restriction would preclude any adjustment, for example, if a job-evaluation scheme found that although a given female-dominated job had a job-evaluation score of 90 per cent, compared to a given male-dominated job, yet its pay ratio was only 80 per cent. It would appear that if the job-evaluation procedure were competent to determine the relative values of jobs, workers performing the female-dominated job should be paid at 90 per cent of the rate for workers performing the male-dominated job.

The principle of proportionate pay for work of proportionate value seems to be a logical extension of the principle of equal pay for work of equal value. Even if the equal-value principle entails excessive allocative or administrative costs, political pressures are likely to push in the direction of proportionate pay if equal value becomes the established norm.

Equal-Pay Legislation in Various Jurisdictions

Table 15-8 summarizes the various forms of equal-pay legislation in Canadian jurisdictions. All our jurisdictions have some form of equal-pay

legislation, usually established during the 1950s, following the International Labour Organisation's Equal Remuneration Convention No. 100, adopted in 1951. Most jurisdictions require that substantially similar work be the basis for comparison, and most allow the composite approach that enables trade-offs to be made among the components of skill, effort, responsibility and working conditions. Five jurisdictions allow for some groups to be exempt from the legislation, and seven allow comparisons to be made across different locations, but require that the comparisons always be made within the same company. Most jurisdictions stipulate that individuals make a complaint if they consider themselves entitled to do so under the legislation. Only three allow for the legislative agency to initiate some investigations, and of these, only Ontario and, to a lesser extent, Saskatchewan seem to follow that practice. The number of investigations is extremely small in many jurisdictions; Ontario and, to a lesser extent, Saskatchewan are by far the most active. It appears that equal-value initiatives, which may be taken only in the federal jurisdiction and in Quebec, are being applied in a cautious fashion.

Additional Issues Pertaining to Equal Value

Since equal-value legislation is likely to be the "wave of the future" with respect to initiatives on the equal-pay front, it is worth examining this concept in more detail.

Job-Evaluation Procedures

Equal-value assessments are invariably based on job-evaluation procedures. Basically, these procedures involve an assessment of a job in terms of its components of skill, effort, responsibility and working conditions. Persons opposed to the equal-value principle have raised a number of arguments against job-evaluation procedures. Many of these arguments contain an element of truth, though they sometimes overstate the case. Perhaps the most common objection is that job-evaluation procedures try to compare "apples and oranges", although this is also done implicitly by market forces.

In addition, job-evaluation procedures face important difficulties in attaching weight to the different components of skill, effort, responsibility and working conditions. For this reason, the comparisons become more difficult, but not necessarily impossible, when they apply to disparate jobs. It is difficult to attach an objective notion of value to a job (that is to say, a concept of value that is independent of the market valuation). Nevertheless, the equal-value principle does relate to the value of the inputs of skill, effort, responsibility and working conditions, and not to the value of the outputs; the latter can still be determined by market forces.

Economic, as Compared to Administrative, Concepts of Value

The equal-value principle focuses on the valuation of job *input* of skill, effort, responsibility and working conditions. The efficient use of labour resources, however, requires that wages adjust to demand and supply conditions in the

TABLE 15-8 Canadian Equal Pay Legislation by Jurisdiction, 1981

Jurisdiction	Date of 1st Law	Concept of Equality	Composite or Trade-off Approach Allowed	Exempt Groups[a]	Same Company in Different Locations[b]	Agency Initiate Investigations[c]	Number of Investigations
Nfld.	1971	Similar	Yes	Yes	Yes	Yes	N.A.
P.E.I.	1959	Substan. same	Yes	Yes	N.A.	No	1980–82
N.S.	1957	Substan. same	Yes	Yes	Yes	No	1 per year
N.B.	1961	N.A.	Yes	No	Yes	No	1980–81: 5 to 7
Que.	1964	Equal value	Yes	No	Yes	Rare	32 settled since 1976
Ont.	1951	Substan. same	No[d]	No	Yes	Yes	1980–82[e]: 374
Man.	1956	Substan. same	No	No	No	Rare	1978–81: 1
Sask.	1952	Similar	No	Yes	No	Yes	1980–81: 17 1981–82: 12
Alta.	1957	Substan. similar	Yes	Yes	No	No	1980–81: 5
B.C.	1953	Substan. similar	No	No	Yes	Rare	N.A.
Fed.	1956	Equal value	Yes	No	Yes[f]	No	7 settled since 1977[g]

Source: Extracted from Ontario Manpower Commission, *The Employment of Women in Ontario* (Toronto: The Commission, 1983), Appendix XI, p. 198.

a. "Yes" implies that some groups are exempt. These usually comprise domestics, sometimes foreign labourers and occasionally members of non-profit organizations.

b. "Yes" implies that comparisons can be made in the same company across different locations.

c. "Yes" implies that the enforcement agency, usually an employment-standards division or a human rights commission, can initiate an investigation. "No" implies that an individual must make a complaint before an investigation can occur. "Rare" implies that although the legislation allows the agency to initiate an investigation without a formal complaint this seldom if ever occurs.

d. Proposed Bill 141, before legislature as of December 1984, contains composite.

e. Between April 1980 and February 1982, 374 investigations (115 routine audits, 259 arising from complaints), with 86 violations for 1054 employees, who received average settlements of $519.

f. Comparisons can be made in same company in different locations, but within an established geographic area.

g. Including two major group settlements involving 3480 workers. Approximately 20 complaints were under investigation in or close to 1983.

labour market. Administrative assessments are made by job-evaluation agents who, in assigning point scores to each job, need not take into account conditions of labour-market supply and demand. Their assessment will be based on their perception of the "objective" worth of the various tasks required to perform a given job. That is to say, supply conditions (which are established by the willingness of workers to work in certain jobs) and demand conditions (which are established by the need of employers to fill those jobs) do not enter directly into the job evaluator's assessment of the point score to be assigned to each job. They may enter in an indirect fashion in that, for example, certain working conditions may be assigned a higher point score because few people are willing to accept them. Nevertheless, the point-score evaluations of each job are based, in the main, on an administrative (that is, a job evaluator's) concept of the value of a job.

In our current system, supply and demand conditions are important factors in determining the pay rates associated with different jobs. For example, females, on average, may be willing to supply their services in certain jobs because they prefer the working conditions associated with those jobs or because of off-the-job constraints such as family commitments. Similarly, if there were little demand on the part of employers for some of the skills required in predominantly female-performed jobs, then wages of female workers in those jobs might be low. These factors do not necessarily contribute to the point scores for these jobs.

If, for the same job-evaluation point score, wages were lower in the predominantly female-performed jobs than in the predominantly male-performed jobs, equal-value legislation would mandate an adjustment. This adjustment would occur even if the predominantly female-performed jobs were held by persons who willingly supplied their services at the lower wage. It is because job evaluators may ignore such supply factors, which might reflect legitimate preferences, that much of the concern arises over the use of administrative, rather than market, procedures for determining pay. Another cause of concern is the administrative cost associated with the job-evaluation procedure itself.

The administrative determination of wages might also inhibit the adaptability of the labour force to change. At present, market forces and collective bargaining raise wages in rapidly expanding sectors and lower wages in declining or slow-growth sectors. These wage differentials are important initiators of economic adjustment, providing the signal and incentive for some members of the labour force to move out of declining employment sectors into expanding sectors. This process, which is significant over the long run, would be inhibited in an economy in which wages were administratively determined. The debate about the viability of equal-value legislation must deal directly with the issue of which wages should be determined by the economic forces of supply and demand, along with collective bargaining, and which should be determined by job-evaluation procedures.

The choices need not be mutually exclusive. That is, the use of equal-value/job-evaluation procedures in select cases may supplement the action of

market forces by providing information to the parties and, perhaps, by removing unintended discrimination. After all, job-evaluation procedures are used extensively in private industry; hence they must have some value in terms of the information they provide and the preservation of such realities as internal equity. Conversely, the broad application of the equal-value principle based on administrative job-evaluation schemes, without any attention to market forces, is likely to create significant allocation problems, as well as to engender market adjustments that may offset, in part at least, the intended effects of the entire process.

Theoretical Effect

Any policy that raises wages relative to those paid for other inputs into production of goods and services will result in an adverse employment effect, both because firms will raise prices and reduce their output in response to a cost increase, and because they will find substitutes for an input that has become more expensive. Where female labour, subject to equal pay, is a cost factor, this adverse employment effect is likely to be fairly substantial, at least in the long term, because there is likely to be a fairly abundant supply of available substitute inputs, and the ratio of female-labour cost relative to total cost can be high in a number of female-dominated labour markets. This effect may be offset, however, by the fact that many of these jobs are in the public and quasi-public sectors, and hence administrators can pass on the cost increase to taxpayers without seriously reducing the demand for the output.

In addition to the direct effect of higher wages on the employment situation, there may also be a number of indirect effects. Opportunities to obtain training and experience in return for lower wages may be reduced, and this consequence may, in the long run, inhibit wage growth. Employers may react by raising job requirements, and working conditions may deteriorate, since higher wages add to production costs. On the credit side, however, recipients of equal pay may welcome the increased requirements and the additional responsibilities, especially if they expand future opportunities for advancement.

Other more subtle adjustments are also likely to occur in response to equal-value legislation. Firms may engage in subcontracting, especially for those functions where they are most susceptible to charges of unequal pay, and where the firms or individuals receiving the contracts are less amenable to legislative initiatives. Certain product lines may be segregated, and certain tasks may be differentiated to some degree, so as not to give the appearance of being substantially similar and thus subject to equal-pay comparisons. In addition, firms may try to avoid hiring applicants whom they regard as ultimately likely to pressure them to introduce equal pay for large groups of workers. They may also avoid making internal evaluations of their own wage structure (especially job evaluations and equal-value comparisons) for fear that the data obtained might be used against them if they did not fully rectify any wage imbalances discovered. These examples are only meant to illustrate some of the adjustments that can occur in response to legislative initiatives relating to employment practices.

Equal-Employment/Opportunity Legislation

While equal-pay policies work to prevent discrimination in matters of pay, equal-employment/opportunity policies are designed to prevent discrimination pertaining to the various dimensions of employment opportunities. Such discriminatory practices might relate, for example, to recruiting, hiring, training, promotions, transfers and termination of employment.

Legislation in Various Jurisdictions

All Canadian jurisdictions have similar equal-employment/ opportunity policies, usually embodied in a Human Rights Code. These policies are part of a broader policy restricting discrimination on the basis of such factors as race, age, religion and national origin. In most jurisdictions, the prohibition against sexual discrimination was added during the 1960s and 1970s, following the International Labour Organisation Discrimination (Employment and Occupation) Convention No. 111, adopted in 1958.

The process of invoking the pertinent legislation usually requires that an individual party complain to a Human Rights Commission. If the Commission decides to act on a complaint, there often follows a lengthy procedure involving investigation, conciliation and, ultimately, a trial-type hearing which may involve appeals to the courts. This lengthy procedure and the requirement that an individual lodge a complaint can obviously inhibit the process that exists to protect Canadians from discrimination.

Affirmative Action

Affirmative action is based on the view that it is not sufficient to make specific acts of discrimination illegal. Rather, positive steps are needed to relieve the effects of past discrimination, eliminate present discrimination and help to prevent future discrimination. These positive steps focus on the results of the intervention, not just on the opportunities themselves.

Affirmative action is a flexible policy which can take many forms. It typically involves setting targets for the hiring of disadvantaged groups, but it can go further and involve quotas and "reverse discrimination". In addition to establishing targets and a timetable for their achievement, affirmative action typically involves the founding of a data base that records such information as the sex, occupational distribution and pay of the work-force.

There are several rationales for affirmative action programs. These programs may compensate for the cumulative effects of a past history of discrimination; in such circumstances, given unequal starting positions, equal opportunity may involve remedial measures, providing specific preferential benefits to a designated group. These time-limited measures might include management training for women and special recruitment programs for underrepresented groups. Affirmative action programs may also be a necessary means of breaking a vicious circle of entrapment which, when broken, will enable women or other groups to acquire experience, training, confidence and responsibilities that will ultimately remove the necessity for

affirmative action. Again, the affirmative action approach to the problems of inequity and inefficient use of target-group workers is based on the concept of systemic discrimination. This approach identifies discrimination in the work-place in terms of the way employment practices affect the employment of target-group members, rather than in terms of the purpose of those practices. It may also be particularly suited to breaking down segregation, since it creates an incentive for firms to reach down into the "job ghettos" and demolish the barriers that confine workers to particular forms of work.

All provinces in Canada, except for Quebec and Newfoundland (and Alberta, unless Cabinet approval is obtained), allow voluntary affirmative action programs and relieve them of being considered in contravention of the relevant anti-discrimination legislation.[8] Moreover, both the federal jurisdiction and Saskatchewan can impose affirmative action as a remedy when a court has found discrimination; Saskatchewan can even order, on its own initiative, that such programs be instituted. With respect to Native Canadians, compulsory affirmative action through contract compliance has been required in a number of joint public-private mega-projects. Voluntary affirmative action programs, often worked out with the assistance of the government, also exist in a number of large private sector organizations, as well as in various elements of the public sector.

Expected Effect

Equal-employment/opportunity policies can be expected to increase the labour-market demand for females and hence their employment opportunities and, indirectly, their wages. This expectation stands in some contrast to equal-pay policies which, by raising wages, might be expected to decrease employment opportunities. If this prospect of policies that create effective equal-employment opportunities becomes a reality, there could eventually be less need for equal-pay policies. This application of basic economic principles significantly qualifies the notion that equal pay is a necessary complement to equal-employment/ opportunity legislation, a notion which is based on the view that such legislation alone would simply lead to the hiring of females at unequal wages. The notion ignores the demand pressures emanating from equal-employment/opportunity policies, which can serve to increase both wages and employment opportunities. In this area, however, market forces seem to grind with considerable slowness, and social justice would seem to dictate the use of policy instruments to accelerate their working.

Evidence Concerning the Effect of Equal Pay in Canada

It has been determined,[9] on the basis of data for Ontario, that the transfer in 1969, of equal-pay legislation from the Human Rights Code to the Employment Standards Act – a transfer which was carried out in order to enhance the legislation's effectiveness – had no statistically significant effect of narrowing the male-female/wage gap. It is possible, however, that any change was not recorded, since the data were collected for only one year before and after the passage of the legislation. However, an analysis of

another data set, limited to Ontario occupations, also failed to find any significant difference in the time pattern of male-female/wage adjustments in response to the legislative change. This conclusion has been reinforced by a more recent study[10] of the impact of the legislation, which was carried out over a longer time period (1946–1979), and which used a slightly different set of occupations.

While the extent to which these conclusions should be generalized remains open to question, it seems safe to say that empirical analysis has not shown that conventional equal-pay legislation has significantly narrowed the male-female/earnings gap. This conclusion, of course, does not imply that the legislation has not had an effect on some groups; rather, the indication is that the Acts do not seem to have narrowed appreciably the *overall* male-female/earnings gap.

Evidence Concerning Equal-Value Initiatives

The effect of anti-discrimination legislation on specific groups can be illustrated by a number of equal-value cases that have occurred. A job-evaluation study for the State of Washington[11] found, for example, that the pay in predominantly female-staffed occupations was approximately 80 per cent of that in predominantly male-staffed occupations of the same job-evaluation point score. Subsequent analysis suggested that the cost of raising the pay of the predominantly female-performed "undervalued" jobs to the average pay line would be $37.9 million; a later court decision indicated that approximately 15 500 employees were involved, for an average adjustment of approximately $2445 per worker.

A job evaluation of municipal workers carried out in San Jose, California, also found that female-performed jobs were paid at rates of 2 to 10 per cent below the comparable-worth line; predominantly male-performed jobs were paid at rates 8 to 15 per cent above comparable worth, creating an overall gap of 10 to 35 per cent of pay rates between jobs of the same point score. The actual settlement to bring the pay of 750 women in "undervalued" female-dominated jobs to the pay line was $1.4 million, representing an average individual adjustment of $1867.[12] A job evaluation for Minnesota State employees also led to a budgetary appropriation of approximately $21.7 million to raise the pay of its 8225 employees in undervalued female-performed jobs. This sum represented an average per-employee adjustment of $2638.

In Canada's federal jurisdiction, most equal-value cases have involved only a small number of persons, or have dealt with discriminatory classification systems; alternatively, they could have been handled under conventional equal-pay legislation. In 1980, however, 475 librarians received a settlement that involved an annual ongoing adjustment of approximately $1 million or $2105 per person when their jobs were compared to those of predominantly male historical researchers. Again, in 1982, 3300 general service workers received a settlement that involved an annual ongoing adjustment of approximately $8 million, or an average of $2424 per person. This represented a 20 per cent increase in the wages of the female-dominated sub-

groups, an increase that was larger than those awarded in most U.S. equal-value adjustments because the Canadian adjustments involved raising the female-pay line to the male-pay line rather than to the average (composite sex) line.

These figures illustrate the size of the adjustments that have been involved in the actual implementation of the principle of equal pay for work of equal value. These adjustments typically involve raising the pay of "undervalued" female-performed jobs by about 10 per cent and typically involve adjustments in the $2000 to $3000 range. What difference these changes have made to the overall earnings gap in each of the relevant jurisdictions remains unknown.

Evidence from the United States

The actual effect of various forms of equal-employment/opportunity legislation has been extensively analysed in the United States. This legislation includes both Title VII of the Civil Rights Act of 1964, the Equal Employment Opportunity (EEO) title, and Executive Order 11246 and its amendments; the latter legislation requires affirmative action on the part of employers involved in federal contracts. The EEO legislation forbids both wage and employment discrimination, while the federal contract-compliance legislation requires affirmative action with respect to employment and upgrading opportunities in those firms that receive federal contracts.

U.S. evidence has been mixed on the effect of the equal-employment/opportunity function of Title VII of the Civil Rights Act. Affirmative action under the Federal Contract Compliance Program has produced significant improvements for black males, but there have been frequent set-backs for white females. Recent evidence also suggests that affirmative action has improved the occupational position of Blacks, in part because of more aggressive enforcement procedures and in part because of a wider availability of more highly educated Blacks. Enforcement procedures do seem to be important to the effect of the policy as does an expanding growing economy. Equal-employment/opportunity procedures increased both wages and employment opportunities, while equal-pay procedures reduced the latter.

Conclusions

This overview suggests that there is both a scope and a role for policy initiatives. Equal-employment/opportunity or employment-equity policies have a number of possible advantages over conventional equal-pay policies. The scope of the former is likely to be larger than the scope of the latter, since occupational segregation is more important than narrowly-defined wage discrimination. Equal-employment opportunities can also increase both the wages and the employment opportunities of women, while equal-pay policies, by themselves, are likely to decrease their employment and training opportunities. Employers cannot avoid applying equal-employment/opportunity legislation simply by not hiring particular groups, though this evasion is more often possible under equal-pay legislation. Affirmative action components of equal-employment/opportunity legislation can also break down

work-place barriers and demolish job ghettos, and eventually act to correct misinformation about the capabilities of those groups to whom it applies.

This predisposition towards policies in support of equal-employment opportunities reflects Commissioners' preference for initiatives that expand choices and opportunities, that minimize distortions in market prices, and that facilitate market adjustments and the matching of the right people with the right jobs. Yet although the analysis offered in this section leans towards equal-employment/opportunity policies rather than towards equal-value policies, this Commission does not advocate the abandonment of the latter. We do suggest, however, that the adoption of the principle of equal pay for work of equal value should not be undertaken on a wider scale until Canadians achieve a better understanding of the probable consequences.

Equal-pay/equal-value legislation represents a quantum change in policy orientation because such laws involve administratively determined concepts of value that can be quite independent of market forces; they also involve administrative costs associated with job evaluation. Partly for this reason, its current application has been largely restricted to the public sector, where the impact of market forces is already blunted. To enlarge and extend the concept to the private sector would constitute a dramatic move. Job-evaluation assessments would override not only those wages determined by market forces, but also those determined by collective bargaining. Furthermore, pressure would emerge to apply the concept more broadly: to different groups of workers of the same sex, for example.

Before such a move is made, therefore, it would seem sensible to obtain more information concerning a number of factors, such as the effect of this legislation in those few instances where it has been applied. In addition, it is important that a reasoned debate be held to discuss the pros and cons of administrative, as contrasted with market and collective bargaining, procedures for wage determination. Finally, equal-pay/equal-value policies must be assessed according to a broad set of program-evaluation criteria: the control of administrative costs; the attainment of target efficiency (which requires helping a target group without spilling benefits into the hands of a non-target group); the attainment of allocative efficiency; the provision of non-demeaning benefits; and, over time, the attainment of flexibility.

While equal-pay/equal-value legislation, effectively applied to the private sector, would constitute a significant change in policy, affirmative action is amenable to a staged approach under which its effects could be monitored. In addition, it has the advantage of working through employment-opportunity mechanisms, and the considerable American experience offers Canadians an excellent chance to use its best features and abandon its worst. Furthermore, there are good reasons to believe that affirmative action would be needed only temporarily.

Recommendations

Commissioners generally approve the approach suggested by the Royal Commission on Equality in Employment, and we note the supportive

approach taken by the federal government in its response to the Abella recommendations. In general this approach will require:

- Maintenance of existing equal-pay/equal-value policies
- Legislation that requires all employers covered by the Canada Labour Code, including federal Crown corporations, to take affirmative action
- Contract-compliance requirements for contractors working for the federal government
- Encouragement of provincial governments to follow suit.

We are concerned, however, that, as often before, governmental actions will turn out to be "toothless". In order to ensure compliance, these approaches should be firmly legislated rather than merely set out in guidelines. Moreover, the Human Rights Commission should be given more resources so that it can strengthen its monitoring and enforcement activities.

Notes

1. A more detailed discussion of the empirical evidence is provided in Morley Gunderson, "Discrimination, Equal Pay and Equal Opportunities in the Labour Market", in *Work and Pay: The Canadian Labour Market*, vol. 17, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), on which much of this section is based.
2. For example, Sylvia Ostry, *The Female Worker in Canada* (Ottawa: Queen's Printer, 1968); Roberta Robb, "Earnings Differentials Between Males and Females in Ontario, 1971", *Canadian Journal of* Economics 11 (May 1978): 350–59; Morley Gunderson, "Decomposition of Male/Female Earnings Differential: Canada 1970", *Canadian Journal of Economics* 12 (August 1979): 479–85; Morley Gunderson, *Labour Market Economics: Theory, Evidence and Policy in Canada* (Toronto: McGraw-Hill Ryerson, 1980); M. Stelcner and D. Shapiro, "The Decomposition of the Male/Female Earnings Differential: Quebec 1970" (Montreal: Concordia University, 1980); C. Kapsalis, "Sex Discrimination in the Labour Market" (mimeo, 1980).
3. For example, Reginald Robson and Mireille Lapointe, *A Comparison of Men's and Women's Salaries and Employment Fringe Benefits in the Academic Profession* (Ottawa: Information Canada, 1971); Morley Gunderson, "Male-Female Wage Differentials and the Impact of Equal Pay Legislation", *Review of Economics and Statistics* 57 (November 1975): 426–69; William Schrank, "Sex Discrimination in Faculty Salaries: A Case Study", *Canadian Journal of Economics* 10 (August 1977): 411–33; M. Stelcner, "Male-Female Faculty Salary Differentials: A Case Study – Concordia University" (Montreal: Concordia University, 1979); P. Walmsley, M. Ohtsu, and A. Verma, "Measuring Wage Discrimination Against Women: An Alternative to the Human Capital Approach" (Saskatoon: University of Saskatchewan, 1980).
4. M. Gunderson, *The Male-Female Earnings Gap in Ontario: A Summary* (Toronto: Ministry of Labour, Research Branch, 1982).
5. Jac-André Boulet and Laval Lavallée, *The Changing Economic Status of Women*, study prepared for the Economic Council of Canada (Ottawa: Minister of Supply and Services Canada, 1984).
6. See Alice Nakamura and Masao Nakamura, "A Survey of Research on the Work Behaviour of Canadian Women", in *Work and Pay: The Canadian Labour Market*, vol. 17, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

7. Boulet and Lavallée, *The Changing Economic Status of Women*, p. 3.
8. H. Jain, "Human Rights: Issues in Employment", in Human Resources Management in Canada, edited by N. Agarwal et al. (Toronto: Prentice-Hall, 1983).
9. Morley Gunderson, "Male-Female Wage Differentials and the Impact of Equal Pay Legislation", *Review of Economics and Statistics* 57 (November 1975): 426–69.
10. M. Gunderson, "Spline Function Estimates of the Impact of Equal Pay Legislation" (mimeo, 1984).
11. Norman D. Willis and Associates, *State of Washington, Comparable Worth Study* (1974), and *Comparable Worth Study, Phase II* (1976).
12. John H. Bunzel, "To Each According to Her Worth?", *The Public Interest* 67 (Spring, 1982), pp. 77–79.

Time Spent Working

This Commission has stressed the importance of the growth in employment and real earnings as factors contributing to the increased well-being of Canadians. Another key factor is the reduction in time spent working and the increased time thus made available for leisure and other activities. In this century the reduction in Canadians' working time has been dramatic. It has occurred on three fronts: hours worked per week, weeks worked per year, and years worked over a lifetime. A shorter work-week, more holidays, and later entry into, and earlier retirement from, the labour force have produced significant increases in the time available for non-work activities.

There are two sets of issues relating to time spent working. The first involves working time when the economy is operating at normal levels of employment. Here Commissioners' central concern is that working time reflect, as closely as reasonably possible, the preferences of employees. The second issue involves the way hours of work and employment adjust in response to cyclical fluctuations in the economy. This matter was raised earlier when we dealt with unemployment insurance, and we return to it below.

Weekly and Annual Work Schedules: Current Patterns and Historical Trends

Patterns in weekly hours of work can be examined in terms of actual hours of work, paid hours or standard hours. Actual hours of work in any given week are affected by factors such as the proportion of part-time and full-time employees, the structure of industry, the proportion of office and non-office employees, cyclical fluctuations in labour demand, industrial disputes and the occurrence of holidays and vacations. Paid hours, defined as the total number of hours for which employees are receiving pay, including holidays, vacations and paid sick leave, respond to all these factors, except the occurrence of paid holidays and vacations. Standard hours, defined as the number of hours beyond which overtime is normally payable to full-time employees, are affected, among the factors listed above, only by the industrial mix and the proportion of office and non-office workers.

There is considerable diversity in actual hours worked per week by Canadian employees. Data from Statistics Canada's Labour Force Survey, presented in Table 15-9, indicate that during 1983, just over half of all employees worked "typical" work-weeks of between 30 and 40 hours. Nearly one-fifth of all employees were part-time workers, defined by the Labour Force Survey as employees who usually work less than 30 hours per week. Even during that year of severe recession, however, when Canada's unemployment rate averaged 11.9 per cent, over 20 per cent of employees worked more than 40 hours per week; 12.6 per cent worked more than 50 hours per week.

Some of the employees who work the long hours recorded in Table 15-9 hold more than one job. However, since policies relating to work time apply to the job rather than to the employee, it is useful to examine hours worked on

TABLE 15-9 The Distribution of Employed Persons by Hours Worked at All Jobs, Canada, 1983

	Both Sexes		Male		Female	
Hours	**000s**	**%**	**000s**	**%**	**000s**	**%**
0	797	7.4	442	7.1	355	7.9
1–29	1 982	18.5	680	10.9	1 302	29.0
30–34	1 038	9.7	541	8.7	497	11.1
35–39	1 656	15.4	720	11.5	937	20.8
40	2 932	27.3	2 021	32.4	912	20.3
41–49	973	9.1	720	11.5	253	5.6
50 or over	1 356	12.6	1 116	17.9	240	5.3
Total	10 734	100.0	6 240	100.0	4 495	100.0

Sources: Statistics Canada, *Labour Force Annual Averages 1975–1983*, Cat. No. 71-529 (Ottawa: Minister of Supply and Services Canada, 1984), p. 269; and tabulations by the Commission.

the main job. Table 15-10 shows that in any case, hours worked at part-time jobs add little, overall, to the average of hours worked at all jobs. It also records that full-time employees usually work 41.5 hours per week on their main job.

For most purposes, however, the most relevant concept is the length of the standard work-week (and work-year) for full-time employees. Table 15-11

TABLE 15-10 Average Weekly Hours Worked, Canada, 1983

Employee Category	Actual Hours	Usual Hours
All jobs		
All employees	37.3	37.8
Full-time employees	41.3	42.0
Part-time employees	15.3	14.9
Main job		
All employees	36.8	37.3
Full-time employees	40.8	41.5
Part-time employees	15.1	14.7

Source: Statistics Canada, *Labour Force Annual Averages 1975–83*, Cat. No. 71-529 (Ottawa: Minister of Supply and Services Canada, 1984), pp. 287, 296.

Note: Averages are calculated excluding persons who were employed, but not at work, during the reference week.

reports the distribution of standard hours for office and non-office employees, according to the most recently published data from Labour Canada's annual survey of wages and working conditions in establishments of 20 or more employees. The most common standard work-week in all industries is 40 hours for non-office personnel and 37.5 hours for office workers. The average work-week for employees in all industries is 39.5 hours for non-office employees and 36.7 hours for office personnel; the overall average stands at 38.2 hours worked per week.

TABLE 15-11 Standard Weekly Hours, Canada, 1982: Manufacturing and All Industries

Hours per Week	All Industries %	Manufacturing %
Office employees		
Fewer than 35 hours	3	2
35 hours	29	21
Between 35 and 37.5 hours	15	11
37.5 hours	43	39
More than 37.5 hours	10	27
Average for office employees	36.7 hrs.	37.4 hrs.
Non-office employees		
Fewer than 37.5 hours	6	5
37.5 hours	10	3
Between 37.5 and 40 hours	7	2
40 hours	68	82
More than 40 hours	6	7
Average for non-office employees	39.5 hrs.	39.8 hrs.
Office and non-office employees		
Average	38.2 hrs.	39.2 hrs.

Sources: Canada, Labour Canada, *Working Conditions in Canadian Industry 1982* (Ottawa: Minister of Supply and Services Canada, 1983), pp. 4, 6; and tabulations by the Commission.

Note: Averages are calculated using the method specified in Chan F. Aw, "Standard Hours of Work: Trends, Determinants and Implications" (Ottawa: Labour Canada, Economics and Industrial Relations Research Branch, 1982).

Data available for standard hours in manufacturing cover a much longer period than data for the economy as a whole. Table 15-12 records data pertaining to standard weekly hours in manufacturing, for intermittent years from 1870 to 1946, and annually, for the years from 1949 to 1982; figures for the latter period are based on Labour Canada's survey of working conditions.

The evidence shows that the standard work-week diminished fairly steadily over most of the current century, but the reduction became very gradual during the 1960s and 1970s. Relatively sharp declines in the standard work-week were observed immediately after both the First World War and the Second World War. It has been suggested that during those periods, the fear of a substantial rise in unemployment, as a result of soldiers returning from active service, generated increased pressure to reduce the work-week.[1] Another possibility is that the long gradual reduction of the work-week was halted by the need to maintain output during the two wars, but that the process resumed its normal course after each one.

TABLE 15-12 Standard Weekly Hours in Canadian Manufacturing, Selected Years, 1870 to 1982

Year	Hours	Year	Hours
1870	64.0	1962	40.4
1901	58.6	1963	40.3
1911	56.5	1964	40.2
1921	50.3	1965	40.2
1926	50.2	1966	40.2
1931	49.6	1967	40.0
1936	49.2	1968	39.9
1941	49.0	1969	39.9
1946	48.7	1970	39.8
1949	43.5	1971	39.8
1950	43.2	1972	39.7
1951	42.6	1973	39.6
1952	42.3	1974	39.5
1953	42.0	1975	39.4
1954	41.5	1976	39.4
1955	41.3	1977	39.3
1956	41.1	1978	39.3
1957	40.0	1979	39.3
1958	40.7	1980	39.2
1959	40.6	1981	39.2
1960	40.6	1982	39.2
1961	40.4		

Sources: 1870 Calculations by O.J. Firestone, cited in S. Ostry and M. Zaidi, *Labour Economics in Canada*, 3d ed. (Toronto: Macmillan, 1979), p. 80.

1901–46 Calculations by G. Saunders and S.M.A. Hameed using unpublished Labour Canada data, reported in Ostry and Zaidi, *Labour Economics in Canada*, p. 80.

1949–79 Calculations by Chan F. Aw, "Standard Hours of Work: Trends, Determinants and Implications" (Ottawa: Labour Canada, Economics and Industrial Relations Research Branch, 1982) for Labour Canada, using *Working Conditions in Canadian Industry*.

1980–82 Calculations by the Commission using Labour Canada's *Working Conditions in Canadian Industry*.

Data relating to standard hours for industries other than manufacturing and for the all-industry composite are available only for the years from 1963 on. Tabulations for the period from 1963 to 1979 show that the reduction rate of standard hours did not level out in all industries during the 1960s and 1970s.[2] Between 1963 and 1979, the standard work-week for the manufacturing sector decreased by one hour; there was a similar or smaller reduction of working time in transportation and communication, trade and finance. The standard work-week decreased, over this same period, by more than two hours in forestry and mining, and by five hours in service employment. The average reduction in weekly hours for all industries was 1.8 hours. Empirical analyses of the Canadian post-war data on weekly work-hours suggest that one of the most important factors in the long-term reduction is the rise in the real-wage rate over time.[3]

Gradual decreases in the standard work-week have been accompanied by decreases in the work-year, resulting from more holidays and longer annual vacations. Table 15-13 indicates that over the 30-year period from 1949 to 1979, holidays in the manufacturing sector have increased from 6.9 days per year to 11.1 days per year, and annual vacations have extended from 2.3 weeks per year to 3.6 weeks per year. Taking account of the increase in holidays and vacations, the manufacturing sector's net standard work-week, that is, the (gross) standard work-week minus the average hours per week deducted for holidays and vacations, dropped from 40.4 hours to 34.9 hours, between 1949 and 1979. For all industries, it dropped from 36.7 hours to 34.0 hours, between 1964 and 1979. These declines are close to the trend in process over the last century, representing a decrease in the work-week of about two hours per decade.

Determinants of Working Time

In non-union environments, work schedules, like wages and other working conditions, officially appear to be set unilaterally by the employer. Employers have an economic incentive, however, to take account of the work preferences of their employees, and as a result, work schedules are actually determined by interaction that involves both employers' and employees' preferences. An employee's preference for the number of hours of work in each time period will depend on demographic factors such as the individual's age, health and number of dependents; environmental factors such as the temperature and cleanliness of the work site; the physical nature of the work; and monetary factors such as the wage rate and the individual's other sources of income.

A change in the real wage has offsetting effects on preferred working time. On the one hand, an increase in the real wage makes work more attractive relative to leisure, and this change influences the employee's preference to work more hours. On the other hand, the larger income associated with an increase in real wages makes employees better off and usually induces them to "consume more leisure", that is, to work less. Empirical evidence suggests that for most workers, the latter effect tends to dominate: this means that

TABLE 15-13 Trends in Holiday and Vacation Time, Canada, Selected Years, 1949–1979

	Manufacturing				All Industries	
Year	Gross Standard Hours	Holidays in Days per Year	Vacation in Weeks per Year	Net Standard Hours	Gross Standard Hours	Net Standard Hours
1949	43.5	6.9	2.3	40.4	—	—
1954	41.5	7.4	2.4	38.4	—	—
1959	40.6	7.8	2.7	37.3	—	—
1964	40.2	8.0	2.8	36.8	40.1	36.7
1969	39.9	8.8	3.1	36.2	39.5	35.8
1974	39.5	10.1	3.4	35.4	38.8	34.8
1979	39.3	11.1	3.6	34.9	38.3	34.0

Source: Chan F. Aw, "Standard Hours of Work: Trends, Determinants and Implications" (Ottawa: Labour Canada, Economics and Industrial Relations Research Branch, 1982), pp. 16, 64.

increased real-wage rates generally reduce the number of hours a person wishes to work. Indeed, over extended periods, the main source of reductions in working time has been increased real wages.

An employer's need for interaction among employees may require that working hours be standardized to some degree; each employee, therefore, cannot simply be allowed to work his or her preferred number of hours each week. Other considerations being equal, however, the firm has an incentive to offer its staff a work schedule which corresponds as closely as possible to the typical employee's preferred hours of work each week. The greater the divergence of actual hours and preferred hours, the greater the tendency for employees to leave the firm to obtain their preferred hours elsewhere, and the higher the wage the employer must pay to attract and retain the desired work-force.

The employer must also consider certain person-specific costs of employment. Costs such as those for dental insurance premiums, which are set at a fixed amount per employee, belong in this category as do the costs of hiring and training employees, amortized over some expected term of employment at the firm. An employer must pay certain person-specific employment-related costs for each staff member. This requirement creates an incentive for the employer to keep the staff as small as possible and thus keep the firm's person-specific costs to a minimum. This incentive might well induce an employer to increase the number of hours of work per employee beyond the work-time preferred by employees. Longer hours, however, may reduce job satisfaction, increase employee fatigue, and necessitate payment of premium-wage rates for hours worked beyond some standard level set by legislation or

collective agreement. The wise employer, then, will choose a work schedule which minimizes costs, based on the net effect of these various factors.

Barriers to Work-Time Reduction

Because work schedules reflect the wishes of both the employer and the employee, they may not be ideal from the perspective of either party. This Commission's view is that work schedules should reflect the preferences of employees as far as this is reasonable and possible, given the requirements to achieve output. Thus any factors, other than those related to production requirements, which may cause employers to prefer more working time than their employees desire, should be examined. Several instances of such barriers have occurred as a result of employment-standards and labour-relations legislation, which has generally been written with full-time employees in mind.

One problem is caused by the ceilings on payroll taxes. Workers' Compensation legislation in all jurisdictions and legislation relating to the Canada (or Quebec) Pension Plan, which covers all employees, requires employers to contribute a specified percentage of each employee's annual earnings, up to a ceiling level per employee. For Unemployment Insurance (UI), employers are required to pay UI premiums on earnings up to a weekly ceiling level per employee. (In 1985, this ceiling represented 3.29 per cent of earnings, up to a maximum insurable-earnings level of $460 per week for each employee.[4]) The purpose of the ceilings is to prevent benefits, which are also proportional to earnings up to the ceiling, from reaching an inappropriately high level for high-income earners.

An unintended effect of the ceilings, however, is to create a person-specific cost for individuals earning above the ceiling. If work hours are reduced and additional employees are hired, the proportion of earnings subject to contribution will rise. The annual ceilings on CPP and Workers' Compensation thus create a barrier against those working less than a full year; the weekly ceiling on UI creates a barrier against those working less than a full week. Simulations indicate that, as a result of the ceilings on these statutory benefits, the replacement of one full-time worker by two half-time employees would increase labour costs by up to 2.5 per cent, depending on the initial earnings level.[5] The effect is directly related to the proportionate reduction in hours.

It would be desirable to eliminate these artificial barriers, since employer bias towards longer hours and fewer employees results in work schedules which do not entirely reflect employee preferences; in addition, this bias reduces opportunities for Canadians seeking work. Simply to eliminate the ceilings on contributions is inappropriate, however, since the ceilings have a social purpose. A better solution would be to base premiums for Unemployment Insurance, Workers' Compensation and Canada Pension Plan on *hourly* earnings, with a ceiling to limit the amount subject to contribution. This action would eliminate the bias against those working fewer hours, while maintaining the function of the ceilings. Of course, it might be necessary to

retain the weekly or annual earnings basis for premiums when it was impractical to measure weekly hours of work. This would not be a serious drawback, however, because policies to reduce weekly hours of work would also prove impractical in such situations.

Employment-standards legislation typically requires employees to have worked for a minimum continuous period to establish their eligibility for benefits such as paid public holidays and the right to receive notice of termination of employment. The Canada Labour Code, for example, entitles an employee to nine paid holidays a year, provided that he or she has been employed for at least 30 days and has worked at least 15 of the 30 calendar days preceding the holiday. This provision would disqualify an employee who worked only three days a week, although it would not affect one who worked only four hours a day. The bias against some categories of reduced hours could be eliminated, while the purpose of the requirement for continued employment could be retained. This might be done, for example, by specifying that an employee must have worked at least 60 per cent of his or her normally scheduled hours in the preceding 30 days.

Another bias stems from the administrative practice of some Labour Relations Boards of specifying separate bargaining units for part-time employees. The Ontario Labour Relations Board, for example, excludes from a bargaining unit for full-time workers any employees who work fewer than 24 hours a week. Groups of part-time employees are entitled to certification as separate bargaining units. One possible effect of segregating part-time employees is that a full-time employee who opts to reduce his or her weekly work to 20 hours may no longer be covered by the wages and benefits provided in the collective agreement.

The Ontario Labour Relations Board has expressed a view that full-time and part-time employees do not share enough interests to make it practical for them to be included in the same bargaining unit. The recent Commission of Inquiry into Part-time Work, however, found that the practice of segregating part-time employees contributed to inequitable wages and working conditions for that group. That Commission therefore recommended that Labour Relations Boards include all part-time employees, both regular and casual, in the same bargaining unit as full-time employees.[6] To adopt this recommendation would help to eliminate any bias there might be against reduced work time in the Canadian economy.

Privately negotiated fringe benefits can also create an unintended bias against reduced working time. Table 15-14 shows expenditures on fringe benefits in Canada during 1978, the most recent year for which published data are available for Statistics Canada's occasional survey of compensation costs. The table indicates that fringe benefits add almost 33 per cent to workers' straight-time pay. Although many of these benefits are proportional to hours worked, some, such as medical, dental and life insurance, represent person-specific costs which might make employers prefer to schedule longer hours of work for their employees. If employer contributions to these plans were pro-rated according to the number of hours worked, the plans would no longer represent a barrier. Since such a change would not significantly

increase administrative costs, Canadian governments should encourage such pro-rating through collective bargaining, personnel policies or legislation.

TABLE 15-14 Fringe Benefit Expenditures per Employee, Canada, 1978, (Statistics Canada data)

Item	Average Annual Expenditure per Employee	Percentage of Total Employee Compensation	Percentage of Basic Pay for Regular Work
Basic pay for regular work	12 301	74.6	100.00
Commissions, incentive bonuses	263	1.6	2.14
Overtime, including premium pay	522	3.2	4.24
Shift-work premium pay	46	0.3	0.37
Other premium pay	53	0.3	0.43
Total pay for time worked	13 185	80.0	107.18
Paid absence			
Paid holidays	586	3.6	4.76
Vacation pay	794	4.8	6.46
Sick leave pay	170	1.0	1.38
Personal or other pay	27	0.2	0.22
Total paid absence	1 577	9.6	12.82
Miscellaneous direct payments			
Floating COLA	61	0.4	0.49
Bonuses (Christmas, etc.)	51	0.3	0.42
Severance pay	30	0.2	0.24
Taxable Benefits			
Provincial medicare	82	0.5	0.67
Other benefits	57	0.4	0.46
Other payments	28	0.2	0.23
Total miscellaneous direct payments	310	1.9	2.52
Gross payroll (total direct payments)	15 071	91.4	122.51
Employer contributions to employee welfare and benefit plans			
Workmen's Compensation	186	1.1	1.51
Unemployment Insurance	209	1.3	1.70
Canada/Quebec Pension Plan	161	1.0	1.31
Private pension plans	558	3.4	4.53
Quebec Health Insurance Board	59	0.4	0.48
Private life and health plans	203	1.2	1.65
Other benefit plans	33	0.2	0.27
Total	1 410	8.6	11.46
Total Employee Compensation	16 481	100.0	133.97

Source: Statistics Canada, *Employee Compensation in Canada, All Industries, 1978*, Cat. No. 72-619 (Ottawa: Minister of Supply and Services Canada, 1980), pp. 16–19.

In this section Commissioners have identified a number of labour-market policies and privately negotiated arrangements which result in work schedules that do not fully reflect employee preferences. It makes sense to change these polices and arrangements even when the economy supports full employment. In times of above-normal unemployment, these changes might prevent a situation in which some Canadians are working longer hours than they wish, while others are not working at all.

A related issue is the way employment and hours of work respond to cyclical fluctuations in the economy. The choice between lay-offs and reduced hours (or, if both are used, the proportion of each) depends on a variety of factors that reflect employer and employee preferences. In general, employees and employers can assess these costs and benefits and make the appropriate choices, and there is little need for public policy involvement. However, existing policies may unintentionally bias the choice. Thus it is important to examine policies for potential biases.

The existing Unemployment Insurance system represents an important obstacle to reduced hours because it provides benefits to individuals out of work for a full week, but not to individuals whose income falls because of reduced working hours. This arrangement makes employers and employees more likely to prefer lay-offs to reduced hours of work as a means of responding to temporary reductions in labour demand. Such an unintended bias toward lay-offs can be eliminated by changing either UI financing or benefit provisions. As noted earlier concerning the UI system, experience rating of the financing of unemployment insurance would have several advantages; one of these would be that it offsets the tendency to choose lay-offs by making them costly to the firm. The alternative is a short-term/compensation program which operates on the benefits side.

A short-term/compensation program was introduced in Canada in January 1982. Essentially, the program involves redistributing the UI benefits that would have been paid to laid-off workers. Thus persons whose hours of work are reduced receive some additional income in the form of UI benefits. The combination of an increase in leisure time and a relatively small reduction of income makes the program attractive to most employees. Employers face somewhat higher costs than they would face with lay-offs; the additional costs take the form of fringe benefits and administrative expenses associated with the program. However, benefits, too, accrue to employers: reduced costs associated with lay-off and recall; less reduction in employee productivity because of loss of work experience; and less possibility of loss of experienced employees who do not return on recall. Experience with the program suggests that these costs and benefits roughly offset one another.[7]

UI expenditures have been considerably higher – by a factor of 1.35 – under the program compared to those of conventional unemployment insurance. The two main reasons were the waiving of the normal two-week waiting period, a device to make the program more attractive to senior employees whose risk of lay-off was low, and the provision that the program was not to reduce eligibility for conventional UI. As a result of the second provision, about half the employees originally designated for lay-off were laid off after the short-

term/compensation agreement was terminated, thus raising the overall costs of the program.

Because of the higher cost of the short-term/compensation program, in the form both of additional UI expenditures and of extra administrative costs, this Commission prefers to operate on the financing side to offset any tendency toward lay-offs made possible by the design of the Unemployment Insurance system. Experience rating brings several other important benefits, as well. Until implementation of experience rating is complete, however, it will be useful to retain the short-term/compensation program, although it might possibly be modified to some extent in order to reduce the unemployment-insurance costs and administrative complexity.

Notes

1. Lise Poulin-Simon, "Le loisir industriel, variable d'ajustement économique aux crises de l'emploi", *Loisir et Société* 6 (1983): 187–207.
2. Chan F. Aw, "Standard Hours of Work: Trends, Determinants and Implications" (Ottawa: Labour Canada, Economics and Industrial Relations Research Branch, 1982), p. 64.
3. S.M.A. Hameed, "Economic and Institutional Determinants of the Average Work Week in Canada", in *Work and Leisure in Canada*, edited by S.M.A. Hameed and D. Cullen (Edmonton: University of Alberta, Faculty of Business Administration and Commerce, 1975), pp. 1–18; Keith Newton and Norm Leckie, "Determinants of Weekly Work Hours in Canada", *Industrial Relations* 34 (1979): 257–71; and Aw, "Standard Hours of Work".
4. Canada, Employment and Immigration Canada, *Benefit Rate and Duration* (Ottawa: The Department, 1984).
5. N. Meltz, G. Swartz, and F. Reid, *Sharing the Work: An Analysis of the Issues in Worksharing and Jobsharing* (Toronto: University of Toronto Press, 1981).
6. Canada, Commission of Inquiry into Part-time Work, *Part-time Work in Canada: Report of the Commission of Inquiry into Part-time Work* (Ottawa: Labour Canada, 1983), p. 31.
7. For a more detailed discusison, see the Commission study by Frank Reid, "Reductions in Work Time: An Assessment of Employment Sharing to Reduce Unemployment", in *Work and Pay: The Canadian Labour Market*, vol. 17 (Toronto: University of Toronto Press, 1985).

CHAPTER 16

Immigration Policy

CHAPTER 16

Immigration Policy

Introduction

Over the years, Canada's immigration policies have done much to shape the nature of modern Canadian society: its cultural texture and ethnic composition, and the ever-expanding stock of its traditions, aspirations and potential antagonisms. Today, with increasing population pressures around the globe, these policies are becoming even more important. To determine how they should be shaped, we must find answers to a number of questions: How open a society do we wish to be? How large a flow of new migrants can we absorb? How do our immigration policies fit within a principal-power role? What is the function of immigration in adjusting our economy to the competitive pressures of the late twentieth century?

In recent years, the Canadian government's long-standing post-Second World War policy on immigration has changed. The 1966 White Paper on Immigration took the position that "Immigration has made a major contribution to the national objectives of maintaining a high rate of population and economic growth."[1] Just eight years later, the government's Green Paper took a much different stance. It stated that "to many Canadians, living in a modern industrialized and increasingly urbanized society, the benefits of high rates of population growth appear dubious on several grounds."[2] More recently, and especially since 1982, Canadian immigration policy has become more restrictive.

Since the Second World War, Canadian immigration policies have also altered the predominately Western European character of most of Canada's provinces and large cities. Today, Canadians are no longer a people of only two languages and cultures; instead, we are increasingly multi-racial and multi-cultural. Reforms in immigration policies in 1962 eliminated all references to racial and ethnic characteristics as criteria for admission of new permanent residents, and policy makers evolved an objective "points" system

to ensure even-handed consideration of all applicants. Similar changes in the admission criteria applicable to stateless or displaced persons have enabled refugees from outside Western Europe to apply for, and gain, entry to Canada during the post-war period. It seems likely that in future years, a substantial proportion of newcomers will be attracted from non-European nations, and these new Canadians will continue to expand the diversification of our cultural and ethnic mix. These important changes in Canada's racial and ethnic composition will continue to transform our economic and political life in the coming decades. They are also likely to generate a certain amount of social conflict, and future generations of Canadians will need to invent new policies and techniques for coping with the stresses of a vibrant and dynamic multi-cultural society.

Notes

1. Canada, Minister of Manpower and Immigration, *White Paper on Immigration* (Ottawa: Queen's Printer, 1966), p. 7.
2. Canada, Department of Manpower and Immigration, *Immigration Policy Perspectives*, a report of the Canadian Immigration and Population Study (Ottawa: Information Canada, 1974), p. 5.

Canada's Present Immigration Policy

Canada's immigration policy is currently conducted under the legislative authority of the 1978 Immigration Act. The federal and provincial governments share jurisdiction over immigration, although provincial legislation has effect only insofar as it does not conflict with federal legislation. The two levels of government consult each year in the process of determining planned immigration levels, since immigration has wide-ranging consequences for several areas of provincial interest: housing, health care, education, regional labour markets and social services.

Current legislation specifies three classes of immigrants: family class, convention refugees and designated classes, and economic (or independent) classes. Data on numbers admitted under each of these classes are detailed in Table 16-1. Family-class immigration is intended to reunite families; immigrants in this category are not assessed according to their suitability for the Canadian labour market. The relative importance of family-class immigration has increased in recent years.

The refugee class is identified on the basis of the United Nations Convention and Protocol relating to the Status of Refugees, but other "designated classes" are authorized under the Canadian Act in times of crisis.

TABLE 16-1 Immigration by Class, 1966–1983

Year	Family Class (%)	Assisted Relatives (%)	Independent (%)	Refugees and Designated Class (%)	Total Number of Immigrants
1966	34.2	—	65.8	—	194 743
1970	21.8	23.8	54.4	—	147 713
1971	27.4	24.1	48.5	—	121 900
1972	27.1	25.2	43.5	4.2	122 006
1973	22.6	24.0	52.1	1.3	184 200
1974	24.8	24.3	50.1	0.8	218 465
1975	34.1	24.3	38.6	3.0	187 881
1976	40.7	21.8	29.6	7.9	149 429
1977	44.7	22.7	26.2	6.4	114 914
1978	52.8	19.9	22.4	4.9	86 313
1979	41.7	10.2	23.2	24.9	112 096
1980	35.7	9.4	26.7	28.2	143 117
1982	41.3	37.7		14.0	121 147
1983	54.6	29.7		15.7	89 157

Sources: Canada, Employment and Immigration Canada, *Annual Report To Parliament on Immigration Levels* (Ottawa: The Department, 1981), Table 11, p. 42; *Background Paper on Future Immigration Levels* (Ottawa: Minister of Supply and Services Canada, 1984), p. 4, and *Immigration Levels, 1985–1987: Analytical Considerations* (Ottawa: The Department, 1984), p. 9.

As is indicated in Table 16-1, the number of immigrants admitted under this category fluctuates from year to year. Recently, the number of refugees has been relatively large because Canada has accepted significant numbers of people in this category from South-East Asia. In fact, Canada has one of the world's biggest refugee-resettlement programs, relative to the size of its population. This is a commendable record, and one which our country should strive to maintain.

The final group of immigrants consists of those in the "economic" or "independent" class. These include "selected" workers (selected, that is, according to job-market criteria), entrepreneurs, the self-employed, and assisted relatives of Canadian citizens. Prospective immigrants in this class become eligible for admission by way of a points system. Points are awarded, for example, according to levels of education and training, occupational demand and arranged employment, work experience, area of destination within Canada, relatives within Canada, knowledge of our official languages, and personal characteristics. The number of points necessary for admission varies, depending on the applicant's category: entrepreneur, self-employed, retired, assisted relative, or independent. As of May 1982, except for entrepreneurs and self-employed persons, only those applicants with pre-arranged employment approved in advance by a Canada Employment Centre are eligible for entry. This requirement has resulted in a sharp decrease in the numbers of applicants admitted under this category, compared to earlier years. It is in this sense that our immigration policy has lately become more restrictive.

Designing Our Immigration Policy

Canada's immigration policy has several goals, some of which conflict and require trade-offs. Demographic objectives involve our federal government in choices concerning the size, rate of growth, and age structure of the Canadian population. Social or humanitarian objectives focus on family reunification and the admission of refugees. Economic objectives are general, fostering the development of a strong and viable economy and the prosperity of all regions of Canada.

Our immigration policy has long been tied to the concept of "absorptive capacity" which, in turn, has become more closely linked to labour-market conditions. Before May 1982, labour-market analyses and forecasts, based on unemployment and vacancy rates, were used to estimate demand in almost 500 occupational categories. Occupational rating determined the number of points assigned to a given occupation in processing the application of a prospective immigrant. This procedure, however, was not entirely satisfactory. Subjective judgement played a significant part in determining individual ratings, and although, ideally, the method of selecting immigrants should have been forward looking, it relied, in fact, on data showing the past state of our labour market. Moreover, if an occupational category was opened during any given period, there was no way to control the numbers of immigrants who could enter by way of that opening.

Recent research has shown that workers admitted to specific employment suffer the same unemployment rate as other immigrants.[1] Thus, while attempts are currently being made to develop a better forecasting system for job vacancies, the present immigrant-unemployment statistics raise the fundamental issue of whether this class of immigrants should be targeted to specific jobs at all, or whether greater flexibility in the matter of job selection is a preferable basis of choice. Relatively young, well-qualified and well-educated applicants could be better suited to exercise this greater flexibility than applicants preferred because of more specific occupational qualifications.

Canadians gain when persons with valuable training and education immigrate to Canada. Over the post-war period, the education and skills levels of immigrants have enriched our society and improved the performance of our economy. The result, however, is that while we may save on the expense of providing education and skill-development opportunities for recent immigrants, other countries lose some of the benefits of their investment in their citizens' education. The fact that an increasing proportion of Canada's immigrants are coming from developing countries adds further weight to this Commission's belief that Canada should improve our foreign-aid and development-assistance record.

While Canada gains by following an occupationally selective system of immigration, this course runs the risk of making us more dependent on immigration for certain types of skilled workers. Canadians may find that particular occupations become difficult to enter, for training and apprenticeship programs may become scarce if employers can rely on pre-trained immigrants. To prevent "bottlenecks" in the supply of specific skills, it is certainly useful for Canada to have the option of allowing skilled workers to enter our country when an equivalent domestic group cannot be developed quickly. The same result can often be achieved just as effectively, however, through short-term methods such as employment visas or authorizations. Indeed, the existing employment-visa system is now quite extensive: it provided an estimated 47 000 person-years of labour to our economy in 1983. This is a considerable number when one considers that net immigration in 1982–83 totalled only 61 000 persons, not all of whom would join the labour force. Whatever system is adopted, employers, labour and government must co-operate very closely in identifying Canada's specific needs and openings for particular skills.

Note

1. Canada, Employment and Immigration Canada, "Seminar on Immigration Levels for 1985–1987" (Ottawa: The Department, 1984), p. 7.

Setting the Level of Immigration

Currently, the numbers of immigrants in each category are planned separately. The refugee category is planned only one year ahead, because of the volatility of the refugee situation; the other categories are planned on a three-year horizon, subject to an annual review. The Act requires the minister to report to Parliament on the way in which demographic considerations have been taken into account in determining planned immigration levels. The current projection is that given an unchanged fertility rate and a net immigration of approximately 50 000 persons per year, Canada's population will reach 27 to 28 million people by the end of this century.[1] About 2020, however, if present fertility and net immigration rates continue, our population will peak at about 29 million and then begin a slow decline. As yet, there has been little public debate about the implications of a diminishing population, but in the decades ahead, this trend will become an important issue for Canadians to ponder. For a fuller review of demographic trends, a variety of forecasts are included in Chapter 7.

If one takes a very long-term view and considers the levels at which our population will eventually stabilize, provided that present assumptions about fertility and net immigration prove true, then our current fertility rate and our net immigration flow of about 50 000 persons per year would leave Canada, after about 200 years, with a stationary population slightly above 10 million. To maintain our current population level of about 25 million people with our current fertility rate, net immigration would have to more than double to about roughly 125 000 persons per year. This projection gives some indication of the importance of immigration levels in determining the size of Canada's population in the long term. Of course, the fertility rate is an even more important variable in such calculations, and historically, ours has varied substantially. At the moment, fertility rates across the countries of the developed world, including Canada, are at low levels, but it is impossible to tell whether these levels will remain constant for a long time to come.

In Canada, the implications of low fertility have so far received relatively little public attention. The government of Quebec, in a document issued recently,[2] notes that province's rapid decline in fertility and calls for public debate on the policies needed to maintain an acceptable demographic equilibrium. In Europe, several countries have adopted explicit pro-natalist policies to boost their flagging birth rates; the policies range from generous family allowances and tax exemptions to prolonged maternity leave. Because most of these European measures are of relatively recent origin, and because it is too early to obtain an accurate assessment of their impact on fertility rates, most expert observers believe that they have made only modest contributions to slowing down the rate of decline in birth rates.[3]

These longer-term demographic concerns would be difficult to incorporate into the present process of determining immigration levels. For the economic category, admission is closely linked to labour-market considerations which, in turn, are linked to domestic business cycles. To incorporate explicit, long-term, demographic objectives for immigration levels requires a longer planning horizon and a change of criteria for determining eligibility.

The present rate of aging of Canada's population is a related demographic problem for which immigration has been suggested as one possible policy response. The projected eventual decrease in the relative size of the labour force will leave an increased tax burden on the economically active Canadians, who will have to fund pensions and social services. Population projections suggest that higher levels of immigration can contribute modestly towards increasing the size of our labour force and thus towards reducing the proportion of that segment of our total population which is over 65 years of age. For example, a population projection which assumes a constant fertility rate of 1.7 children per woman and a net immigration of 80 000 persons per year would result in a population of which 21.5 per cent would be aged 65 or older by the year 2030. (In 1980, the proportion of this age group in our population was 9.5 per cent.) A net immigration of 140 000 persons per year from 1986 onwards would reduce this proportion to 20.3 per cent; a net immigration of 20 000 persons per year would increase the proportion to 23.1 per cent.[4]

Notes

1. Canada, Employment and Immigration Canada, *Background Paper on Future Immigration Levels* (Ottawa: Minister of Supply and Services Canada, 1984).
2. Quebec, Ministère du Conseil exécutif, Secrétariat au Développement social, *L'Évolution de la population du Québec et ses conséquences* (Quebec: le Ministère, 1984).
3. Statistics Canada, *Current Demographic Analysis: Fertility in Canada: From Baby-boom to Baby-bust*, by A. Romaniuc (Ottawa: Minister of Supply and Services Canada, 1984), p. 117.
4. Frank T. Denton and Byron G. Spencer, "Prospective Changes in the Population and Their Implications for Government Expenditures", in *Ottawa and the Provinces: The Distribution of Money and Power*, edited by David W. Conklin, Gail Cooke, and Thomas J. Courchene (Toronto: Ontario Economic Council, 1985, forthcoming), Table 1.

Other Considerations

Aside from its demographic importance, immigration contributes to the expansion of productive resources in Canada's economy. This contribution can also have consequences for the level of per capita income that our economy can generate, although these consequences are difficult to determine both in theory and in practice. There seems, for example, to be a public perception that there has been a strong positive link between aggregate growth and growth of per capita income because, historically, the one has been associated with the other. The reality, however, may be that higher real incomes induce increased immigration.

While increased immigration is unlikely to have any dramatic effect on per capita incomes in Canada, the removal of all restrictions on migration throughout the whole world would have notable effects. Though, clearly, this possibility is politically infeasible, economists have long recognized that the flow of goods across borders is a substitute for the flow of people and capital. Changes in barriers to the international flow of goods, therefore, have to be considered alongside changes in restrictions on immigration. Through multilateral trade liberalization, per capita incomes in all countries would be improved. Thus, if a further objective of our immigration policy is, in a small way, to relieve population pressures in the developing world and to raise its countries' real incomes, Canada should adopt less restrictive trade policies towards these nations.

Living in a Multi-racial/Multi-cultural Society

The dramatic impact that immigration policies have had on the increasingly multi-racial composition of our national community appears clearly in recent census data. During the post-war era, the total proportion of the population of non-British/non-French origin rose substantially, from less than 20 per cent in 1941 to 33 per cent in 1981. Whereas, in 1960, the ten leading sources of Canadian immigrants were Italy, Britain, the United States, Germany, the Netherlands, Portugal, Greece, France, Poland and Austria, in 1982, the list of countries of origin was dominated by newcomers such as India, Hong Kong, Vietnam, the Phillipines, China and Guyana. Only the United States, Britain, Poland and Germany retained their significance from the earlier period. And if one pushes the comparison even further back in time, the contrasts between the sort of political community that Canada has been and the one we Canadians are fast becoming stand out all the more starkly.

While many Canadians are understandably reluctant to encourage public debate on policies framed to deal with racial and ethnic conflicts, it is essential that we recognize and come to terms with one of the most potentially explosive sources of political conflict in our increasingly multi-racial community. While the large influx of Canadian immigrants of non-European origin has not led to anything like the racial strife that the United States experienced in the late 1960s, or that Britain suffered just a few years ago, it would be imprudent to ignore early signals indicating the possibilities of racial strife in the years ahead. Problems experienced by Haitian taxi drivers

in Montreal, by Sikhs and Hindus in Vancouver, and by West Indians in Toronto indicate a need for all Canadians not only to help "settle" our new immigrants, but also to promote their full integration and participation in all occupations and walks of life. To this end, the recent *Report of the Special Committee on Visible Minorities in Canadian Society*[1] has advanced almost eighty recommendations which merit serious consideration. The creation of a harmonious multi-cultural and multi-racial society will require a high degree of tolerance and civility from all Canadians, reinforced by policies aimed at preventing foreseeable conflicts. The political viability of a less restrictive immigration policy will depend on our capacity to deal with the domestic challenges which are likely to flow from it.

Note

1. Canada, House of Commons, Special Committee on Participation of Visible Minorities in Canadian Society, *First Report to the House* (Ottawa: Queen's Printer, 1984).

Recommendations

This Commission has consciously avoided making precise recommendations about the flow of immigrants that Canada should allow to enter our country over the next few years. The matter calls for careful numerical calculations and firmly based demographic and economic models. It represents an area of Canadian policy which Commissioners perceive as little debated, under-researched, and extremely important. Commissioners are prepared, however to make several somewhat general recommendations:

- Canada should set its immigration levels on the basis of long-term objectives, rather than on that of short-term considerations. Therefore we recommend that a major study be done on Canadian demographic trends and their implications for future government policies relating to immigration, health care, education and pensions, to name only a few of the most obvious areas of concern. We Canadians need to learn much more about the problems of managing our country in the circumstances of a declining and aging population.
- Given the uncertainties involved in deciding both on an appropriate population size and on its age composition, Canada should follow that course which, in the past, has served our country well: that is, a less restrictive policy than that currently in place.
- Canada should support some increase in immigration flows closer to the historical average in post-war years. Recognizing that sudden shifts in immigration policy are undesirable, and that the current high unemployment rates in Canada make it difficult to adjust to higher levels of immigration, we propose that the Government of Canada establish a long-term plan for immigration and consider moving gradually towards higher levels of immigrants over a number of years.
- Canada should now place more weight on the general labour-market skills of potential immigrants and less on narrow occupational requirements. In Commissioners' view, given the objectives of current immigration policies, many of the weaknesses of present screening procedures are inevitable. Nevertheless, we recommend close liaison between business, labour and governments, as well as other parties interested in identifying particular needs. It is important that the criteria for selection of immigrants facilitate their absorption into Canadian society.
- In recommending this approach to immigration policy, this Commission is fully aware of the cultural, linguistic, economic and racial implications. Indeed, Commissioners recommend that immigration policy be debated more openly among Canadians, and that governments in Canada actively consider the "management" implications of a return to the more open-door policy of the 1960s.

CHAPTER 17

Labour/Management Relations

CHAPTER 17

Labour/Management Relations

Labour/management relations vitally affect the income and employment opportunities of individual Canadians, as well as the quality of Canada's work environment. During this Commission's hearings, many complaints were put forward about the state of these relations, and a wide variety of remedies was proposed. To analyse these issues requires, first, that we determine what the problems are, and then, how they can best be resolved.

Unionization and Collective Bargaining[1]

The most common measure of the extent of collective bargaining in an economy is the proportion of the non-agricultural labour force that is unionized. This measure of union density generally understates the effect of union organization, for not all workers covered by collective agreements are union members. The post-Second World War period has seen significant growth in the importance of collective bargaining in Canada. The unionized proportion of non-agricultural paid workers has increased from about 24 per cent in 1945 to about 40 per cent in 1983. By way of contrast, the unionized proportion of non-agricultural paid workers in the United States declined from about 35 per cent in 1945 to about 19 per cent in 1984, and it seems likely to continue to fall. Existing data do not provide comparable statistics on collective bargaining coverage,[2] but a recent study estimates that in 1977, about 86 per cent of employees covered by collective agreements were union members.[3] By extension of this estimate, in 1983, between 45 and 50 per cent of non-agricultural paid workers were probably covered by collective agreements.

The increased importance of collective bargaining in Canada in this period reflects several forces. One is the substantial increase in the unionization in the public and quasi-public sectors,[4] in which there was also substantial growth in employment. In addition, there has been steady but slower growth in unionization in the private sector, primarily because the area of most rapid growth in employment was that of services, a sector with a low proportion of unionization. Industries with a high propensity to unionize – manufacturing,

mining, forestry, for example – experienced relatively slow employment growth.

Changes in Canadian law have provided an important impetus for the growth of unionization. Roughly speaking, the law governing collective bargaining in Canada has passed through three main stages. Phase one was the period, mostly prior to Confederation, in which the law discouraged collective bargaining. Judges interpreted the common law to hold that collective action by employees constituted a criminal conspiracy. Other criminal and civil constraints, as well, were applied to both individual and group action by workers. In the second phase, which began in the 1870s, the law took a largely neutral view of collective bargaining. In particular, the Trade Unions Act of 1872, amendments to criminal law, and other legislative actions removed many of the restrictions on union formation and the collective withdrawal of labour. This neutrality lasted until the passage of the Wartime Labour Relations Orders (P.C. 1944-1003) in 1944; since this event, our government's stance towards collective bargaining has been favourable.[5] P.C. 1944-1003, which was modelled on the Wagner Act, passed in the United States in 1935, gave most private sector employees the right to union representation and collective bargaining, provided a code of unfair labour practices, and established a labour-relations board to administer the law. A similar set of changes occurred in the mid-1960s, with respect to the public and quasi-public sectors. With the passage of the federal Public Service Staff Relations Act in 1967, and the enactment of similar legislation at provincial levels, governments encouraged collective bargaining and union formation in these sectors, which were also areas of rapid growth in employment. Thus, the post-war period became the era in which legislation provided a favourable environment for the spread of collective bargaining.

This crude division of the evolution of labour legislation into three main phases is useful, as such simplifications often are, but necessarily omits some important aspects. One is the evolution of the division of powers between the federal and provincial governments over labour-relations matters. This aspect is divisible into two main phases: pre- and post-1925. Until 1925, jurisdiction over labour-relations matters was assumed to rest with the federal government. In that period, the chief law regulating labour relations was the Industrial Disputes Investigaton Act of 1907, which made a strike or lock-out illegal in certain important industries until after an inquiry had been conducted into the dispute, and the conciliation-board report had been forwarded to the minister and made public. The Snider case (*Toronto Electric Commissioners* v. *Snider*) of 1925 changed this presumed division of powers. Labour relations, the Privy Council decided, fell under property and civil rights, and thus under provincial jurisdiction.

After the Second World War, during which our federal government exercised jurisdiction under emergency powers, each province developed its own legislation governing industrial relations. Initially, most provinces adopted legislation similar to P.C. 1944-1003. Since the late 1960s, however, provinces have experimented more with labour legislation, and provincial labour codes now vary considerably. An important advantage of the existing jurisdictional division, from a national perspective, is this ability to

experiment with labour legislation, as well as to tailor the legislation to the conditions in each province.

Modelling the Wartime Labour Relations Orders P.C. 1944-1003 on the Wagner Act of the U.S. government resulted in the evolution of a unique North American industrial relations system, a system which has important structural differences from those of Europe, Japan and Australia, the other countries with which we Canadians most often compare ourselves. Of course, there are also important industrial relations differences between Canada and the United States, but the similarities are greater than the differences.

Most provinces also adopted this Wagner Act type of legislation, and in most jurisdictions there have been further legislative changes which have generally facilitated union organization. The extension of collective bargaining rights to employees in the public and quasi-public sectors is the most obvious example. Others include the broadening of the definition of "employee", which made more workers eligible for unionization; numerous changes to the certification process, which have facilitated union organization; increased restrictions on the termination of bargaining rights; and developments such as compulsory dues check-off, imposition of first contract, and stricter enforcement of the requirement to bargain in good faith, which have helped unions, once certified, to maintain their position.

The response to this favourable legislative environment has been dramatic. Table 17-1 compares growth rates for union membership and union density in seven countries, Australia, Canada, Japan, Sweden, the United Kingdom, the United States, and West Germany, between 1961 and 1980. Canada had the highest growth rate of these seven countries and, by the end of the period, had moved ahead of Japan and the United States in the ranking of countries by union density. (In 1961, Canada was at the bottom of this ranking.)

This dramatic difference in union growth in Canada relative to that in other countries is important in terms of some of the policy concerns of the last several decades: the level of strikes and lock-outs, and wage settlements, for example. The Canada-U.S. difference is especially striking, and is worth further examination.

As Figure 17-1 illustrates, union-growth patterns in Canada and the United States were similar from the 1920s to the 1960s, but they have diverged sharply since 1965. To fully assess the reasons for this sharp divergence is not possible here. One potential factor, which does *not* appear to have been an important cause, is the growth of public sector unions. There has been strong and roughly similar growth of these unions in both countries. The main difference has been that private sector unionism has declined in the United States, but grown in Canada. A study carried out for this Commission, points out that growth rates in the chief U.S. public sector unions were higher than those of their Canadian counterparts, while growth rates in the main private sector unions were significantly higher in Canada.[6]

One factor which appears to have played an important part in distinguishing Canada-U.S. union growth since the mid-1960s is the differences in laws – and their administration – governing union certification and the duty to bargain collectively in good faith. Another is the existence of a significant number of states, primarily in the South and West, with strong anti-union

TABLE 17-1 Union Membership Growth and Density in Selected Countries

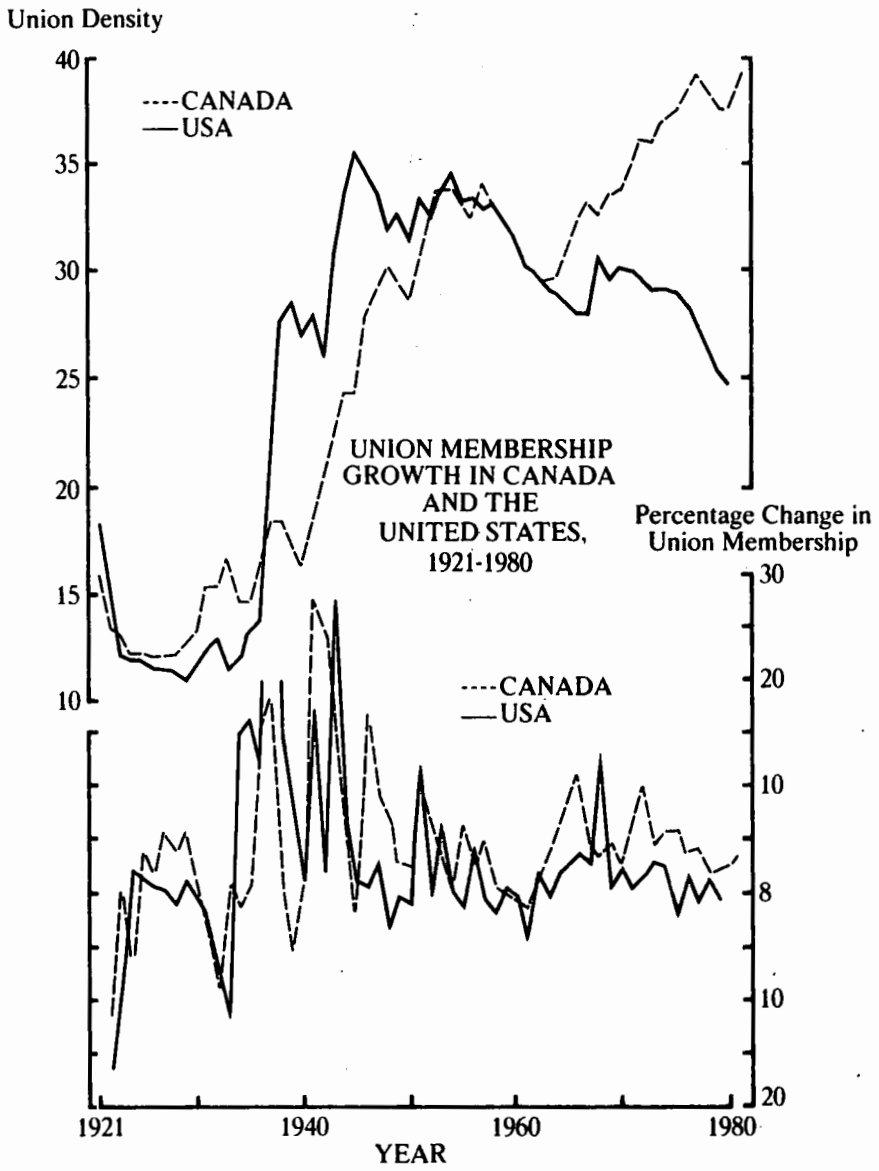
Countries	Membership (in thousands)			As per Cent of Wage and Salary Earners			Average Annual Percentage Change		
	1961	1971	1981	1961	1971	1981	1961–80	1961–71	1971–81
Australia	1 895	2 437	2 994	59.0	53.1	55.8	2.4	2.5	2.1
Canada	1 447	2 231	3 487	29.5	31.1	35.3	4.6	4.4	4.6
Japan	8 154	11 684	12 355	34.3	34.2	30.6	2.2	3.7	0.6
Sweden	1 922	2 622	3 055	62.5	75.6	88.8	3.1	3.1	2.8
United Kingdom	9 916	11 126	12 182	43.4	50.3	57.5	1.4	1.2	0.9
United States	16 303	21 327	22 396	30.2	29.9	24.7[a]	1.7	2.7	0.5
West Germany	6 306	8 105	9 340	30.9	37.0	41.9	2.0	2.5	1.4

Sources: Union membership: Australia, Commonwealth Bureau of Census and Statistics, *Official Yearbook of the Commonwealth of Australia*; Canada, Labour Canada, *Labour Organizations in Canada*; Japan, Statistics and Information Department, *Yearbook of Labour Statistics*; Sweden, National Bureau of Statistics, *Statistical Abstract of Sweden*; United Kingdom, Department of Employment, *Employment Gazette*; United States, Bureau of Labor Statistics, *Directory of National Unions and Employee Associations*; West Germany, Federal Republic of Germany, *Statistiches Jahrbuch*. Wage and salary earners: OECD, *Labour Force Statistics*.

Note: International comparisons should be approached with caution in view of the different statistical methods and criteria used in compiling the figures.

a. 1980 estimate.

FIGURE 17-1 The Trend in Union Density Growth in Canada and the United States, 1921–1980



Source: Based on data from Canada, Labour Canada, *Directory of Labour Organizations* in Canada; U.S., Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics,* Bulletin 2070 (December 1980), *Directory of National Unions and Employee Associations, 1979,* Bulletin 1079 (September 1980) and *News* USDL 81-446, September 18, 1981.

attitudes and laws which are less favourable to union organization. The U.S. system, for instance, requires an election some time after application for union certification has been made, whereas certification is automatic in most Canadian jurisdictions once a certain percentage of the employees have signed cards indicating their desire for union representation. U.S. unions lose many of these elections, and the proportion lost has been steadily increasing over the post-war period. The anti-union stance taken by employers in these elections appears to have been relatively strong in the United States, and its strength may reflect lengthy delays in remedying unfair labour practices and related gaps in legal enforcement. In respect to the administration of the law, an important difference is the relatively weak arsenal of remedial measures against violations of the requirement to bargain in good faith that is available to the U.S. National Labor Relations Board as compared to Canadian labour-relations boards. Responding to these incentives, many American employers have extended their anti-union stand beyond the certification process to the negotiation of the first contract, with the result that only about 60 per cent of certified unions are successful in negotiating a first contract with the employer. As for the final factor, the most rapid employment growth in the past several decades has been in the southern and western States. This rapid employment growth appears to contribute to a tendency for companies opening new plants to locate in areas that minimize the risk of union organization.

While the U.S. trend away from the union movement results from numerous additional factors, it clearly reflects, in part, an environment that has become increasingly hostile to collective bargaining. One of the concerns of the union movement is that a similarly hostile environment may develop in Canada. Such a development would require reversing many of the legislative changes made in the post-war era, and is, in this Commission's view, unlikely.

Examination of Canadians' attitudes towards unions is worthwhile, for policy makers will no doubt take into account public opinion.[7] According to the Decima Quarterly Report on Public Affairs Trends, Canadians who were asked to rate their confidence in the leaders of twenty institutions (including banks, schools, provincial governments, oil companies, the federal government, multi-national corporations, newspapers, and the tobacco industry) consistently expressed less confidence in the leaders of labour unions than in those of any other institution. Even in union families, confidence in labour unions is low, although not as low as it is in non-union families. In response to a Decima question (asked in summer 1981 and summer 1982) forcing respondents to choose between "Unions in Canada have become too powerful" and "Unions are necessary in Canada to protect workers from exploitation", over 55 per cent of respondents chose "too powerful". Another Decima question (posed in summer 1980 and summer 1982) asked respondents whether they favoured or oppose greater government control over labour-union activity. Over 60 per cent of respondents favoured greater control; even among union members, a majority favoured greater government control over labour-union activity.

There is some evidence which suggests that Canadians' attitude toward labour unions has become less favourable over time. As the Honourable

André Ouellet, former Minister of Labour, pointed out in his brief to this Commission, the Gallup Poll has, since 1950, asked respondents whether they think labour unions are good or bad for Canada. In the 1950 – 58 period, between 10 and 20 per cent answered "Bad" and between 60 and 70 per cent "Good". (The rest gave a qualified answer or expressed no opinion.) However, in the 1976–82 period, between 30 per cent and 42 per cent of respondents answered "Bad", and between 42 per cent and 54 per cent answered "Good".

The responses to these questions are, of course, open to a variety of interpretations. During the course of our meetings with the public, Commissioners found no strong anti-union attitudes among Canadians. In our experience, the role of the union movement in representing its members is respected and accepted. The focus of public concern is the creation of less adversarial labour-management relations and development of a better process for resolving industrial conflicts. The recommendations Commissioners make later in this section are intended to contribute to this outcome.

Notes

1. Further details on much of the material in this section are available in two studies prepared for this Commission: Pradeep Kumar, "Union Growth in Canada: Retrospect and Prospect", in *Canadian Labour Relations*, vol. 16, and Joseph M. Weiler, "The Role of Law in Labour Relations", in *Labour Law and Urban Law in Canada*, vol. 51, (Toronto: University of Toronto Press, 1985).
2. Data on collective bargaining coverage indicate coverage, in 1982, of 58 per cent, in establishments of 20 or more employees. However, because unions are much more common in establishments with 20 or more employees than in smaller establishments, and because the survey on which these data are based was limited in several other respects, these data overstate the importance of collective bargaining in the Canadian economy.
3. See R.J. Adams, "Estimating the Extent of Collective Bargaining in Canada", Research Paper No. 223 (Hamilton: McMaster University, Faculty of Business, April 1984).
4. The term "public sector" refers to employees of federal, provincial and municipal governments. "Quasi-public sector" refers to employees in education, health, and related sectors which are primarily publicly funded.
5. Of course, this characterization of the evolution of collective bargaining law in terms of three main phases omits important developments within each phase. During the second phase, in particular, there were a number of legislative changes which made union organization somewhat easier. Furthermore, prior to the Second World War, some provinces passed legislation which could be considered forerunners of P.C. 1944-1003.
6. Kumar, "Union Growth in Canada".
7. The following dicussion of attitudes is primarily based on a Commission study by Richard Johnston, *Public Opinion and Public Policy in Canada*, vol. 35 (Toronto: University of Toronto Press, 1985).

Public Sector Labour Relations

Legislation permitting collective bargaining by government employees first appeared in Saskatchewan in 1944, but the process of extending collective bargaining rights to public sector employees began in earnest with amendments to the Quebec labour code in 1964. Three years later, in 1967, the federal government passed the Public Service Staff Relations Act (PSSRA), permitting employees of the federal government and its agencies to bargain collectively. This innovative legislation seems to have encouraged the other provinces to extend collective bargaining rights to their employees. At present, all Canada's jurisdictions grant collective bargaining rights to their public sector employees, but these rights range from the right to bargain collectively over a narrow range of issues, without the right to strike, to full collective bargaining including the right to strike. Public sector wage-restraint programs, which were initiated in 1982, and which remain in force in some jurisdictions, place additional restrictions on collective bargaining.

The legislative initiatives undertaken in the 1960s by our federal and provincial governments have been described as a "bold experiment". Certainly, Canada has gone further than most of the other countries with which we often compare ourselves in giving employees of the public and quasi-public sectors the right to bargain collectively and the right to strike. To construct detailed comparisons in this regard between Canada and other countries would be a difficult task, but a skeletal summary may be useful. The United States and the United Kingdom are the most obvious choices for comparison, since the United States shares with Canada a common private sector model for collective bargaining, and both the United States and the United Kingdom have exercised important, though unequal, influence on our industrial relations system.

Virtually all public sector employees in Canada are covered by comprehensive statutes which grant them the right to organize themselves into unions and to engage in collective bargaining. This right is not as well defined in some other countries. In the United States, for example, federal employees are permitted to form or join unions, but they lack the right to bargain with their employer. Compensation is set, primarily, according to comparability with the private sector. At the state level, the individual's right to form and join a union is protected, but the right to bargain collectively is not guaranteed in the absence of statutory provisions. Many States have been reluctant to provide such legislation. In Britain, while there are no statutory requirements that public sector employers must engage in collective bargaining with representatives of their employees, it would be unusual for employers to refuse to do so. The pay rates for employees of the central government (civil servants) are determined primarily by "fair comparisons" with the private sector.

The scope of bargaining in Canada's public sector is generally more limited than that in the private sector, but such limitations are also common in the United States. While Britain has no such statutory limitations, bargaining through a centralized structure tends to impose limits on issues that are normally subject to negotiation.

There are major differences, especially between Canada and the United States in the area of dispute-resolution procedures. Canada's federal sector is marked by a unique feature in that the employees' bargaining agent alone may select either the conciliation-strike or the arbitration route as the means for resolution of an interest dispute, should negotiations fail to produce an agreement. Our provinces tend to rely extensively on binding arbitration as the ultimate method of resolving interest disputes in the public sector. Nevertheless, the Canadian system goes far beyond that of the United States in permitting the use of the strike weapon. While limitations on the right to strike do exist in Canada, they fall far short of the outright ban that is in effect for most public sector employees in the United States.

The response to the legislative initiatives of the 1960s was indeed dramatic. Unionization of employees of federal and provincial governments increased markedly, and today almost 100 per cent of eligible employees are covered by collective agreements. In the 1970s, the unionization of teachers, nurses, hospital workers and related quasi-public/sector employees added momentum to the rate of union growth. During this period, employment growth was also strong in the government sector and in education, health and related services.

The very rapid growth in unionization in these sectors can be explained, in part, by the fact that most of these employees had previously been represented by associations which engaged in consultation with employers on wages and working conditions. Thus, in many instances, an organizational structure already existed. Nonetheless, the change from consultation with an employee association to collective bargaining was more than cosmetic in nature.

The rapid growth in collective bargaining within the public sector has led to considerable controversy. Wage settlements in the public and quasi-public sectors have been a prominent policy concern since the late 1960s. Large wage settlements by high-profile public and quasi-public sector employees, such as Seaway workers, public servants, teachers and postal workers, have been blamed by some observers for contributing to the inflation problem of the past twenty years. Thus they were responsible, partly at least, and possibly to an important extent, for the two major intrusions of government into collective bargaining in the post-war era: the 1975–78 Anti-Inflation Program and the wage-restraint programs introduced in 1982. The "Six-and-Five" scheme and related wage-restraint programs reflected, in part, a concern that public sector wage settlements were not being modified downward in response to the weak labour-market conditions brought on by the 1981 recession. Several analysts have attributed much of the responsibility for the 1975 Anti-Inflation Program to the spill-over effects of public sector wage settlements.

Public sector labour disputes have also generated controversy. Public opinion polls indicate that Canadians are becoming increasingly intolerant of strikes, especially in certain public services. The issues of which public and quasi-public sector workers should have the right to strike, and how disputes should be resolved for those denied that right have been at the forefront of policy debates.

Another trend, apparent since the mid-1960s, has been the increased use of back-to-work legislation. Table 17-2 shows the number of instances in which the federal and provincial governments have employed emergency back-to-work legislation during each five-year period since 1950. Most of the disputes terminated in this way have occurred in the public or quasi-public sectors. Those in the private sector have occurred primarily in the transportation sector. The dramatic escalation adds to the concern noted above about increased government involvement in the collective bargaining process, and this Commission views it as a serious issue.

Recent developments suggest to some observers that the federal and provincial governments are rethinking the changes made in the 1960s about collective bargaining and the right to strike in the public and quasi-public sectors. To the labour movement, this shift seems part of an attack on the institution of collective bargaining. To many others, including much of the business community, it represents necessary movement away from the overly permissive environment surrounding public sector-wage determination in the past two decades. It is probably accurate to state that governments are caught in a dilemma. On the one hand, they favour collective bargaining, under conditions reasonably close to that of the private sector, for their own employees and workers in the quasi-public sector. On the other hand, they are reluctant to live with the consequences: higher wages and more collective bargaining disputes, which are unpopular with voters.

This situation suggests that public sector labour relations may now have reached an important turning point. One view is that the current public sector-restraint programs are indeed temporary, and that there will be a return to collective bargaining along the lines that existed prior to 1982. An alternative view is that some of the present restrictions on public sector bargaining will remain. An extreme version of this second view holds that the period from 1964 to 1982 constituted an experiment with public sector

TABLE 17-2 Back-to-Work Legislation, 1950 – 84

Years	Federal Jurisdiction	Provincial Jurisdiction	Total
1950 – 54	1	—	1
1955 – 59	1	1	2
1960 – 64	2	1	3
1965 – 69	2	8	10
1970 – 74	4	9	13
1975 – 79	6	16	22
1980 – 84	1	18	19

Source: Unpublished data from Labour Canada, Federal-Provincial Relations and Liaison Branch.

collective bargaining along private sector lines, and that the experiment has now been concluded and judged a failure. To assess these views and their implications for collective bargaining in Canada, we must examine the Canadian experience with public sector labour relations.

The issue which has perhaps generated the most controversy has been that of public sector compensation. There is a strong conventional wisdom that the forces which influence wage determination in the private sector are not operative in the public sector or are, at least, distinctly muted. Most Canadians view these purported differences between the determinants of compensation in the two sectors as giving public sector employees, in the long run, a wage advantage over comparable private sector employees. This claim is reinforced by a general view that public sector employees enjoy greater job security than their private sector counterparts and therefore, if any distinction is to be made, should earn lower wages. In addition, it is often stated that public sector wages are less responsive to changes in economic conditions than are wages in the private sector. A related set of hypotheses involves the influence of public sector compensation on that in the private sector. These "spill-over" hypotheses can take two forms. One theory is that higher wage levels or higher rates of increase for wages in the public sector will affect wages in the private sector, possibly to the extent of imparting an inflationary bias to the economy. The second theory is that a lower sensitivity to economic conditions displayed in public sector-wage settlements suggests that in economic downturns, public sector settlements will decline less rapidly than those of the private sector. If public sector settlements affect those made in the private sector, the sensitivity of wage changes to economic conditions will be reduced in both sectors. The increased wage rigidity that results will make it more difficult to control inflation through demand restraint and will contribute to increased instability in employment and output. These hypotheses can be tested empirically. In Canada, economists and policy analysts have conducted a significant amount of research into these matters. The results of this research are briefly summarized here as they relate to two sets of comparisons: wage levels and wage changes.[1]

Comparison of wage levels indicates that public sector employees typically enjoy a compensation advantage over "comparable" workers in the private sector. "Comparability" is generally established by one of two methods: comparing workers in the same occupation where the nature of the work is assumed to be similar, especially if the occupations are narrowly defined; and using data on earnings of individual workers, while controlling for other factors which affect compensation, such as age, education, sex, skill level and training. (Unfortunately, it is generally impossible to control for differences in employment security, nor is it certain that such differences exist.) The size of this compensation advantage is in the order of 5 to 10 per cent overall, though it varies considerably across groups of employees. It is largest for females and low-wage workers, and smallest – often, indeed, a disadvantage – for employees at higher salary levels.

This public sector-compensation advantage has not always existed. Studies indicate that in the 1950s, public sector employees were paid slightly less than comparable private sector employees. The opposite differential emerged in the

1960s and 1970s. Evidence indicates that this emergence primarily reflects two factors: the rapid growth in employment during this period and unionization. The first factor reflects the reality that in a sector characterized by rapidly growing labour demand, most employers are willing to pay somewhat higher wage increases, and most employees have the market or bargaining power to obtain increases that are somewhat higher than those typical of sectors growing at average rates. In short, wage increases are needed to attract additional workers into rapidly expanding sectors. This is a reality which operates in private industry, as well. The resulting compensation advantage will tend to disappear once employment growth slows to the average rate. Accordingly, the public sector-compensation advantage may decline somewhat in the future, as current forecasts indicate that employment growth in the public sector is likely to fall below average.

The second factor is unionization. It is well established that unionized workers are paid more than they would earn in the absence of unionization and more than comparable non-union workers. This union-wage differential primarily reflects the increased bargaining power accruing to employees from co-ordinated action (the strike threat) as compared to individual action (the quit threat). It is not surprising, then, that the very rapid growth of unionization in the public sector would produce something of a wage advantage, for union density is higher in the public than in the private sector. That is, even if unionized private sector employees were found to earn wages equal to their unionized public sector counterparts, and even if the same differential applied to non-union workers in the two sectors, public sector employees would be found to earn more, on average, than their private sector counterparts because the proportion of unionized workers is higher in the public sector. Since unionization of that sector is now virtually complete, this factor should not lead to any further broadening of the public sector-wage advantage. Indeed, it is likely to narrow somewhat because of projected slow employment growth in the public sector, relative to the private sector. The most recent evidence suggests, indeed, that the public sector-wage advantage peaked in the late 1970s and has declined modestly since that time. This evidence is consistent with the two factors mentioned above, for employment growth and unionization growth in the public sector have slowed considerably since the latter 1970s. Governments also have taken a stronger stand against increasing public sector wages, beginning with the agreement reached at the 1978 First Ministers' Conference.

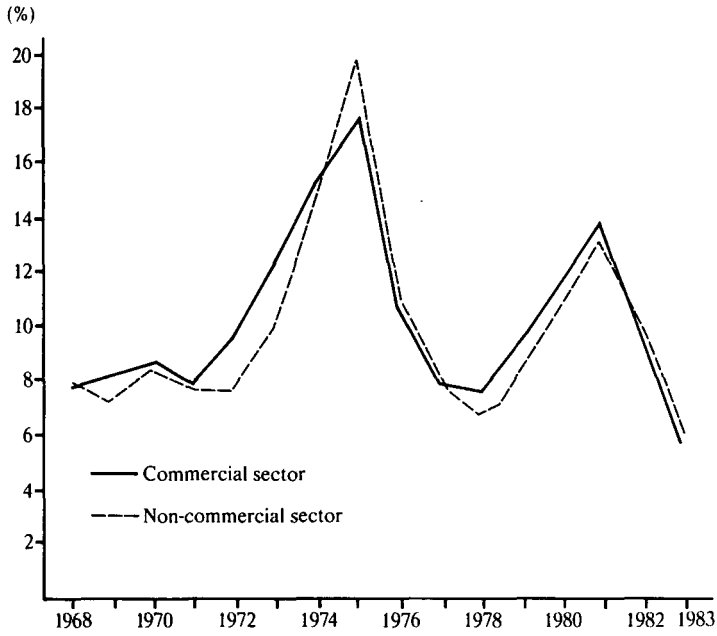
A serious limitation of the empirical studies of private/public compensation is that they are based on wage rates or earnings, and do not take into account fringe benefits and other non-wage aspects of compensation. The large and growing importance of fringe benefits makes such comparisons highly significant. Unfortunately, Canadian evidence on fringe benefits and working conditions is very limited. Cost estimates of benefits such as payment for time not worked, unemployment insurance, pension, health and welfare coverage, bonuses and profit sharing suggest rough comparability in fringe-benefit costs among municipalities, hospitals, education, government and large private sector firms. However, these comparisons do not take into account working

conditions such as job security or deferred compensation such as early retirement and indexed pensions. It is highly likely that valuation of such aspects would show that public sector employees have the more advantageous fringe benefits and other non-wage aspects of employment, adding to the wage advantage outlined above.

Examination of wage changes over an extended period provides a useful supplement to the comparisons of wage levels at a particular point in time. The primary source of information on Canadian wage changes is Labour Canada's data bank of base-rate changes in major collective agreements. Figure 17-2 shows the average annual negotiated wage change for contracts without cost-of-living/allowance (COLA) clauses in the commercial and non-commerical sectors, a division that corresponds very closely to the private and public sectors. Between 1968 and 1983, settlements in the non-commercial sector have averaged slightly below those in the commercial sector. The difference averaged 0.4 per cent per year over this period. Figure 17-3, taken from the brief submitted to this Commission by André Ouellet, the former Minister of Labour, breaks down the non-commercial sector by federal, provincial and local administrations. Since the end of the Anti-Inflation Program in 1978, similar patterns of wage settlements appear in all four sectors. However, before the introduction of the Anti-Inflation Program (AIP) in October 1975, there were significant differences: wage increases in provincial administration rose dramatically higher than those in the private sector, while wages in the local and federal administrations as Figure 17-3 shows, were higher than those in the private sector, but lower than those paid by provinces. Table 17-3 indicates that to include wage increases obtained under COLA clauses (which are much more widely used in the private than the public sector) maintains the record of similar wage patterns since the end of the AIP in 1978.

Comparison of wage changes over time indicates that there is little basis for the view that public sector-wage settlements are less responsive to changes in economic conditions than those in the private sector. Indeed, as Figure 17-2 illustrates, the cyclical behaviour of wage settlements in the two sectors is remarkably similar. In addition, empirical studies find that other determinants of wage changes, such as inflationary expectations and catch-up for unanticipated inflation, have very similar effects in the two cases. Thus, there is little evidence to support the view that the determinants of wage settlements operate differently in the two sectors to any significant degree. The one exception to this conclusion is that arbitrated awards, which are virtually non-existent in the private sector, but much more prominent in the public sector, do behave differently from those of private sector- and negotiated public sector-wage settlements. In particular, arbitrated awards exhibit less sensitivity to economic conditions than do negotiated settlements, but they show more sensitivity to the past effects of inflation and to movements in wages of similar workers elsewhere. However, arbitrated awards are not numerous enough to make the overall behaviour of public sector-wage changes different from that of corresponding private sector changes. Studies of wage changes have also concluded that there is relatively little support for

FIGURE 17-2 Annual Average Wage Changes Provided by Major Collective Agreements (without COLA)



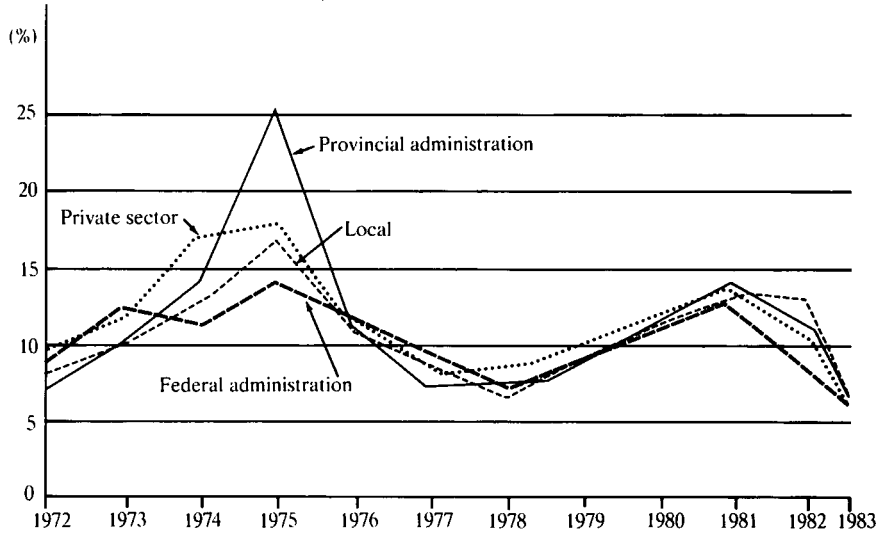
Source: Canada, Labour Canada, Wage Developments Resulting from Major Collective Bargaining Settlement.

Note: The non-commercial sector includes federal, provincial and municipal governments, plus highway and bridge maintenance, water systems and utilities, welfare organizations, education and related services, and hospitals. The commercial sector includes all other enterprises. Thus the commercial sector includes some enterprises, primarily Crown corporations, which some would include in the 'Public Sector' (e.g., CBC, Canada Post). To include these in the non-commercial sector would not significantly alter the averages.

the view that public sector settlements spill over in a general way into the private sector. There is, however, evidence of wage spill-overs from the public to the private sector in specific urban areas and particular occupations.

Two caveats should be noted. First, while wage increases in the public and private sectors have been very similar, on average, over the 1968–83 period, there is no certainty that this outcome would have occurred if the government had not intervened in the wage-determination process. The Anti-Inflation Program of 1975–78 was introduced, to a considerable extent, because of concern over the consequences of high public sector settlements in 1974 – 75. Empirical studies have found that the AIP imposed stricter restraint on public sector than on private sector settlements. Further, the wage controls introduced in 1982 applied only to the public sector. They may have had a "demonstration effect" on private sector settlements, but this effect was probably very modest if, indeed, it existed at all. Thus both interventions into the wage-bargaining process have apparently had a stronger effect on public sector settlements than on private sector ones.

FIGURE 17-3 Wage Settlements, Federal, Provincial and Local Administrations and in the Private Sector



Source: Unpublished data, Labour Canada. Note: the data cover only non-COLA settlements.

Secondly, the data are seriously limited. They exclude non-union wage increases, which are more important in the private sector; they generally employ the base-wage rate: that paid to the lowest classification in the bargaining unit; they exclude the value of fringe and non-wage benefits; and they fail to take into account the possibility of "classification creep", a process by which individuals receive wage increases through promotion and reclassification. Each of these limitations may bias the comparison.

After comparing the evidence relating to public and private sector wages, Commissioners' chief conclusion is that it is not necessary, because of concern about the pattern of public sector wages, to make drastic changes in the legislation governing collective bargaining rights. It is true that unionization gives rise to higher compensation levels than would otherwise exist, and this development somewhat elevates the costs of providing schools, hospitals and other public services. This is one of the effects of collective bargaining, and it exists in the private sector, as well as in the public sector. Just as extensive unionization in the auto industry raises the price of cars, so extensive unionization among government employees raises the cost of public services. There does not, however, appear to be any reason to treat one group differently from another on these grounds alone.

This Commission notes, nevertheless, that there are important differences in the economic forces which affect wage settlements in the private and public sectors. While some differences may operate in the other direction, the overall effect of these forces is likely to raise public sector wages to some degree. Governments will therefore wish to continue to monitor wage developments in

TABLE 17-3 Weighted-Average Annual Wage Increases in Major Collective Agreements

	1978	1979	1980	1981	1982	1983	1978–1983 Average
Commercial Sector							
Non-COLA contracts (888)	7.6	9.5	11.5	13.9	9.6	5.5	9.62
All contracts (1465)	8.2	10.8	11.6	12.9	10.1	5.7	9.88
Federal Government							
Non-COLA contracts (244)	6.6	8.2	10.8	12.6	7.8	5.5	8.58
All contracts (254)	7.1	8.4	11.3	12.7	8.6	5.5	8.93
Provincial Government							
Non-COLA contracts (195)	7.3	8.4	11.2	13.6	10.6	6.6	9.62
All contracts (222)	7.8	9.2	11.3	13.5	11.8	5.0	9.77
Local Government							
Non-COLA contracts (199)	6.4	8.7	10.4	13.2	12.9	5.7	9.55
All contracts (251)	7.3	9.3	10.8	12.8	11.9	5.8	9.65
Education, Health & Welfare							
Non-COLA contracts (829)	6.7	7.9	9.7	13.7	11.3	6.7	9.33
All contracts (1002)	6.8	8.2	9.9	13.4	11.4	6.7	9.40

Source: Canada, Labour Canada, E.I.R. Research File

Note: COLA wage increases are calculated on the basis of actual Canada Price Index (CPI) movements for the 1978–83 period, using a forecast 5 per cent CPI increase for 1984 (and beyond).

their jurisdictions, in order to ensure that these do not contribute to the development of another inflationary wage-price spiral in Canada.

Are Canada's public sector labour relations at a turning point? As with many controversial questions, two answers are offered. The Canadian Labour Congress (CLC) in its brief to this Commission made the following observation:

> *The collective bargaining system is one of the basic institutions of a democratic system. In Canada it is under a serious attack from governments and business. The most visible examples of this threat are in the public service, both federal and provincial.* (Canadian Labour Congress, Brief, December 12, 1983, p. 18.)

A more sanguine observation recently referred to the "doomsday" and "optimistic" hypotheses: the former implied that a retreat from the existing public sector collective bargaining system is at present under way in Canada:

While the arguments advanced to support the doomsday hypothesis deserve careful attention, there is a considerable body of evidence to support the optimistic hypothesis. Even during the period in which public sector bargaining was expanding, there were attacks on the practice from several sources. Private sector employers not only complained about the cost of public services to the taxpayer, but were especially vehement when they believed that wages in the public sector exceeded those paid to employees in their sector. In addition, public reaction to strikes by public sector employees was almost uniformly negative. Periodically, governments and neutral observers suggested that public sector compensation be determined by direct linkage to the private sector, on the basis of parity between the two. In these circumstances, it would have been easy for most governments in Canada to restrict bargaining rights severely or not to grant them at all. But the federal government and a majority of provincial governments did give reasonably complete bargaining rights to public sector employees. Once the legislative framework was established, few changes were made in response to individual disputes. When a strike caused widespread inconvenience or threatened public safety (as with stoppages by municipal transit workers or hospital employees), ad hoc *legislation was enacted ... Whatever the merits of [such] legislation, it did not change the fundamental structure of bargaining ...*

In short, Canada's governments since the mid-1960s have supported the principle of collective bargaining, both by the extension of bargaining rights to public employees and by making only marginal changes in the permanent legal framework once legislation was enacted. Since there is little evidence that this long-term commitment changed in the early 1980s, the optimistic hypothesis is supported.[2]

Earlier in this section, Commissioners mentioned that Canada has gone further than other countries in granting collective bargaining rights and the right to strike to its public sector employees. It is possible that our governments are presently reassessing their position, but it is important to note that any changes would be made from a position of relative "permissiveness", at least compared to the position of other countries. The central issue in contemplating any move is whether Canadian experience to date with public sector collective bargaining indicates that a major change in policy is warranted. Our conclusion is that the evidence on the patterns of public sector wages does not justify a major retreat from the existing system of collective bargaining. Canada's experience with the current labour-relations system in the public sector is limited, however, to the past two decades, and because there are important gaps in our collective knowledge (especially with respect to the value of fringe benefits and other non-wage aspects of employment), it is entirely appropriate that Canadians continue to assess the existing system. Increased attention to criteria used by arbitrators, to the costing of non-wage benefits, and to the use of compensation-comparability surveys will contribute to this assessment.

Notes

1. This summary is based primarily on two surveys of this literature: Morley Gunderson, "The Public Private Sector Compensation Controversy", in *Conflict or Compromise: The Future of Public Sector Industrial Relations*, edited by Gene Swimmer and Mark Thompson (Montreal: Institute for Research on Public Policy, 1984); and David A. Wilton, "Public Sector Wage Compensation", in *Canadian Labour Relations*, vol. 16, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
2. Mark Thompson and Gene Swimmer, "The Future of Public Sector Industrial Relations", in *Conflict or Compromise: The Future of Public Sector Industrial Relations*, edited by Mark Thompson and Gene Swimmer (Montreal: Institute for Research on Public Policy, 1984), pp. 443–44.

Collective Bargaining Disputes

The amount of strike and lock-out activity is probably the most commonly used measure of the state of a country's labour/management relations. In Canada, the view that the state of those relations has deteriorated in the last 15 to 20 years is based, to a considerable extent, on the increased incidence of collective bargaining disputes.[1]

Canadian policy makers have long displayed considerable concern with strikes and lock-outs. Each of the steps along the road to the Canadian collective bargaining system which emerged in the 1940s was taken in response to some sort of industrial crisis, usually a strike. The first major piece of labour legislation in Canada was the Industrial Disputes Investigation Act of 1907, which made work stoppages illegal until after a conciliation board had investigated the dispute and submitted a report. This Act was Parliament's response to strikes by workers in coal mines, railways and sawmills. The Wartime Labour Relations Orders (P.C. 1944-1003) is arguably Canada's most important piece of labour legislation. Its passage appears to have been prompted as much by the need to minimize work stoppages during the Second World War as by the desire to encourage collective bargaining and unionism. The post-war period has seen further additions to regulations governing strikes and lock-outs.

Concern about the number of collective bargaining disputes in Canada has been expressed in many quarters. For example, an editorial in the Financial Post noted that in 1980 – 82, "there was proportionately more time lost in Canada as a result of strikes and lockouts than in any other Western nation". The editor went on to observe:

> *The cost of this abysmal record is devastatingly high: lost wages and hardship for workers, reduced business for other businesses because of fewer orders and less consumer spending, disrupted delivery schedules for the struck company that often means permanent loss of orders (sometimes to foreign competitors), soured management-labor relations, setbacks in product development, and a less-attractive investment environment. In today's harshly competitive world, these are costs to society we can less and less afford to bear.*
>
> *The damaging effects of labor strife are apparent to management and labor – and to government, which has a crucial role to play both as employer and as author of labor legislation ... there seems little evidence that these interested parties are sufficiently agitated about our appalling strike record to get some needed changes in the works ... Clearly, ours is a system desperately in need of revision.*[2]

Other observers have argued that too much attention is paid to collective bargaining disputes as compared to other aspects of labour/management relations or to economic concerns in general. Time lost in labour disputes is small in absolute terms: it amounts to roughly 0.33 per cent of total work time, or about one day per year, a total roughly equivalent to the time given to celebrating Canada Day. Moreover, as the Minister of Labour pointed out in his brief to this Commission, time not worked because of industrial disputes is consistently less than that lost to occupational accidents and illness, and to absenteeism from other causes.

Methods of measuring the amount of strike and lock-out activity depend on the purpose at hand. If that purpose is to assess the economic costs associated with collective bargaining disputes, then the sum of person-days lost to strikes and lock-outs offers a rough, but probably reasonably valid, estimate. If the purpose is to compare strike and lock-out activity across countries, time periods, regions or industries, then the comparison should take into account differences in strike and lock-out potential. The most obvious factors accounting for differences in this area are differences in unionization (for almost all strikes and lock-outs occur in the organized sector) and differences in the number of contracts in process of negotiation (for most strikes and lock-outs occur during contract renegotiation). The ideal measure of strike activity is the degree of probability that a dispute will occur in a given round of contract negotiations: that is, the propensity to strike or lock out.

While there are substantial variations from year to year, it is clear that the extent of strike and lock-out activity (as measured, for example, by the percentage of paid workers involved in disputes or by the person-days lost as a percentage of total working time) was greater between 1965 and 1983 than between 1946 and 1965. Person-days lost as a percentage of working time averaged 0.17 per cent from 1946 to 1965, and 0.34 per cent from 1966 to 1983, an increase of 100 per cent.[3] The average loss of 0.34 per cent of working time for the post-1965 period is also high by historical standards. During the period from 1919 to 1945, working time lost to strikes and lock-outs averaged less than 0.12 per cent. It would be a mistake, however, to conclude from these statistics that the labour-relations climate has worsened since the mid-1960s, without first examining the causes for these trends.

It must be recognized that the strike potential of the Canadian economy has also increased in the period since 1965. In particular, union density (the unionized proportion of the non-agricultural labour force) was approximately the same in 1965 as in 1946, whereas it has increased significantly since 1965, primarily because of the growth in unionization in the public and quasi-public sectors. Furthermore, union density was considerably higher in the post-war period than in earlier periods. Even if a constant proportion of negotiations resulted in strikes or lock-outs (that is, if strike propensity were constant), there would be an increase in the number of collective bargaining disputes if more of the labour force joined unions. Adjusting for the increase in unionization reveals that some, but certainly not all, of the increase in time lost to strikes and lock-outs – a loss that rose from about 0.17 per cent of working time in 1946–65 to 0.34 per cent in in 1966–83 – can be accounted for by increasing unionization.[4]

Unfortunately, even this simple adjustment is not as uncomplicated as it might appear because much of the growth in unionization was in the public sector. Although public sector strikes have come to represent an increasingly large proportion of total strikes (rising from 2.4 per cent of strikes and 1.1 per cent of time lost in 1962–65 to 17.8 per cent of strikes and 20 per cent of time lost in 1978–81), the public sector's propensity to strike is lower than that of the private sector. In part, this difference reflects the fact that arbitration is much more extensively used as a dispute-resolution mechanism in the public sector than it is in the private sector.

Does the increase in time lost to strikes indicate that strikes are more numerous or that they last longer? The answer is clear: Average strike duration has not changed significantly over the post-war period. Between 1946 and 1965, strikes lasted 19 days, on average; between 1966 and 1981 they lasted an average of 18 days.

Canada has not been the only country to experience an increase in the number of collective bargaining disputes since the mid-1960s. Nevertheless, the increase does seem to have been larger in Canada than in most other countries, and this situation means that our relative position has deteriorated compared with that of other countries. If, for example, we compare 11 countries (Belgium, Denmark, France, West Germany, Italy, the Netherlands, Norway, Sweden, the United Kingdom, the United States and Canada) on the basis of days lost to labour disputes per employed person, we find that Canada's relative position deteriorated from seventh place in the years between 1948 and 1957, to ninth place from 1958 to 1967, and to tenth place from 1968 to 1981. In the last period, only Italy's record exceeded Canada's.[5] These data do not, however, take into account differences in union density, the structure of collective bargaining, the frequency of negotiations, the definition of strikes and lock-outs and other differences across countries, which can affect their ranking.

Table 17-4A shows the number of labour disputes per worker and Table 17-4B the number of labour disputes per unionized worker, thus adjusting for differences in union density across countries. Table 17-5A and 17-5B show respectively the number of working days lost per worker and per unionized worker. Clearly, Canada stands among the more dispute-prone countries. On the basis of number of disputes per unionized member, France has the worst record, followed by Italy and Canada, and then the United States, the United Kingdom and Denmark. The remaining countries have low levels of strike and lock-out activity. In terms of working days lost per union member because of labour disputes, Canada has the worst record, followed closely by Italy and then by the United States, the United Kingdom and France. Both Canada and the United States fare poorly in international comparisons of strike and lock-out activity, based on working time lost to labour disputes. The reason is that disputes tend to last longer in North America than in most European countries and in Japan. For the period from 1977 to 1981, for example, the average duration of work stoppages was about 20 days in Canada and the United States, seven days in the United Kingdom and Norway, five in Germany and Sweden, and fewer than four in Denmark, France, Japan and Italy.

International comparisons of the number of labour disputes are very difficult to make because of differences in the way such disputes are defined and measured, and because of substantial differences in collective bargaining institutions among countries. The most significant comparison is that between Canada and the United States, because of the similar nature of their collective bargaining institutions and measurement procedures. Thus a good test of the view that our labour-relations climate (as measured by strike and lock-out activity) has deteriorated relative to that of other countries would involve a Canada-U.S. comparison.

TABLE 17-4A Number of Strikes and Lock-outs per 1000 Workers, 1960–1981

Country	1960–64	1965–69	1970–75	1976–81	1970–81	Rankings 1976–81	Rankings 1970–81
Belgium	0.013	0.018	0.053	0.056	0.054	5	5
Denmark	—	—	0.044	0.088	0.067	7	6
France	0.106	0.092	0.175	0.147	0.161	10	9
Italy	0.177	0.164	0.244	0.123	0.181	9	10
Netherlands	0.017	0.006	0.006	0.006	0.006	1	1
Norway	0.007	0.004	0.008	0.011	0.010	2	2
Sweden	0.005	0.005	0.019	0.028	0.024	3	3
United Kingdom	0.102	0.096	0.114	0.081	0.098	6	8
United States	0.052	0.064	0.065	0.046	0.055	4	4
Canada	0.050	0.077	0.094	0.099	0.096	8	7

Sources: *International Labor Profiles* (Detroit: Grand River Books, 1981); and E.M. Kassalow, "Industrial Conflict and Consensus in the U.S. and Western Europe", in *Labor Relations in Advanced Industrial Societies*, edited by B. Martin and E.M. Kassalow (Washington, D.C.: Carnegie Endowment for International Peace, 1980).

TABLE 17-4B Number of Strikes and Lock-outs per 1000 Unionized Workers

Country	Union Membership 1978 (using average number of strikes and lock-outs 1976 – 81 and union-membership data for 1978)	Number of Strikes and Lock-outs per 1000 Members	Ranking
Belgium[a]	2 621 000	0.08	4
Denmark	1 553 000	0.138	5
France	5 320 000	0.580	10
Italy	8 000 000	0.311	9
Netherlands	1 700 000	0.017	1
Norway	976 000	0.022	2
Sweden	3 240 000	0.036	3
United Kingdom	12 376 000	0.161	6
United States	22 798 000	0.195	7
Canada	3 278 000	0.306	8

Sources: *International Labor Profiles* (Detroit: Grand River Books, 1981); and E.M. Kassalow, "Industrial Conflict and Consensus in the U.S. and Western Europe", in *Labor Relations in Advanced Industrial Societies*, edited by B. Martin and E.M. Kassalow (Washington, D.C.: Carnegie Endowment for International Peace, 1980).

a. Based on union membership in 1976.

TABLE 17-5A Number of Working Days Lost to Labour Disputes per 1000 Workers, 1960–81

Country	1960–64	1965–69	1970–75	1976–81	1970–81	Ranking 1970–81
Belgium	80.0	72.3	227.6	182.8	205.3	6
Denmark	—	—	306.2[a]	109.0	206.4	7
France	148.3	125.5	169.1	140.4	154.7	5
West Germany	18.4	5.6	40.8	36.2	38.5	2
Italy	632.1	822.2	1 128.9	880.0	999.0	11
Netherlands	28.1	4.9	57.3	22.7	39.5	3
Norway	103.9	7.4	41.1	32.6	36.6	1
Sweden	4.5	25.1	61.3	195.1	130.2	4
United Kingdom	128.9	158.1	522.1	465.0	493.4	9
United States	277.4	490.8	501.9	353.5	422.1	8
Canada	191.8	663.0	835.5	786.1	808.7	10

Sources: *International Labor Profiles* (Detroit: Grand River Books, 1981); and E.M. Kassalow, "Industrial Conflict and Consensus in the U.S. and Western Europe", in *Labor Relations in Advanced Industrial Societies*, edited by B. Martin and E.M. Kassalow (Washington, D.C.: Carnegie Endowment for International Peace, 1980).

a. 1972–75

TABLE 17-5B Number of Working Days Lost to Labour Disputes per 1000 Unionized Workers

(using average number of days lost 1976–81 and union membership data for 1978)

Country	Days Lost	Ranking
Belgium[a]	259.1	6
Denmark	169.6	4
France	555.0	7
West Germany	100.9	3
Italy	2 221.6	10
Netherlands	64.4	2
Norway	62.3	1
Sweden	250.3	5
United Kingdom	923.0	8
United States	1 486.8	9
Canada	2 440.5	11

Sources: *International Labor Profiles* (Detroit: Grand River Books, 1981); and E.M. Kassalow, "Industrial Conflict and Consensus in the U.S. and Western Europe", in *Labor Relations in Advanced Industrial Societies*, edited by B. Martin and E.M. Kassalow (Washington, D.C.: Carnegie Endowment for International Peace, 1980).

a. Based on union membership in 1976, and average days lost during 1976–80.

Table 17-6 shows the working time lost per 1000 workers in the two countries since 1960. Clearly, both strike and lock-out activity have grown more in Canada than in the United States. Once we adjust for the divergent trends in union growth, however, the outcome is more equivocal. As Table 17-6 shows, the number of strikes and lock-outs per union member has not been consistently higher in Canada than in the United States, though time lost per union member has typically been higher here since 1972.

One factor that complicates a Canada-U.S. comparison is that many unionized public sector workers in the United States lack the right to strike, while their Canadian counterparts enjoy this right. Thus a valid comparison of the two countries should examine the private sector alone. An examination of private sector strike and lock-out activity per union member in Canada and the United States since 1960 indicates some increase in these activities in both countries, but the increase is greater in Canada. In our country, for example, the number of private sector work stoppages per 1000 union members averaged 0.40 per cent in 1966–76, as compared with 0.23 per cent

TABLE 17-6 Strikes and Lock-outs in Canada and the United States, 1960 – 83

	Strikes and Lock-outs per 1000 Union Members		Time Lost to Strikes and Lock-outs per 1000 Union Members	
Year	**Canada**	**U.S.A.**	**Canada**	**U.S.A.**
1960	0.184	0.195	506	1 120
1961	0.188	0.207	923	1 000
1962	0.204	0.218	996	1 121
1963	0.219	0.203	633	974
1964	0.219	0.217	1 059	1 360
1965	0.301	0.229	1 479	1 347
1966	0.335	0.246	2 983	1 416
1967	0.259	0.250	6 069	2 292
1968	0.278	0.267	2 529	2 591
1969	0.273	0.299	3 736	2 252
1970	0.231	0.295	3 009	3 427
1971	0.245	0.267	1 285	2 477
1972	0.233	0.258	3 247	1 393
1973	0.261	0.270	2 229	1 408
1974	0.429	0.301	3 376	2 376
1975	0.382	0.257	3 783	1 598
1976	0.303	0.288	3 817	1 928
1977	0.235	0.277	1 050	1 800
1978	0.306	0.209	2 255	1 824
1979	0.297		2 347	
1980	0.280		2 642	
1981	0.270		2 546	
1982	0.168		1 602	
1983	0.162		1 247	

Sources: Canada, Labour Canada, *Directory of Labour Organizations in Canada* (various years); United States, Bureau of Labor Statistics, *Handbook of Labor Statistics* (1983); and *Directory of National Unions and Employee Associations* (1979).

in 1960 – 64, an increase of 74 per cent. The comparable statistics for the United States were 0.31 per cent in 1966–76, as compared with 0.23 per cent in 1960 – 64, an increase of 35 per cent. The comparison of time lost per union member is even less favourable to Canada's economy: an increase of 287 per cent in the Canadian private sector, as compared with a growth of 86 per cent in the United States over the same periods.

Commissioners' examination of the evidence on work stoppages leads us to conclude that strike and lock-out activity has been significantly greater during the last 20 years than in earlier periods of Canada's history. This increase cannot be attributed simply to the increase of collective bargaining in our economy, for the amount of strike and lock-out activity per union member has also risen significantly. Several other countries have experienced a higher incidence of strikes and lock-outs, beginning in the mid-1960s. The increase has been relatively greater in Canada, however, so that we Canadians are now among the most dispute prone of the industrialized nations. This record suggests to this Commission that Canada may have room for improvement with respect to the number and length of work stoppages.

In order to determine what we Canadians can or should do about strike and lock-out activity, we need to understand the causes of collective bargaining disputes. Undoubtedly, as with any complex phenomenon, there may be multiple causes of labour/management dissension. Nevertheless, it is useful to ask whether there is any general framework which might help us to understand collective bargaining disputes, and which might serve as an aid to forming work-life/policy decisions.

A simple explanation is that strikes and lock-outs result from bad personal relations between employers and employees and/or management and union leaders. These poor relations lead one or both sides to adopt unrealistic bargaining positions, reducing the likelihood of concessions that would lead to a settlement. This explanation is difficult to verify, for even if "bad personal relations" could be measured, how would one know whether the bad relations caused the strike or vice-versa? Nonetheless, poor relations may well be a factor, since the ability to see things from the perspective of the other side is an important ingredient in any negotiations.

Alternatively, union militancy or bargaining power has been seen as the primary source of strikes and lock-outs. If this view is correct, labour disputes should be more frequent at times when unions enjoy greater bargaining power, and work stoppages should occur more often in those industries, firms or regions where union bargaining power is greater. This theory is at least consistent with the general finding that strike and lock-out activity tends to increase in "booms" and decrease in recessions. There is, however, a serious logical difficulty with this theory: As long as both sides recognize that an increase in bargaining power has occurred, why should this increase make a strike more likely? In other words, variations in bargaining power should lead to variations in the size of wage settlements, other conditions being equal, rather than to variations in strike and lock-out activity. For this reason, more recent and more widely accepted explanations of collective bargaining disputes have tended to focus on the information available to the two parties and on the costs of a work stoppage to both sides.

Strikes and lock-outs impose costs on both parties. During a work stoppage, workers lose income, and a firm loses profits. More permanent losses may also accrue: some of the firm's customers who have turned to competitors during the shutdown may not return. If this happens, profits will be lower, and jobs will be fewer even after production resumes. If, then, strikes and lock-outs are costly to both sides, why do they occur?

In a world of certainty and of perfect information, resort to strikes and lock-outs should rarely, if ever, be made. Both sides would anticipate their point of settlement; thus, barring irrational behaviour, they would agree to that outcome and avoid the costs of a shutdown. In any bargaining situation, however, each side will be somewhat uncertain about the willingness of the other to make concessions and about the other's "true" minimum demands. This lack of certainty leads to strategic behaviour, such as bluffing, since it is in the interest of each side to convince the other that they are less willing to yield than, in fact, they are. Imperfect information will result in divergent expectations that will elicit different responses to changes in the external economic environment. Moreover, it will usually not be in either side's interest to reveal its own private information, as this revelation might make its behaviour more predictable.

These factors indicate that collective bargaining is a complicated "game" in which uncertainty and imperfect information can lead to impasses, despite the costs to both sides. In choosing whether or not to make a concession, each party will weigh the risk of an impasse against the possibility of a relatively unfavourable outcome for its own side.

The repetitious nature of collective bargaining situations can also be important. Today's strike or lock-out, despite its costs, might enhance one side's reputation for "toughness", making its threats more credible in the future. Through repeated bargaining, the two sides might learn about each other's preferences and behaviour. Both these factors suggest that work stoppages should be more likely to occur in relatively new collective bargaining situations, rather than in mature established ones. The first factor tends to this conclusion because there is a stronger incentive for both parties to invest in their reputations when those reputations are not yet established. The second factor tends in the same direction because the gradual accumulation of each side's knowledge about the other should make impasses less likely. The dramatic growth in unionization that has taken place since the mid-1960s brought many new participants into the collective bargaining process. This explanation may account for the escalation of employment-related disputes that has been observed during the same period.

A further complication of collective bargaining is that there are three parties involved: management, the union leaders, and the union membership. Information flow among all three groups can be important. One well-known explanation of strikes devolves from the workers' expectations of a settlement. If these expectations are higher than the firm can afford, the union leaders, who are likely to be better informed than the members about the firm's ability to pay, may recommend a strike rather than attempt to persuade the membership to lower its expectations. The latter is a risky strategy for the

union leaders to follow, as it makes them appear to be taking the firm's part in the negotiations.

Information-based explanations thus treat strikes and lock-outs as a hazard of collective bargaining in the same sense that accidents are a hazard of travelling. Just as more accidents occur under poor driving conditions, so more strikes and lock-outs occur under poor economic "driving conditions". When economic conditions are stable, impasses are less likely to occur. Both sides will recognize at what point they are likely to settle, and both will prefer to reach that point without incurring the cost of a work stoppage. When economic conditions are rapidly changing, however, it is more difficult for the two parties to anticipate the likely point of settlement, and a strike or lock-out becomes more probable, despite the costs it represents to both sides. While uncertainty and imperfect information do play an important part in the occurence of impasses, both parties, in coming to their negotiating decisions, will nonetheless take into account the potential costs of a strike or lock-out. Thus, the greater the possible costs to both sides, the less likelihood there is that an impasse will develop.

Alternative explanations have quite different implications for policy with respect to strike and lock-out activity. Explanations that focus on bargaining power or union militancy typically lead to recommendations for reducing union power. If bad personal relations are an important cause of labour disputes, policies such as preventive mediation, which attempt to improve relations between employer and employee representatives, should reduce the number of work stoppages. Explanations which cite imperfect information typically lead to recommendations for increasing the quality and quantity of information available to the bargaining parties. Emphasis on the joint costs of strikes and lock-outs leads to the recommendation of policies that will raise the costs of reaching an impasse.

A study prepared for this Commission concludes that Canada's relatively high number of strikes and lock-outs and the increased incidence of work stoppages over the past 20 years can be explained in terms of several factors relating to the information required of, and available to, the negotiating parties.[6] The openness of the Canadian economy, the importance of cyclically unstable industries, such as mining, which have high strike/lock-out rates, the large number of items covered by North American collective agreements, the decentralized nature of collective bargaining, and the absence of institutional mechanisms for the exchange of information among employers, employees and the union leadership all contribute to a high level of work stoppages compared to that of other countries, which generally do not share all of these characteristics. According to this explanation, the increased extent of strike and lock-out activity since the mid-1960s is partly the result of the increased volatility of the economic environment, which has been evident over the same period. Canada's strike and lock-out activity has increased more than that of the United States because of the greater openness of our economy and our greater sensitivity to fluctuations in resource and commodity prices.

This Commission recognizes that these various structural features of the Canadian economy and labour-relations system may well contribute to

Canada's high levels of strike and lock-out activity. Some of these features, such as our nation's industrial structure, should clearly not be altered in order to reduce the number of collective bargaining disputes. Other features, however, are worth examining to this end. Commissioners have therefore examined a number of means of reducing the incidence of work stoppages.

Labour/Management Co-operation and Improved Sharing of Information

In this Commission's view, increased co-operation and consultation among management, workers and their union representatives would improve their personal relationships and thus reduce the number of strikes and lock-outs; these improvements would also confer other important benefits on those directly involved and on Canadian society in general. Because of the importance that this Commission attaches to this proposition, we shall deal fully with the topic in "Labour/Management Co-operation", later in this chapter.

Shorter Contracts

Shorter contracts, requiring more frequent negotiations, would allow fewer problems to accumulate during a contract period. Negotiations of such contracts would be subject to less uncertainty about the future, for economic conditions two or three years ahead are usually much less predictable than those of the next year. While more frequent negotiations would increase the number of opportunities for engaging in strikes and lock-outs, they could also be expected to reduce the propensity to strike or lock out and the length of such impasses as would occur.[7] They would thus reduce the extent of strike and lock-out activity.

In Commissioners' opinion, the higher propensity to strike and lock out associated with longer contracts can be reduced through more frequent contact between labour and management during the contract period; this result would come about through greater use of joint consultation and other mechanisms for improved labour-management co-operation. This Commission, therefore, does not favour restricting contract length as a means of reducing strike and lock-out activity.

More Centralized Collective Bargaining Structure

The structure of collective bargaining in Canada is highly decentralized and fragmented. Most negotiations occur between an individual union and an individual employer, often at the level of an individual establishment. Many employers deal with several unions in the same establishment. Some analysts have suggested that this fragmentation of bargaining units is one factor accounting for our poor strike and lock-out performance, and they have proposed the remedy of broader-based bargaining: that is, bargaining on a plant-wide, industry-wide, or even province-wide basis. There is a two-fold logic behind their proposal. Its first aspect has to do with the number of strike

or lock-out opportunities, and the second has to do with the costs of a work stoppage to the two sides. More broadly-based bargaining obviously reduces the number of strike or lock-out opportunities by reducing the number of separate sets of negotiations. If a work stoppage does occur, however, it will involve more employees and, if it requires industry-wide or province-wide bargaining, more employers. Thus while broadening the bargaining bases should reduce the number of work stoppages, the effect on time lost to work stoppages is less clear. Still, the fact that a work stoppage involving more employees and employers would raise the costs of a strike or lock-out to both sides should increase the pressure on both to negotiate a settlement.

At first glance, international comparisons do seem to support the view that more-centralized collective bargaining structures would reduce the number of strikes and lock-outs. Countries with centralized bargaining systems, such as Austria, Norway, Sweden, Germany and the Netherlands, have also been characterized by a low incidence of strikes and lock-outs. France, Italy, the United Kingdom, the United States and Canada, which have less-centralized bargaining systems, are characterized by relatively high levels of collective bargaining disputes, as Table 17-4 shows.

Before we Canadians draw any firm conclusions from these data, however, we must recognize that the countries with centralized bargaining systems also have other characteristics which contribute to their low incidence of strikes and lock-outs. These attributes include highly developed welfare states, high levels of unionization, a labour movement with significant political influence, and extensive use of tripartite incomes policies. In these countries, the scope of collective agreements is much less extensive than in Canada; that is, many non-wage employment benefits are regulated by the state rather than negotiated with employers. One well-known view is that the combination of these attributes has reduced strike and lock-out activity by transferring conflict over income distribution from the industrial to the political arena.[8]

Experience with more broadly-based bargaining in Canada indicates that centralization cannot be expected to achieve favourable results in all cases, but that it can do so in particular situations. Broader-based bargaining structures are relatively more common in British Columbia and Quebec than in the rest of Canada. The British Columbia Labour Code allows the province's Labour Relations Board to create councils of unions if the Board believes that to do so would be in the public interest. Provincial legislation also facilitates consolidation on the employer's side by allowing for the common accreditation of groups of employers as bargaining agents, and a number of employers have followed this route. In other jurisdictions, such accreditation legislation is usually confined to the construction industry. In Quebec, province-wide negotiations between employers and unions, relating to the staffing of hospitals and schools operating under supportive legislation, largely account for the degree of centralization.

In response to the problems of the construction industry, which were evident both in escalating conflict and in inflationary wage settlements, several provincial governments introduced accreditation legislation during the late 1960s, in order to facilitate employers' acquisition of countervailing power. Following this process of consolidation, construction-wage increases

fell more into line with those of other industries. This change suggested that broader-based bargaining had some effect in moderating wage increases, even in the face of strong construction demand. A detailed case study concluded that centralized bargaining in the industry has been associated with more stable wage scales and across-the-board settlements which apparently reduced "leapfrogging" among trades.[9] The effect on strikes and lock-outs was, initially at least, less favourable. While the number of labour disputes within the construction industry declined during the 1970s, following consolidation, working-days lost increased dramatically. Although strike activity increased generally during the 1970s, the problem in the construction industry became notably worse as work days lost rose to three times the all-industry average. British Columbia and Quebec, where structural change was greatest, had the worst construction-strike records of the 1970s. Recent studies suggest, however, that greater stability has returned to the construction industry in these two provinces as broader-based bargaining has gained acceptance.

A highly negative assessment of centralization emerges from a recent study of public sector bargaining in Quebec.[10] On the one hand, bargaining between a union common front and provincial government management has eliminated the potential fragmentation of separate negotiations by 12 unions, five centrals and at least five separate management organizations. The "hypercentralization" of the present system has not, however, eliminated fragmented action in the form of wildcat strikes. Intra-organizational conflicts have broken out on both sides, and the distance separating workers, local managers and the collective bargaining process has increased. Collective bargaining has also become an important political event. Moreover, strikes in every bargaining round since the early 1970s (representing over six million lost work days) have sparked discussions of restrictions on the right to strike and challenge the whole system of collective bargaining in Quebec's public sector.

These cases paint a less-than-optimistic picture of the general effect of centralization on time lost to strikes and lock-outs. Nevertheless, some public policy experience, notably in British Columbia, does point to the value of consolidation in specific areas. The experience with the formation of multiple unions in the shipyards of Vancouver in 1966 and the creation of a union council for the BC Rail Ltd. in 1976 appear to have turned out more favourably. The latter move was the most significant factor in reducing the frequency and length of work stoppages, as well as securing their easier resolution.[11]

Railways, shipyards and construction all represent examples of strike-prone interdependent operations historically characterized by craft fragmentation. In such operations, a strike by any one group can produce a total shut-down. These cases would seem to constitute the most promising area for selective intervention. As a general goal of public policy, however, centralization does not appear to be a panacea and may actually be detrimental to industrial peace. In fact, centralization can be expected to have largely negative consequences for the representation and bargaining processes. These consequences include a reduction in local flexibility and autonomy for both

management and workers, and restriction of the scope for worker participation. As a result, workers may become alienated and frustrated. Intra-organizational conflict also becomes more likely, making negotiations a longer and more costly process.

The limited evidence that is available from case studies broadly supports this negative perception. One study, based on an investigation of the public service in Saskatchewan, concluded that centralization generally slowed the bargaining process by lengthening negotiations.[12] The slow-down occurred partly because of the need to consult with more people, and partly because of the greater visibility of centralized settlements and a reluctance of bargaining units to settle before other groups. Intra-organizational bargaining problems also intensified as negotiations became more highly centralized, and bargaining was based on smaller understanding of day-to-day operating problems. Local management handled grievances with less flexibility, for instance, and this reduction caused problems in local labour/management relationships. This result was attributable, to a significant extent, to a decline in management interest and willingness to devote time to matters now seen as others' responsibility. Centralization also appeared to narrow the range of issues discussed at the bargaining table. Another study of a sample of public mass-transit organizations in the United States reported equally negative consequences of centralization for worker participation.[13]

Evidence taken from international comparative analyses also suggests that under centralized bargaining systems, shop-floor workers and union members lack influence in the collective bargaining process. This problem appears to be particularly acute among minority groups within unions, including women, younger workers and "guest" workers. In Europe and especially in Sweden and Germany, dissatisfaction with lack of representation has been advanced as one explanation for the outbursts of wildcat-strike activity that occurred in the late 1960s.

Legal Regulation of Strikes and Lock-outs

The right to strike or to lock out is heavily regulated in Canada as compared to other countries. This regulation takes three main forms. One, common to most jurisdictions in the post-war period, makes strikes or lock-outs illegal during the term of a collective agreement and imposes grievance arbitration for resolving disputes relating to the interpretation of that agreement. This situation is different from that in the United States, for example, where the parties are usually free to strike or lock out during the term of a collective agreement or to negotiate an agreement which provides for grievance arbitration of any disputes which may arise. The second regulation relates to disputes which arise in negotiating a collective agreement; it typically requires resort to compulsory conciliation before a strike or lock-out can occur. Such provisions have been a feature of Canadian legislation since the early 1900s. In addition to the time requirement of the conciliation process, several jurisdictions impose a "cooling-off period", after which a strike or lock-out becomes legal, and some jurisdictions provide for the arbitration of a first

contract in the event of an impasse. Most jurisdictions also stipulate a mandatory strike vote, which requires that the union members vote in favour of a strike before it can occur. Some jurisdictions also allow the employer the option of requesting a vote on the employer's last offer prior to a strike. The third regulation makes strikes over the issue of union recognition illegal in most jurisdictions.

In the first section of this chapter, Commissioners noted that most of the legislative changes made to Canadian collective bargaining law in this century were intended to control or avoid work stoppages, and that the right to strike or lock out is heavily regulated in Canada, relative to other countries. Yet, as we have seen, our incidence of collective bargaining disputes is very high by international standards. This might suggest that our law has been ineffective, perhaps even perverse, in attempts to reduce work stoppages. This conclusion should not, however, be hastily accepted. It is possible that the level of work stoppages in Canada would have been even higher in the absence of these various regulations controlling the use of the strike or lock-out weapon. We noted earlier that a number of structural features of the Canadian economy and the world economic environment since the mid-1960s may account for Canada's relatively high level of work stoppages. Moreover, a recent empirical study has concluded that certain features of Canadian labour legislation had a significant effect on strike incidence.[14] In particular, compulsory conciliation was found to reduce strike incidence in those jurisdictions and time periods in which that requirement obtained. The effect of compulsory conciliation was found to be stronger when it involved a conciliation board, with its power to recommend a settlement. The requirement for a mandatory strike vote also reduced significantly the probability of a strike, while the cooling-off period and the employer-initiated strike vote tended to increase the likelihood of strikes.

Some of the existing labour legislation, such as compulsory conciliation, may well be having its intended effect. Commissioners believe, however, that the scope for further legislative initiatives to reduce the incidence of collective bargaining disputes is probably very limited. Lower levels of collective bargaining disputes are more likely to result from increased co-operation, consultation and exchange of views and information between labour and management than from additional legislated restrictions on the use of the strike or lock-out.

Reassigning the Third-Party Costs of a Dispute

Can governments reassign the costs of strikes and lock-outs? The costs of some disputes are borne primarily by the two parties involved, in the form of reduced income and profits, so that there is little reason for public policy involvement. In other instances, the dispute will result in significant costs being borne by third parties, often customers or suppliers. Again, there may be costs to society as a whole if the stoppages affect Canada's reputation as a dependable supplier, or if they change the decisions of firms to locate and invest within our borders. In these circumstances, the social cost of the dispute exceeds the private cost to the negotiating parties. These are the

situations in which there is a clear role for public policy, which could deal with these situations in a variety of ways. One is to require the disputing parties to compensate the affected third parties, thus ensuring that the disputing parties take more fully into account the social costs of their decisions and actions. Although this procedure is appropriate in principle, it runs into serious practical difficulties which make it appear impracticable. Governments could try, instead, to reduce the third-party costs of such disputes. They could accomplish this aim and confer other significant benefits, as well, by encouraging competition and thus increasing the availability of substitute goods or services for consumers. This option, therefore, has considerable appeal. In some situations, governments are responsible for the erection of barriers to competition in the first place. The postal service provides a useful example here: to allow greater competition in the delivery of mail and parcels would confer important benefits on our society, including reduction in the social costs of labour disputes within the postal system. Indeed, it appears that the third-party costs of a disruption in postal service have declined in the past decade, because of the growth of other delivery services.

When labour disputes are significantly affecting third parties and it is neither possible nor socially desirable to encourage competition, governments stand in a difficult position. On the one hand, intervention to end the dispute will undermine the collective bargaining process in the long run. On the other hand, governments will come under severe pressure from the affected public to "do something". Most of these situations occur in the public and quasi-public sectors. Commissioners' concern is that if a method is not found for dealing with these situations, governments will retreat from the existing right-to-strike provisions and possibly even from the right-to-collective-bargaining provisions.

Governments' current method for dealing with these situations is to allow the dispute to continue until public pressure builds sufficiently to mandate intervention and then to use back-to-work legislation. As Table 17-2 demonstrates, the use of such emergency legislation has been increasing dramatically in recent years. This pattern of response has the unfortunate effect of making such disputes more likely in the future because it reduces the expected cost of the strike or lock-out to the negotiating parties. That is to say, if the firm or the workers expect that they will be legislated back to work, they will anticipate a short strike or lock-out that will cost them relatively little. Such expectations are quite reasonable, given the pressures on governments and, indeed, their past behaviour, as evident in Table 17-2. In these circumstances, it is reasonable to ask whether there is a viable alternative to the strike or lock-out as a method for resolving impasses. The alternative that has been chiefly employed is arbitration.

Interest Arbitration

The use of interest arbitration has grown substantially in Canada over the past 20 years, simultaneously with the growth of unions in the public and quasi-public sectors. Although its use varies across jurisdictions, arbitration is

widely used among hospital workers, police, firefighters, teachers and government employees. In some instances, arbitration is imposed by statute; in others, the parties may choose it; and occasionally, it is employed on an *ad hoc* basis as part of back-to-work legislation in particular disputes. Its two main forms are conventional arbitration, in which the arbitrator chooses an award after hearing arguments and evidence from the two parties, and final-offer arbitration, in which the arbitrator, after receiving briefs and hearing evidence, must choose either the employer's or the union's final offer. Conventional arbitration is by far the most widely employed system in Canada. In the United States there has been more experimentation with final-offer arbitration and its variants.

Arbitration, like the strike or lock-out, is intended to be used infrequently, in those circumstances where the two parties are unable to reach agreement. An important consideration, then, is the effect of arbitration on the incentives of each side to make concessions and, ultimately, to converge on a settlement. One concern is that the availability of arbitration as a dispute-resolution mechanism would reduce the parties' incentives to reach a negotiated settlement; this possibility is referred to as the "chilling effect" of arbitration. It would occur, for example, if arbitrators tended to "split the difference" between the two parties' positions. Another concern is that when arbitration represents the ultimate mechanism for choosing a settlement, one or both parties will simply "go through the motions", but withhold the time and effort required for serious negotiations. Over time, both might rely more and more on arbitration to determine wages and working conditions; this possibility is referred to as the "narcotic effect" of arbitration.

Evidence for the validity of these concerns is inconclusive. There is some which suggests that the parties might experience the narcotic and chilling effects of arbitration. If these effects do occur, however, they advance so slowly and mildly that their very existence is still debated. Thus there is little evidence to support the view that collective bargaining will disappear when arbitration is used as a dispute-resolution mechanism.

Final-offer arbitration has the advantage of offering the disputing parties greater incentives to reach a negotiated settlement, for the longer they delay doing so, the greater the risk that the arbitrator will choose the other side's final offer. This method, however, has disadvantages as well as advantages. There are a clearly identified "winner" and "loser", and the arbitrator may be forced to choose between two extreme and unworkable awards. Experiences with final-offer arbitration (most of them in the United States) suggest that these negative concerns are largely unfounded, and that a higher proportion of negotiated settlements is achieved under final-offer arbitration than under the conventional type. Nevertheless, experience of final-offer arbitration is limited, and more experiments will be needed before a more conclusive judgement on the merits of the two types can be reached.

Another important consideration relating to the use of arbitration is the effect on wages. Evidence on this matter is mixed: several studies show no systematic difference on this score between arbitrated and non-arbitrated settlements, although most indicate that a slight upward bias in wages does occur in arbitrated awards. Assessors of this evidence should keep in mind,

however, that the existence of arbitration as a dispute-resolution mechanism can be expected to change negotiated settlements. That is to say, in the process of negotiation both disputing parties will consider what an arbitrator is likely to deem an appropriate award. Thus arbitration will effect not only arbitrated awards, but also settlements negotiated under the threat of arbitration. As a result, arbitration could be affecting wages even if no systematic difference is observed between arbitrated and non-arbitrated wage settlements.

Debate continues on the question: To which factors should arbitrators give the greatest weight to in devising an award? The main criteria used by arbitrators, in decreasing order of importance, appear to be comparability with wages earned by similar workers, changes in the cost of living, and the employer's ability to pay. Other factors, such as productivity of the work-force and the achievement of minimum living standards, receive little weight. The emphasis given to comparability and living costs is probably greater than that assigned by settlements negotiated under the threat of strikes or lock-outs. Similarly, arbitrated awards probably place less emphasis, in comparison to other factors, on the employer's ability to pay and on productivity.

We Commissioners recognize that Canadian experience with arbitration as a dispute-resolution mechanism is limited, and that the practice is continuing to evolve. Nevertheless, experience to date indicates that arbitration does provide a viable alternative to the strike or lock-out in those situations where the third-party costs of a work stoppage are deemed by society to be excessive. Predictions that collective bargaining would wither away with the use of arbitration have not been realized. Wage settlements negotiated under arbitration or under the threat of arbitration are likely to depend more on factors such as compensation comparability and the cost of living, and less on the relative bargaining power of the two sides. Experience to date does not suggest, however, that arbitrated awards are likely, on average, to be excessive. In this Commission's view, therefore, repeated use of back-to-work legislation is probably more harmful to collective bargaining than the requirement that disputes be resolved by arbitration.

Notes

1. The well-publicized but less-than-fully-understood slow-down in productivity growth has probably played a part as well. There is, however, no conclusive evidence to link the productivity slow-down to a deterioration in labour/management relations.
2. "We Can't Afford This Strike Record", *Financial Post*, August 27, 1983.
3. For more detailed statistics on strike and lock-out activity, see Robert Lacroix, "Strike Activity in Canada", in *Canadian Labour Relations*, vol. 16, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), on which several parts of this section are based.
4. Time lost per union member averaged 2.5 days per year over the 1966 – 83 period, compared to 1.5 days per year for 1946 – 65, an increase of 67 per cent.
5. See Table 14 in Lacroix, "Strike Activity in Canada".
6. See Lacroix, "Strike Activity in Canada".

7. A recent Canadian empirical study by Jean-Michel Cousineau and Robert Lacroix, "Why Does Strike Activity Vary Over Time and Between Industries?" (Montreal: Université de Montréal, 1983) found that the shorter the length of the previous contract, the lower was the probability that a strike or lock-out would occur in a particular set of negotiations, if other factors were held constant.
8. Douglas A. Hibbs, "On the Political Economy of Long-Run Trends in Strike Activity", *British Journal of Political Science* 8 (April 1978): 153–75.
9. See Joseph B. Rose, *Public Policy, Bargaining Structure and the Construction Industry* (Toronto: Butterworth, 1980).
10. See Gérard Hébert, "Public Sector Bargaining in Quebec: A Case of Hypercentralization", in *Conflict or Compromise: The Future of Public Sector Labour Relations*, edited by Gene Swimmer and Mark Thompson (Montreal: Institute for Research on Public Policy, 1984).
11. See K. Strand, "Altering Union Bargaining Structure by Labour Board Decision", in *The Labour Code of British Columbia in the 1980s*, edited by J.M. Weiler and P.A. Gall (Vancouver: Carswell, 1984).
12. See Daniel G. Gallagher and Kurt Wetzel, "Centralized Multi-Employer Negotiations in Public Education: An Examination of the Saskatchewan Experience", *Journal of Collective Negotiations* 9 (1980): 281–95.
13. See J.L. Perry and H.L. Angle, "Bargaining Unit Structure and Organizational Outcomes", *Industrial Relations* 30 (1981): 47–59.
14. Morley Gunderson, John Kervin, and Frank Reid, "The Effect of Labour Relations Legislation on Strike Incidence" (Toronto: University of Toronto, 1985).

Labour/Management Co-operation

There is a widespread view that Canada's labour-relations system is too adversarial in nature, and that Canadians should move toward a more co-operative system marked by stronger emphasis on problem solving, more consultation, and deeper mutual respect and trust. This view was expressed many times at this Commission's hearings, by individuals and groups with a wide variety of backgrounds and perspectives. It is also held by many Canadians involved in collective bargaining, and by many who devote much of their time and energy to the study and analysis of that process. Our history in this area reveals several attempts and failures to make labour relations less controversial, and any objective assessment of prospects must take this history into account.

At present, in Canada and elsewhere, there is considerable interest in, and experimentation with, various forms of employer/employee interaction that depart from the traditional authoritarian and adversarial mould. Some of this increased interest is undoubtedly a result of the recent severe recession and the pressures for adjustment it brought; increased interest in improving the general climate of industrial relations seems to be characteristic of times of economic stress. It appears, however, that some of these pressures are more permanent in nature.

This Commission shares the view of many Canadians that increased consultation and co-operation between labour and management should be an objective of Canada's labour-relations policy, as well as of employers and employees generally. While there will always be some adversarial aspects to labour/management relations, Commissioners consider that there has been too strong a focus on "dividing up the pie" and too weak a concern about the "size of the pie". Increased co-operation and consultation, although not without some costs, can yield significant benefits in the form of a more enjoyable work environment for employees. Broader employee involvement in planning and decision making can result in improved productivity, better product quality and more competitiveness. Each of these improvements can benefit both employers and employees by producing higher profits *and* wages, as well as more employment opportunities. In addition, the need for flexibility and adaptability in our economy is more likely to be met in an open labour-relations environment. Finally, reductions in labour/management conflict, expressed through strikes, lock-outs, grieving and other procedures, should also occur.

To examine the prospects for bringing about a less adversarial labour-relations climate requires that we consider the incentives for, and obstacles to, increased co-operation and consultation, the role of government in labour relations, and institutional mechanisms for dealing with this important area of our national life. There is a variety of mechanisms for achieving a less-adversarial labour-relations environment that is more directly oriented to problem solving. We turn now to a consideration of some of these mechanisms.

Preventive Mediation Programs

These programs attempt to improve relations between union and management representatives. Conciliation officers and mediators, who are assigned to assist parties involved in collective bargaining disputes, see numerous instances of poor relations among representatives of labour and management. They may recommend, therefore, that these two groups take part in a preventive mediation program, which helps the parties to achieve a more mature and constructive relationship. This process takes place in the absence of the pressures involved in negotiating a particular contract.

The Ontario Ministry of Labour's Preventive Mediation Program[1] has three components: establishment of Joint Action Committees, made up of representatives of labour and management, to improve communication between the two groups; a relationship-improvement program to develop the attitudes necessary for rebuilding strained relationships; and a joint training program to provide stewards and supervisors with improved methods for maintaining better relations.

Experience with these programs is limited, and the degree of their success is difficult to measure. Generally, however, the participants in, and administrators of, the programs consider them effective, and there have been some notable successes. To some extent, of course, success may be related to the fact that programs are implemented only when the two parties demonstrate a commitment to improving their relationship. At any rate there appear to be no serious obstacles to the use of these programs, in which governments are involved as facilitators and neutral third parties.

This Commission judges that preventive mediation programs can contribute to improved labour/management relations and can help to reduce collective bargaining disputes. These programs might also help to create the conditions needed for adoption of innovative approaches to improving labour/management relations such as Quality of Working-Life programs.

Quality of Working-Life Programs

Quality of Working-Life (QWL) programs involve employer-employee collaboration in the planning and structure of the work-place and the work process. They focus on employer/employee interaction, rather than on interaction between union and management representatives. Their primary purpose is to improve job satisfaction by enabling employees to achieve more variety, scope and autonomy in carrying out their tasks. QWL programs require a change in management attitudes and practices, away from an authoritarian style towards a more facilitative, consultative and advisory one. They proffer one strategy for achieving worker participation at the level of the individual or small group, and for extending collective bargaining beyond its traditional union-leader/management-representative type of interaction. Further, they are intended not just to improve labour/management relations, but also to engage employees and supervisors or other managers in efforts to improve total organizational effectiveness.

Some governments have enhanced the expanding public interest in QWL programs. The Ontario Department of Labour, through Ontario's Quality of

Working Life Centre, disseminates information to workers and employers about the potential benefits of employee involvement at the work-place and has fostered new innovative work arrangements in the province. Labour Canada, through its QWL Division, supports initiatives, disseminates information, and sponsors conferences and studies.

There are a number of outstanding examples of particular QWL projects in Canada. The Shell Canada Limited chemicals plant in Sarnia provides one famous example. In 1975, the company decided to discontinue traditional methods of organization and job design in order to increase organizational effectiveness and meet the needs of workers. Its QWL program is based on the belief that workers are responsible, trustworthy, capable of self-regulation, and interested in grasping opportunities for decision making and growth. Design objectives included the reduction of shift work, a modification of pay systems, the elimination of artificial jurisdictional boundaries, the improvement of communications systems, and the adoption of more effective problem-solving practices. The union was involved in the entire program. So far, the results of the program have been excellent. The effectiveness of the work force has been enhanced by training a given employee to perform in a number of skill areas, by improving communications and problem-solving practices, and by involving workers in significant consultation on all matters. Labour/management relations in the plant are said to be highly satisfactory.

While several QWL programs have produced successful results, many have been failures. Measures of overall success are not available, but the experience of Ontario's Quality of Working Life Centre suggests that the attrition rate of these programs is high, probably about 50 per cent. Moreover, diffusion is slow, suggesting either that there are few circumstances in which these programs are likely to give successful results, or that there are obstacles to their adoption. The main obstacles appear to be scepticism on the part of management, together with a reluctance to deviate sharply from traditional methods of decision making and organization, and concern on the part of organized labour that QWL programs may be an attempt to discourage unionization in a non-union setting.

A certain amount of scepticism and reluctance to alter traditional methods is natural, and probably even desirable, in an uncertain world. Nonetheless, this Commission believes that the evidence to date, while limited, suggests that QWL programs can help to improve employee morale and job satisfaction, and promote organizational effectiveness and productivity. To the extent that this is so, these programs should come into wider use, since employers and employees will find them to their common benefit. Governments can play a useful supportive role, providing information on the likelihood of implementation and success of these programs. The Ontario Quality of Working Life Centre can serve as a useful model of this facilitating role.

Japanese-Style Human-Resource and Management Practices

The remarkable success of the Japanese economy, especially with respect to productivity and real-wage growth, has focused attention on various features of the Japanese economic system, including its human-resource and

management practices. Compared to North American ways, these practices involve greater emphasis on achieving consensus within an organization and much broader use of consultation with employees and union representatives at all levels within a firm, in advance of key decisions affecting the well-being of employees.

The Japanese labour market and labour-relations system has a number of other unique features which have contributed to its remarkable performance. These include lifetime employment for a significant fraction (about one-third) of the labour force, the seniority-wage system, extensive use of bonus payments, enterprise unionism, and annual wage bargaining. While these features are very important and have numerous consequences, we shall consider here primarily the extensive use of consultation between employers and employees in Japan. It is important, however, to keep in mind that these other institutional features interact with and support the widespread use of consultation and consensus formation.

The Japanese employ a variety of mechanisms for achieving co-operation and employing consultation at various levels of their economy.[2] At the shop-floor level, there are quality-control circles. At the plant level, there are union-management consultations, collective bargaining procedures, and grievance-handling mechanisms which do not rely on third parties. In addition, joint labour/management consultation is common in non-union firms. At the industry level, industrial union federations and employer federations for that industry meet regularly to exchange information and views and to engage in annual wage negotiations. At the national level, unions, employers and government engage in tripartite consultations. In addition, union and management representatives jointly operate the Japan Productivity Centre.

Quality-control circles consist of informal discussion sessions in which small groups of workers (usually eight to ten employees along with the relevant supervisor) make suggestions for improvements to the organization of work, the production process, the product line, and so on. These sessions have been found to contribute, not only to higher productivity, greater profitability and improved product quality, but also to the quality of industrial working life. They thus share important features with QWL programs in that they are focused on employee-employer interaction at the small working-group level and on discussing methods for improving the organization of work to the benefit of both employees and employers.

Joint consultation is widely used in both unionized and non-unionized firms. In unionized firms, this practice complements and overlaps with collective bargaining. Matters such as the health of the enterprise, investment plans, the introduction of new technology, changes in organization, mergers and sub-contracting are not usually covered by collective bargaining, but are dealt with under joint consultation if they significantly affect the work-place and working rules. Japanese employees thus operate in an environment in which they are informed and consulted about matters which might materially affect their well-being. In Canada, by way of contrast, most employers are considerably less open with their employees.

The development of Japan's joint consultation system is worth reviewing. Joint councils were set up by the Allied Occupational Forces following the Second World War, as part of an attempt to democratize Japanese enterprises and encourage the formation of unions and the process of collective bargaining. Unions within the joint council structure pressed for an equal role in the running of the enterprise, and a number of significant strikes took place over this issue. The result of these and later legislative changes was the emergence of a system of "management rights" similar to those common in North America: that is to say, management took responsibility for making decisions about the introduction of new technology, production and employment matters, and other important concerns.

At this point, the Japanese industrial relations system might well have begun to evolve along the adversarial lines of the North American system, on which the Allied Occupational Forces had partly modelled it. However, beginning in the mid-1950s, when the government initiated the "Productivity Movement" and moderate leaders of labour and management formed the Japan Productivity Centre (JPC), joint labour/management consultation entered a phase of substantial growth and development. The JPC played an important part in this development by promoting joint consultation as a means of bringing about the co-operation between labour and management that was necessary for the introduction of new and more productive technology into the work-place.

In the mid-1950s, the initial efforts at joint consultation focused on the attempts to modernize Japanese industry. In those years there were numerous, often violent, labour disputes because unions considered these issues to be threats to job security, and employers held them to be production matters within their own discretion. Nevertheless, labour/management consultation became more widespread, and at the same time, it broadened in scope to include discussion of details of corporate operations, medium- and long-range plans, recruitment and personnel practices, and many other aspects of working life.

While joint consultation is conducted within a framework wherein the employer is assumed to have the final power of decision over matters that are not incorporated into a written collective agreement, in the majority of instances, there is considerable effort to achieve consensus before any significant change is implemented. In addition, surveys indicate that only about 10 per cent of firms act unilaterally when management and labour fail to reach consensus.

The JPC has played an important role in improving labour/management co-operation in Japan over the past three decades. Initial funding for the JPC was provided by government, but it was understood that the Centre was to be run by labour and management representatives, along with prominent academics. The JPC's activities were to focus not only on the improvement of technical and managerial efficiency, but also—and primarily—on the improvement of labour/management relations in Japan. Initially some unions were reluctant to participate in the JPC and to join the Productivity Movement, fearing loss of jobs from the rationalization of plants and apprehensive that increased

productivity simply meant working harder and faster for the benefit of the owners and managers of the firm. Other unions, however, foresaw long-term benefits in the Productivity Movement and agreed to participate when it became clear that the union movement could do much to develop the Centre's beliefs and activities. The formal statement of these guiding principles was instrumental in overcoming the suspicions of unions and persuading almost all private-sector unions to participate actively in the Productivity Movement. The Centre stressed the importance of long-term employment gains from increased productivity and the need to minimize any short-term/employment consequences; the need for co-operation and consultation concerning the introduction of measures to increase productivity; and the advantage of making a fair distribution of the fruits of improved productivity among management, labour and consumers.

The JPC promoted technical exchanges between Japan and the United States, educated management about ways of improving productivity, and championed the development of joint consultation as a means of improving labour relations. This last contribution may well have been its most important. Joint consultation now exists in approximately 95 per cent of Japanese firms employing over 300 workers.

Joint consultation represents only one aspect of the Japanese labour relations system, and it is difficult to assess its effect, independent of other aspects, on Japan's remarkable economic performance. Nonetheless, most observers believe that the joint consultation system and the Japan Productivity Centre have made an important contribution to Japan's post-war economic experience, especially in facilitating the process of technological innovation. Lifetime employment and seniority-based wages, however, may be equally important factors.

There are different views about the extent to which Japanese human-resource and labour-relations practices can be implemented with similar success in other countries. At issue is the extent to which Japan's success depends on cultural factors as compared to the nature and structure of the policies themselves. An examination of Japan's industrial relations system in the post-war period suggests that the importance of cultural factors to the Japanese experience may have been overstated. A study team representing the Organisation for Economic Co-operation and Development (OECD), while placing considerable emphasis on cultural differences between Japan and Western countries, nonetheless concluded:

> *This is not to say that other countries cannot learn from the Japanese experience. In this respect perhaps the most important observation is to appreciate what can be accomplished towards both national prosperity and improvement in workers' conditions by the single minded co-operation of labour and management within the enterprise. Coupled with this, at least in the best Japanese enterprises, is the confidence that important decisions, even if they do not satisfy everyone, will be reached by consensus and are not likely to result from management using a strategically powerful position to achieve something at the expense of the workers, or workers using their power to make management accept a policy which may be detrimental to efficiency.*[3]

A more recent assessment by a Canadian observer concluded:

> *I am not convinced that some of the worthwhile aspects of the Japanese industrial relations system are so culture-bound that we [Canadians] could not adopt them. My reading of the history of the development of the Japanese system is that many of these features were direct responses to economic problems the Japanese encountered in the fifteen years after World War II. I am sceptical about the claims that the key features of the Japanese labour relations system are based on cultural and spiritual traditions unique to Japan and thus qualitatively different from the situation in the West. Rather, I am persuaded that the various union-management cooperation mechanisms now operating in Japan were adopted by the parties precisely because it was to their advantage to do so. In other words, these devices were the product of the exercise by the parties of rational economic decision-making and organizational behavior analysis which I hope are not unique to the Japanese archipelago.*[4]

There are several parallels between the JPC and the recently established Canadian Labour Market and Productivity Centre (CLMPC). The funding of the CLMPC is provided by government, but the institution will be run by representatives of business and labour. At first the union movement was reluctant to participate, especially if the Centre's primary focus was to be on productivity, and some unions remain reluctant. Nevertheless, the CLMPC has survived the difficulties of birth and now has the potential to do much to improve Canadian labour/management relations to the benefit of employers, employees and consumers.

In assessing the possibility of implementing in Canada features of the Japanese labour-relations system, observers should keep two additional considerations in mind. First, an important structural feature of Japan's society is enterprise unionism. Enterprise unions are better suited to focus on concerns and issues at the level of the individual firm. Secondly, joint consultation is only one part of an integrated system. It is unlikely that Canadian employers could use quality-control circles to obtain results such as improved productivity and product quality without also adopting some other features of the Japanese system. These features include a more open and communicative management style; greater attention to employment stability and other aspects of employee well-being; more open sharing of information; and plant-wide bonuses.

Commissioners believe that there is considerable potential for, and great advantage to be gained from, the more widespread use of certain features (such as joint consultation) of the Japanese system in Canada. These features will, of course, need to be adapted to unique aspects of the Canadian setting. Further, we consider that the Canadian Labour Market and Productivity Centre can do much to facilitate these changes.

Gain-Sharing/Compensation Arrangements

Gain-sharing/compensation arrangements tie compensation to the economic performance of a plant, firm or industry. Besides the advantages accruing to

this type of compensation in terms of greater stability of employment and output, gain sharing has also been a means of achieving more effective work incentives, greater employee commitment and involvement, and improved productivity. Some observers see these arrangements as an important part of a package that includes a more open and participatory management style.

Gain-sharing plans are commonly of three types: profit-sharing, productivity-sharing and employee stock-ownership plans. Profit-sharing arrangements may be further divided into current-distribution and deferred-distribution plans. Current-distribution plans offer a cash (or other liquid-asset) payment shortly after profits are determined, while deferred-payment plans involve payment into a trust fund. Distribution usually occurs on retirement or termination of employment. It is possible to arrange combinations of current- and deferred-distribution plans.

Although considerable attention is being devoted at present to gain sharing, plans of this sort are by no means new. In 1887, Procter and Gamble established one of the first profit-sharing plans in the United States. Eastman Kodak followed in 1912, and Sears Roebuck and Company in 1916. The Scanlon Plan, a productivity-sharing arrangement which also emphasizes employee participation, began in the Depression as a means to save financially troubled companies and maintain employee earnings, though it became much more widely known when it was successfully applied to a profitable company in 1945.

Profit sharing is a fairly widespread practice in the United States. At present, there are about 285 000 deferred-distribution plans and approximately 80 000 current-distribution plans. According to the Profit Sharing Research Foundation, 26 per cent of U.S. manufacturing firms with 50 or more employees, over 30 per cent of retailers, and 44 per cent of banks and trust companies operate profit-sharing plans, and the number of these plans is apparently growing rapidly.

In Canada, profit-sharing plans are much less common. Since current-distribution plans need not be registered with Revenue Canada, their number is unknown, but it has been estimated at fewer than 1000.[5] Revenue Canada estimates that there were 26 000 deferred-profit/sharing plans in operation in December 1982. Many of these are "top hat" plans: that is, they pay benefits only to the principal shareholders of a corporation. According to the Institute of Profit Sharing, there were only about 1500 broadly based profit-sharing plans operating in Canada in 1978.

Productivity-sharing plans involve measuring the productivity of a plant or firm and then sharing the benefits of any productivity gains among participating employees and the firm according to some pre-arranged formula. The three commonly used productivity-sharing plans are Scanlon, Rucker and Improshare. Scanlon and Rucker both involve, in addition to financial incentive, an active committee system through which employees participate in the business. It is estimated that there are 200 Scanlon Plans in the United States and 10 in Canada. Improshare differs from the other two plans in linking employee bonuses to gains in physical output per person-hour, rather than to some measure of dollar savings, and in operating without an employee-participation system. In Canada, this plan is marketed by Woods

Gordon. The Improshare Plan operates in approximately 100 firms in the United States and in 16 firms in Canada.

Most employee stock-ownership plans (ESOPs) involve options that allow employees to make deferred purchases of company stock at current prices or serve as stock-bonus plans. The latter type involves benefits that are distributed in the form of company stock. Most of the interest in ESOPs exists in the United States, where tax incentives, enacted since 1970, have resulted in considerable development of these plans. In Canada, no tax incentives exist for ESOPs, and the extent of employee stock ownership is believed to be small.

Most of the research on the effects of gain-sharing/compensaton arrangements consists of case studies. Rarely have quantitative analyses been made which control for other factors, including the more open and participatory management style and labour/management-committee arrangements which often support gain-sharing plans. The available evidence does suggest, however, that these plans are associated with improved productivity and/or profitability, more satisfactory communication between employers and employees, improved labour/management relations, and better employee morale.

Conclusions

Several general conclusions emerge from the preceding consideration. Clearly, there are incentives for employers and employees and their representatives to adopt a more consultative and co-operative mode of interaction. For employees, the potential benefits of such a change are improved job satisfaction; better quality of work; the possibility of higher wages and better employment prospects if the firm's market prospects improve. For employers, benefits take the form of improved productivity and profitability, fewer labour disputes, and the lower rates of employee turnover and absenteeism that come with a better work environment. The existence of these incentives is important, for it implies that competitive pressures and rational decision making will push employers and employees in the direction of increased co-operation and consultation. There are, however, obvious obstacles, as well as benefits, for the movement in that direction is occurring slowly.

There is a need for more continuous contact between labour and management. At present, too much attention is focused on rule making: the periodic negotiation of a collective agreement. Commissioners anticipate considerable benefits from frequent contact between employers and the representatives of employees for the exchange of information and views on issues of common concern, away from the pressures of collective bargaining. The appropriate institutional mechanisms for such consultation will vary according to the circumstances, which sometimes involve neutral third parties. Whatever the circumstances, however, the importance of frequent contact is clear.

A serious obstacle to many of the changes discussed in this section and, therefore, to better use of Canada's human resources, lies in the attitudes of labour and management, and in the roles they have selected for themselves in

our economy. In many instances, management has unilaterally made decisions on matters vitally affecting the interests of employees because these matters fall under "management rights". Yet prior consultation on such matters would undoubtedly improve employer-employee relations significantly. Not all management personnel has accepted the existence of unions; nor, conversely, have all representatives of employees' unions taken a positive stance toward management. Indeed, the latter have often seen their function as one of opposing management, and, in many instances, they have not co-operated in attempts to improve the efficiency of the organization of which they were part.

In this Commission's view, changes in these attitudes, which have persisted over long periods, are unlikely to occur quickly. Nevertheless, the institutional mechanism most likely to succeed in bringing about desirable changes is a bipartite labour/management organization such as the Canadian Labour Market and Productivity Centre.

Notes

1. For more details, see Ontario Department of Labour, "Ontario Initiatives with Respect to Preventive Mediation and Quality of Working Life", in *Labour-Management Co-operation in Canada*, vol. 15, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
2. For details of these mechanisms, see the Commission study by Joseph Weiler, "The Japanese Labour Relations System: Lessons for Canada", *in Labour-Management Co-operation in Canada*, vol. 15, (Toronto: University of Toronto Press, 1985).
3. Organisation for Economic Co-operation and Development, *The Development of Industrial Relations Systems: Some Implications of Japanese Experience* (Paris: OECD, 1977), p. 40.
4. Weiler, "The Japanese Labour Relations System".
5. Donald V. Nightingale, "Gainsharing", presented to the Third John Deutsch Roundtable on Economic Policy, Declining Productivity and Growth: Explanations and Outlook, Kingston, Queen's University, July 11, 1984.

Occupational and Work-Place Health and Safety

The safety of the work-place clearly affects the well-being of virtually all Canadians. Numerous observers have expressed concern about the number of job-related injuries that occur in Canada. In addition, awareness has been growing of the serious nature of the problem of industrial or occupational disease. The increasing use of new chemical and biological agents in the work-place, experiences such as that with the mining and industrial use of asbestos, and advances in medical knowledge have contributed to this new awareness.

Policy makers have responded to these concerns. Indeed, in the past decade, probably no area of Canadian employment law has undergone as much change as that of occupational health and safety. Yet a recent assessment concluded that "the response of the Canadian legal system to the challenges of a hazardous work environment displays serious deficiencies."[1]

The Dimensions of the Problem

In 1983, job-related injuries or illnesses killed 761 Canadians and caused the loss of 15 million working days in Canada. There were 952 000 work-injury claims, a figure indicating that roughly one worker in nine was hurt on the job in the course of the year. The costs of these deaths, injuries and illnesses are clearly very high. While the main cost is obviously the suffering of the victim and the victim's family, the employee also loses income, the employer incurs economic costs, and there are costs to society as a whole. To put these figures in perspective, 4.4 million work-days were lost because of work stoppages in 1983. Furthermore, lost working time on account of injuries and illnesses has been increasing, relative to that associated with strikes and lock-outs. Time lost through disabling injury increased from 9.8 million person-days in 1972 to 15.1 million person-days in 1983, an increase of 54 per cent; by contrast, time not worked because of work stoppages fell from 7.75 million person-days to 4.4 million person-days in the same period, a decrease of 44 per cent.

How does the Canadian experience with work-place injuries and illnesses compare with that of other countries? Unfortunately, available data do not permit a satisfactory answer to this important question.[2]

Table 17-7 shows the Canadian experience with non-disabling and disabling work-place injuries and illnesses between 1972 and 1983. Table 17-8 gives similar information relating to work-place fatalities; their rate has declined significantly from 1972 to 1983. Furthermore, because the decline has occurred in each industry, the decline in the total private sector is not simply the result of changes in the composition of employment. (Rapidly growing industries such as finance and services have low fatality rates, so that as their share of employment increases the overall fatality rate will tend to decline.) In fact, over 90 per cent of the decline in the overall fatality rate is the result of the decline in fatalities in each industry, and less than 10 per cent is because of changing industrial structure.

TABLE 17-7 Workplace Injuries, Illness and Fatalities, Canada, 1972–83

Year	Non-disabling Injuries per 100 Workers	Disabling Injuries per 100 Workers	Total Injuries per 100 Workers	Fatalities per 100 000 Workers
1972	6.88	5.51	12.39	17.4
1973	7.31	5.85	13.16	18.4
1974	7.29	6.03	13.32	18.1
1975	6.86	5.53	12.38	14.7
1976	7.02	5.81	12.83	13.2
1977	7.00	5.46	12.46	11.3
1978	6.95	5.69	12.64	11.9
1979	7.13	6.08	13.21	12.4
1980	7.18	6.29	13.46	12.5
1981	6.66	6.27	12.93	11.4
1982	5.49	5.75	11.24	10.7
1983[a]	5.26	5.59	10.85	8.7

Source: Canada, Labour Canada, Occupational Safety and Health Branch.

a. Preliminary figures.

As is evident from Table 17-7, the injury and disabling-injury[3] rates have been roughly constant over the past 12 years, though there is some suggestion of a decline since 1980. During the period, mechanisms for dealing with problems of occupational health and safety have radically improved in most Canadian jurisdictions. In light of this improvement, the corresponding improvement in work-place statistics, except for the decrease in fatalities, is disappointing. It is possible, however, that the improved mechanisms have caused a larger proportion of accidents to be reported.

Traditionally, the focus of concern, in relation to the safeguarding of Canadians in the work-place, has been on problems of safety rather than of health. In part, this is because safety issues are more easily identified. When a faulty guard-rail causes a worker to fall and break a leg, it is not difficult to establish the cause of the accident. It is harder to establish that the work-place is responsible for a disease with a long latency period, to which a worker's extra-employment activities might also have contributed. For example, lung cancer might develop from exposure to an unknown carcinogen in the work-place or from personal habits such as smoking, or from a combination of both causes. More and more attention is being paid to the causes of industrial disease as interest is attracted by the rapid proliferation of disease-generating substances into the work-place, as well as into the general environment. However, traditional means of dealing with industrial illnesses, such as workers' compensation, may not be the most efficient. For example, fewer than 2 per cent of the claims submitted to the Ontario

TABLE 17-8 Fatality[a] Rate[b] by Industry/Canada, 1972–1983 (revised)

Year	Agri-culture	Forestry	Fishing	Mining	Manu-facturing	Construc-tion	Transport	Trade	Finance	Service	Public Admin.	All Industries
1972	24.2	136.3	98.8	141.3	15.5	51.7	32.5	6.2	1.8	5.6	13.0	17.4
1973	24.8	157.5	164.8	144.2	14.8	53.1	37.4	6.9	1.6	4.9	19.4	18.4
1974	27.0	131.2	137.5	155.3	17.0	52.1	33.2	8.9	1.7	4.7	11.3	18.1
1975	9.5	124.6	325.3	121.7	12.7	48.6	28.3	5.4	0.7	3.6	14.3	14.7
1976	13.4	116.1	360.0	120.1	11.3	41.8	27.9	4.5	2.3	2.6	8.9	13.2
1977	11.2	91.6	236.8	90.3	10.1	36.6	22.1	5.2	1.9	2.6	7.9	11.3
1978	6.1	130.6	144.2	85.9	10.4	38.3	25.9	4.4	1.2	2.2	12.3	11.9
1979	10.6	155.3	125.0	96.7	8.8	39.6	26.6	4.7	1.0	3.1	10.6	12.4
1980	5.1	114.4	160.0	108.1	8.5	42.2	27.2	5.3	1.2	3.4	6.8	12.5
1981	13.9	96.0	147.1	76.4	8.7	38.9	24.7	4.2	2.1	3.3	10.8	11.4
1982	12.8	121.5	157.9	94.5	10.3	34.9	21.3	4.3	1.1	2.8	8.5	10.7
1983[c]	13.5	110.5	100.0	62.8	8.1	31.1	16.2	4.0	0.8	2.4	8.1	8.7

Source: Canada, Labour Canada, Occupational Safety and Health Branch.

a. Includes deaths arising out of occupational illnesses, and deaths of workers who were on pension for an earlier disabling injury.

b. Fatality incidence rate equals number of cases per 100 000 workers. Rates calculated using Statistics Canada employment estimates. The rates may be understated because only 80 per cent of workers in the Statistics Canada employment estimates are covered by Workers' Compensation.

c. Preliminary figures.

Workers' Compensation Board in 1980 related to disease. Yet occupational illness accounted for over 12 per cent of fatalities in that year.

Dealing with the Problem

In dealing with occupational health and safety, the central issues are prevention and compensation. Three separate, but interrelated, mechanisms exist for coping with the problem: competitive market forces, the collective bargaining process, and regulation through legislation. What combination of these three mechanisms provides the most socially desirable method for dealing with prevention and for ensuring equitable compensation for victims?

Market Mechanism

If workers are aware of the risk of job-related injury or illness, market forces will cause employers to pay a wage premium for hazardous work. This wage premium performs three key functions: it provides some compensation to the employee for the risk encountered in the work-place; it provides the firm with an incentive to reduce the risk of injury and thereby lower labour costs; and it ensures that the price of the product reflects the risk of injury or illness associated with its production, since a rise in the costs of production raises product prices. Even though the market mechanism may not operate in a fully satisfactory way, these functions are important in the prevention of, and compensation for, work-place injuries and illnesses.

The most fundamental problem with the market mechanism is the lack of complete information about the risks associated with various jobs. Furthermore, employers may not reveal information at their disposal to employees or to governments, as doing so would lead to increased costs of production. These costs would rise either because firms would have to install, and governments monitor, safer production methods, or because companies would have to pay higher wages in order to continue to attract workers.

These realities suggest that the operation of market forces would be improved by increased collection and dissemination of information to all concerned parties. However, there is a more serious problem when disabilities relate to occupational disease. Most occupational diseases are characterized by long incubation periods. With asbestosis, for example, the latency period between exposure to the hazard and manifestation of the disease usually lasts between 20 and 30 years. The problem is compounded by the fact that most diseases are multi-causal in nature, and thus it is impossible to determine the contribution of the work-place, as distinct from the other aspects of the worker's lifestyle, to the appearance of a particular illness.

The dimensions of the information problem are large. Some figures provided by the U.S. Assistant Surgeon General establish that 500 000 chemicals are produced and used in the United States; 3000 new chemicals are developed annually; and each year 500 of the new chemicals are employed in American industry.[4] Given the proximity and industrial integration of the two countries, Canadian figures must be similar. To determine the exact health consequences of such a large number of chemicals, used separately and

in combination, would be a monumental task for our industrial scientists and doctors even if the necessary resources were available. It is often difficult to extrapolate from tests on animals the likely effects on humans. The few epidemiological studies that have been conducted have found long and variable latency periods for occupational diseases that may differ for different persons.

These informational problems can lead to a divergence between the social costs of production and the costs faced by private producers who operate a hazardous technology. The burden of this discrepancy falls partly on the workers employed in hazardous occupations and partly on society, which must also bear the costs of having some of its members injured and diseased. The workers and society in general are subsidizing the employer and the consumer of the hazardous product. For example, substitute materials to replace asbestos in brake linings and insulation are in use in Europe, yet asbestos is still the predominant material used in North America, despite its known health consequences. If the product price were higher (reflecting the social cost of producing hazardous materials), it would encourage the use of substitutes.

This kind of undesirable situation is especially prevalent in the case of work-place illnesses. A firm may be unlikely to concern itself with diseases that will first manifest themselves 20 years into the future, knowing that the victim will find it impossible to establish liability, given the latency period and the multiple causes of most of these diseases. The worker will fail to receive a sufficient wage premium, given the uncertain state of knowledge surrounding the multitude of chemicals employed in industry today. A firm which is put out of business following a discovery that one of its inputs is lethal, may legally owe the victims nothing in compensation.

Collective Bargaining

Unions and the collective bargaining mechanism may improve occupational health-and-safety standards through a number of channels. Health-and-safety provisions beyond the minimum standards provided by legislation are often negotiated collectively. The union may facilitate the flow of information to the shop floor and can play an important part in informing workers of their rights. Evidence suggests that the union bolsters the efficacy of joint labour/management health-and-safety committees and provides a good support system for the administration and enforcement of safety regulations. Recent empirical studies indicate that compensating wage differentials are higher in union than non-union working environments.

Work-Place Health-and-Safety Regulation

Legislation and the degree of involvement of government agencies in occupational health-and-safety issues vary from province to province. There are two aspects to the legislation: prevention and compensation. Most jurisdictions have been concerned with both these aspects.

The process of industrialization in Canada was initially characterized by a shocking absence of concern for the risks and dangers it inflicted on the work-force. Virtually no attention was paid to the health, safety or sanitary conditions of the work-place. Early Factory Laws forbade the use of child labour, set working-hour limits, established health and sanitation standards, and appointed an inspectorate with powers to enforce the Act's provisions. However, compensation for an injury sustained at the work-place was attainable only through the (common law) tort-liability system, where the onus was on the employee to establish that fault rested with the employer. Employer's Liability Acts, adopted by many provinces between 1886 and 1911, required the employer to insure risks with a private insurance company, but continued to require employees to establish negligence in order to receive compensation. The exception was Quebec which, in 1909, legislated that the worker had the right to no-fault compensation.

Ontario set up a no-fault insurance scheme in 1914, and similar legislation followed in other provinces. In return for assured compensation, employees surrendered the right to sue their employers and to collect full damages for injuries, including pain and suffering. These no-fault insurance schemes are administered by Workers' Compensation Boards (WCBs) and are financed by employer contributions to an accident fund. Fund assessments are a function of the work-injury experience of the industrial rating group to which the employer belongs. Subsequent amendments to these compensation programs have acknowledged that any work-related disease should be compensable. The burden of establishing the cause of the disease, however, is still borne by the victim.

Preventive legislation requires that governments set standards for work-place safety, sanitation, ventilation and health. A factory inspectorate monitors compliance with these standards, usually under the auspices of the Ministry of Labour. Preventive legislation has been amended and expanded by our federal and provincial governments as more information has come to light concerning health-and-safety issues. Industrial Hygiene Divisions were created in the various Health Departments to assist the existing factory inspectorate, and these groups work in co-operation with the WCBs and other organizations involved with work-place health and safety. In the last two decades, concerns regarding the rapid introduction of toxic and carcinogenic chemicals into production processes have necessitated on-going research into the ability of existing legislation and institutions to cope with the more insidious problem of industrial disease. In recent years, several studies and commissions of inquiry have variously identified many of the problems and deficiencies relating to existing protective legislation, the inspectorate, the WCBs, and incentives for employers whose methods of production generate occupational health-and-safety hazards.

Legislation regarding workplace health and safety has changed considerably in the last decade. Saskatchewan has provided a model which many jurisdictions have adopted, though in a modified form. Its legislation, introduced in 1972, emphasizes the contribution of worker participation to the prevention of work-place injuries and illnesses. This model is now often

called the "internal responsibility system". The system confers three rights on employees:

- The right to be represented by joint labour-management/health-and-safety committees
- The right to refuse hazardous work without penalty
- The right to information, as it becomes available, about the hazards of employment.

The first right is based on the premise that co-operation of employees and employers is vital to reducing work-place injuries. Table 17-9 summarizes the existing provisions relating to occupational health-and-safety matters in each Canadian jurisdiction. As it indicates, a work-place/health-and-safety committee may be established by law in every province except Prince Edward Island and Nova Scotia. Alberta has provisions for committees to be organized on a voluntary basis. In Manitoba and throughout our federal jurisdiction, committees are mandated at the discretion of the Minister of Labour. In other jurisdictions a committee must be formed if the number of persons employed in a work-place exceeds a certain limit.

Such a committee is more likely to be effective if vested with broad powers, such as the responsibility to take an active part in refusal-to-work cases; the right to accompany an investigating inspector; access to correspondence between the investigating agency and the employer; the right to receive a response from the employer on questions of health and safety; power to shut down unsafe work-places; adequate training in air monitoring and other safety checks; and compensation for worker members for time spent on committee business. These powers, as Table 17-9 shows, are legislated in Saskatchewan and, to varying degrees, in other jurisdictions, as well.

The right to refuse hazardous work is the second element of the internal responsibility system, and all jurisdictions except Prince Edward Island and Nova Scotia provide protection from retaliation when an employee refuses to work on reasonable grounds. (See Table 17-9.) The extent of this protection depends on the interpretation of "reasonable grounds", which varies across jurisdictions..

The right to refuse unsafe work is fundamental, yet it is important to consider giving employees the means to forestall this action, short of a work stoppage, if they can. Manitoba permits an employee who has a reasonable belief that a hazard may exist to summon a factory inspector to carry out an investigation prior to a work stoppage. This type of provision may avoid a costly work stoppage, allow employees to allay or confirm their fears, and spare employers and employees the inconvenience of processing a claim for time not worked. To deter frivolous complaints, the provision might require that inspections must be initiated by a worker member of the health-and-safety committee.

The third aspect of the internal responsibility system is the right of employees to receive all information relevant to health and safety in the work-place. The right to representation on joint committees and the right to refuse unsafe work become largely ineffective if employees lack access to all

TABLE 17-9 Canadian Occupational Health and Safety Legislation

Issues Addressed by Relevant Statute	Canada	B.C.	Alberta	Sask.	Man.	Ontario	Quebec	N.B.	Nfld.	P.E.I.	N.S.
1. Employer has a duty to provide precautions to ensure health and safety.	*	*	*	*	*	*	*	*	*		
2. Employee must take due care of self and co-workers.	*	*	*	*	*	*	*	*	*		
Joint Committees											
3. Joint committee *may* be established by law.	*	*	*	*	*	*	*	*	*		
4. Worker and manager must co-chair the committee.	*		*	*	*						
5. Employer must co-operate with committee.				*	*		*		*		
6. Employee must co-operate with committee.					*		*		*		
7. Worker member may participate in work-refusal dispute.	*	*		*		*	*		*		
8. Worker member may accompany inspector.		*	*		*				*		
9. Worker representation may be appointed where no committee exists.					*	*	*		*		
10. Committee members are remunerated for work outside office hours.	*		*	*	*	*	*		*		
Right to Refuse											
11. Protection is provided from retaliation for declining to do unsafe work.	*	*	*	*	*	*	*	*	*		
12. Investigation by workers and management is mandatory following refusal to work.	*	*		*		*	*		*		
13. Worker with reasonable perception of danger is protected even though no hazard exists.	*	*		*	*	*	*		*		
14. Worker may appeal decision that job is safe.						*	*				

15. Inspectors are empowered to ensure direct adherence to regulations.	*	*	*	*	*	*	*	*	*	*	*
16. Inspectors may halt work until compliance.	*	*	*	*	*	*	*	*	*		
17. Substitute worker must be informed of earlier refusal.						*	*		*		
Right to Information											
18. Employer must provide all information to ensure health and safety.				*	*	*			*		
19. Employer must identify all dangerous substances used or emitted.	*	*		*		*	*		*		
20. Employer must indicate threat to health on container label.	*	*		*					*		
21. Workers are entitled to see accident and inspection reports.	*	*		*	*	*	*				
22. Standard setting must involve public participation.		*				*	*				
Health Services											
23. Medical examinations must be provided for miners.	*	*	*	*	*	*	*	*	*	*	*
24. Medical examinations must be provided for those exposed to silicone.		*		*	*		*		*		
25. Medical examinations must be provided for those exposed to asbestos.			*	*	*		*		*		
26. Medical examinations must be provided for those exposed to high level of noise.		*					*				
27. Designated employer must provide health service.					*	*	*		*		
28. Worker may be required to undergo examination.	*		*	*	*		*	*	*		

Source: Richard M. Brown, "Canadian Occupational Health and Safety Legislation", *Osgoode Hall Law Journal* 20 (March 1982): 90–118.

Note: Even where a regulation explicitly addresses work-place/health-and-safety issues, the effectiveness or scope of the provision varies from one jurisdiction to another.

available information pertaining to hazards in the work-place. This third right, however, is barely addressed in much of the labour legislation, and the pertinent provisions that do exist are vague and difficult to enforce. The Canadian Centre of Occupational Health and Safety was established by the federal government in 1978, to act as a clearing house for information and to provide an advisory service to employers, labour leaders and other interested parties in this field. From its inception, however, it has provided relatively little information, chiefly because of low funding.

The internal responsibility system might have more success in dealing with safety as distinct from health. Regulations and specification standards that set critical exposure levels might be more successful in preventing health hazards; for example, to restrict the number of asbestos fibres permitted per cubic centimetre of air would effectively reduce a known health hazard. In the future, Canada might integrate aspects of the two systems more thoroughly. Most disease-generating substances must be carefully monitored so that worker exposure does not exceed certain levels. Joint committees could bolster the effectiveness of the health-and-safety legislation by ensuring that affected employees have access to, and understanding of, the standards set, and that they exercise their right to refuse to work if exposure levels go above the legislated limits.

While most jurisdictions have adopted aspects of the internal responsibility system, there are important differences in the approach to work-place health and safety. In British Columbia, occupational health-and-safety programs are consolidated under the Workers' Compensation Board, except in the mining industry. This agency is thus responsible for all aspects of compensation and prevention: standard-setting, inspections and enforcement. In Prince Edward Island, the Workers' Compensation Board is also responsible for all matters pertaining to occupational health and safety. In other jurisdictions, the issues of prevention generally fall to a government ministry. The Alberta system, more than those of the other provinces (except Prince Edward Island and Nova Scotia), relies primarily on self-compliance and self-enforcement. A limited inspectorate exists, but penalties for non-compliances are rarely imposed. But even where a regulation explicitly addresses work-place/health-and-safety issues, the effectiveness of the provision typically varies from one jurisdiction to another.

Addressing the Occupational Health-and-Safety Problem

This Commission believes that employers, employees and policy makers should give increased attention to occupational health and safety. We do not deny that progress has been made in the past decade: the decline in the fatality rate is its most obvious sign. We consider that changes in the legislative framework, especially the increased emphasis on the internal responsibility system, are favourable developments. Nevertheless, the Canadian record still leaves much to be desired. Improvements can be brought about by concerted action of all those directly involved with occupational health and safety: employers, employees and their representatives, governments, and the regulatory agencies.

This Commission was impressed by Du Pont Canada's demonstration that an excellent job-safety record can be achieved when work-place safety is given a very high priority by an entire organization, and when it receives strong emphasis at the highest levels of management. As Du Pont Canada pointed out in its brief to this Commission, its performance, as measured by the frequency of disabling injuries or illnesses, has consistently been better than the industry average by factors of 25 to 35. Table 17-10 shows the disabling-injury rates for the 1977–82 period. The performance on non-disabling injuries is equally impressive.

Du Pont credits its success in preventing injuries to the following main features of their safety program:

- Safety has a top priority and the commitment of the entire organization.
- The objective of preventing injuries and containing identified health risks is a common objective held by management, employees and labour unions, where they are present.
- Safety is a line organization's responsibility. Management at all levels, top to bottom, is held accountable for safety.[5]

This Commission recommends that other organizations attach the same importance to occupational health and safety as do Du Pont Canada and other companies with outstanding safety performance. An excellent safety record may well be profitable for a corporation, in addition to its obvious benefits to society at large. Again, this point was made by Du Pont in its Brief:

> *Apart from the important humanitarian aspects of a good safety record, accident and injury prevention is good business, and as good business, is reflected on the balance sheet. There is an excellent return on the money spent for safety. There are at least five sound economic reasons for operating safely:*
> 1. *A good safety record helps reduce the cost of insurance and Workers' Compensation.*
> 2. *Every time we have an accident, we face an array of problems, each with a dollar cost.*

TABLE 17-10 Du Pont Canada Compared to Chemical Industry and All Industry

	(disabling injuries/200 000 exposure hours)					
	1977	**1978**	**1979**	**1980**	**1981**	**1982**
Du Pont	0.04	0.04	0.09	0.12	0.08	0.06
Chemical Industry	1.06	1.10	0.88	0.69	0.74	0.64
All Industry	2.48	2.56	2.67	2.79	2.21	2.11

Source: Du Pont Canada Inc., Brief, August 7, 1984, p. 3.

3. *One of the most important benefits of a good safety program is the impact on employee morale, a benefit which is reflected in turn by a lower turnover rate, higher productivity, improved operational efficiencies, and a better product.*
4. *All companies strive for something called "good will". We are sure our safety record has helped us to attract new employees.*
5. *Our customers know when they deal with Du Pont, they deal with a company vitally concerned with safety.*

(Du Pont Canada, Inc., Brief, August 7, 1984, pp. 7–8.)

In addition to these benefits from a superior safety record, Commissioners note another incentive. Unless management begins to give occupational health and safety a higher priority, government regulation in this important area will surely increase. This Commission recommends continued and even increased reliance on the internal responsibility system for work-place safety, rather than increased direct regulation by government. From the victim's point of view, revisions in the allocation of the accident fund to compensate serious injuries more fully, at the expense of small accidents causing temporary disability, might be a more equitable use of limited funds.

This Commission also recommends stronger economic incentives for job safety through more complete experience rating of workers' compensation premiums. The present system is not fully experience rated so that a firm with a particularly poor record passes this liability on to all other firms in the industry group and bears only a fraction of the increased compensation payments for which it is responsible. Experience rating is important for two reasons. Fundamentally, it provides the incentive for employers to prevent work-place accidents. It also ensures that the price of a product reflects the social costs associated with a hazardous work environment. Employers often object that they cannot afford the higher costs associated with more complete experience rating. Ultimately, however, these costs will be reflected in higher prices to the consumers of the product. From society's point of view, it is important that the price of a product reflect the risk associated with its production. If substitute products can be produced at lower risk, the risk reflected in the product price will help consumers to make the appropriate choice.

Joint health-and-safety/labour-management committees are mandated, in one form or another, in nine of eleven Canadian jurisdictions. If the internal responsibility system is to be successful, it is essential that functional authority be vested in these committees. The committees will be effective to only a limited extent if they are restricted to an advisory role. A variety of options is available for increasing the responsibilities of these committees. They could take a more active part in planning and implementing changes and additions in the work-place. Decisions about building specifications and types of machinery have traditionally been considered the prerogative of management, but many work-place hazards are intrinsically linked with modes of production. A safety committee's advice on plant design could be beneficial to both employer and employees.

Committees could also have the power to arbitrate between a worker and the employer in the matter of refusals to do a hazardous job. In addition, a worker-member of a committee should accompany an investigating inspector through the work-place. Members should be trained to monitor the work-place environment so that they can detect any change in the risks to employees. Unions and the joint committees have a substantial responsibility to inform the work-force of the various hazards and rights of workers. The right to information pertaining to the hazardous nature of a job appears to be the least-addressed aspect of the internal responsibility system. Lack of information and asymmetry of information also inhibit the functioning of market forces. In this Commission's view, more specific management-disclosure requirements are needed. Employees and their representatives should also have access to third-party information about the danger of a job, whether the third party is a research agency or a former employee.

The most important contribution the government can make to occupational health and safety is to ensure continual revision of legislation and standards as new evidence comes to light. This involvement is critical in the area of industrial disease, given that new and potentially lethal chemicals and materials are being introduced daily in the work-place. Whereas other mechanisms may be more useful for dealing with industrial safety, occupational health problems can probably be controlled most effectively by the imposition of standards. These standards must take into account economic, as well as technical, feasibility. This requirement calls for the introduction of more general studies on the economic effects or cost benefits of proposed legislation. Canada can learn from the U.S. experience in accumulating many unnecessary, bureaucratic, legal and administrative costs. The Canadian Centre for Occupational Health and Safety might be the agency to develop these health standards most practicably, supported by direct input from the provincial agencies. The Centre would require adequate funding for this purpose and the other duties it was mandated to perform, such as the collection and dissemination of national statistics.

The long development periods and multiple causes of many diseases pose an insoluble problem for Workers' Compensation Boards, which attempt to compensate workers for illnesses or injuries sustained "out of and in the course of employment". The present system is unable to accommodate the fact that many seriously disabling diseases have multiple causes. Various cancers, for example, are the product of many factors operating at different stages in the development of the disease. Epidemiological studies and evidence of exposure may demonstrate the presence of carcinogens in the work-place, but they fail to determine whether a particular employee has acquired the disease as a result of employment conditions or as a consequence of personal habits or a toxic environment. "The statutory hurdle of establishing that the workplace was the cause of a disease is equally as onerous as was the common law requirement of proof that the employer's fault produced an accident."[6] The latter obligation was removed by the introduction of workers' compensation/no-fault insurance, and the problem of compensating victims of industrial disease may not be resolved without

introducing a general social insurance/disability scheme which would compensate victims irrespective of source of injury. Certainly, proposed modifications of the current system of compensation do little to increase the ability of the WCBs to determine which disease-related claims are legitimately occupational in nature.

One solution to this problem would be to expand substantially the current disability benefits provided under the Canada Pension Plan, as proposed, for example, in the federal government's 1982 discussion paper *Better Pensions for Canadians*.[7] An alternative solution would be to absorb the existing workers' compensation system into a comprehensive disability-insurance scheme, as one author has proposed in his examination of the Ontario system.[8] Although Commissioners have not considered these options in detail, we recommend that the federal and provincial governments examine these and other options for dealing with industrial disease.

The past decade has seen considerable change in public policy relating to occupational health and safety. In addition, there is considerable diversity in the policy initiatives taken in various jurisdictions. Yet virtually nothing is known about the effects of these policy changes, or which of the various approaches has proved most successful. This situation is likely to continue unless more effort is devoted to the compilation of satistics which would facilitate interprovincial and international comparisons and other research. This Commission regards the available data as inadequate, given the importance to all Canadians of occupational health and safety.

Recommendations

Commissioners recommend the following courses of action to improve occupational health and safety in Canada:

- Greater emphasis on work-place health and safety at higher levels of corporate management
- Stronger economic incentives to increase the safety of the work-place through more complete experience rating of workers' compensation premiums
- Continued reliance on, and strengthening of, the internal responsibility system
- Recognition that workers' compensation cannot adequately deal with industrial disease, and that alternative mechanisms are needed
- Recognition that occupational health and safety is a matter of national concern, and that more adequate data and research are required.

Notes

1. Richard M. Brown, "Canadian Occupational Health and Safety Legislation", *Osgoode Hall Law Journal* 20 (March 1982), p. 118.
2. Statistics from the International Labour Organisation (ILO), *Yearbook of Labour Statistics*, suggest that Canada's work-place/injury rate (number of reported injuries in proportion to total employment) is high by international standards. A comparison of eight countries for which injury statistics are reported over the

1976–81 period shows Canada with the highest injury rate (approximately 1 worker in 9 injured on average), followed by France (1 in 10), Switzerland (1 in 13), West Germany (1 in 13), United States (1 in 17), Sweden (1 in 35), Netherlands (1 in 50), and Norway (1 in 100). These data should, however, be used with extreme care. The minimum duration of incapacity to which an accident must give rise in order to be included in the statistics varies widely from one country to another. This factor is important because the number of minor accidents is large. In addition, there are other important differences in the nature of the sources, in their scope and in methods of compiling or reporting statistics on work-place injuries and illness. Thus it is possible that the high injury rate in Canada reflects differences in measurement and reporting rather than a more dangerous work-place.

Canada also fares poorly in international comparisons of work-place fatalities. West Germany has the worst record for fatalities, with approximately 15 to 18 fatalities per 100 000 workers over the 1976–81 period, followed by Canada (9 to 11), Switzerland (7 to 12), France (7 to 9), Norway (5 to 9), Japan (5 to 6), the United States (4 to 5), Sweden (3 to 4), and the Netherlands (1 to 3). Again, however, these statistics should be treated very cautiously because of differences in reporting and classification of fatalities across countries.

3. Disabling injuries are defined as injuries which require absence from work for at least one day in addition to the day of the injury, or which result in dismemberment or permanent impairment of a body function. Non-disabling injuries are minor injuries which do not require missing a full day of work.
4. See Pran Manga, Robert Broyles, and Gil Reschenthaler, *Occupational Health and Safety: Issues and Alternatives*, Technical Report No. 6 (Ottawa: Economic Council of Canada, 1981), p. 41.
5. Du Pont Canada Inc., Brief, August 7, 1984, p. 11.
6. Paul C. Weiler, *Protecting the Worker from Disability: Challenges for the Eighties* (Toronto: Ontario Ministry of Labour, 1983), p. 55.
7. Canada, Health and Welfare Canada and Finance Canada, *Better Pensions for Canadians* (Ottawa: Minister of Supply and Services Canada, 1982).
8. Weiler, *Protecting the Worker from Disability.* In order to provide incentives for prevention, the system would be partially financed by a levy on employers, based on the estimated contribution to the cost of the disability scheme.