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Social Policy, Macro Policy and the Debt[1]

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Can the unemployment problem be solved by reforming social policy? Lars Osberg of Dalhousie University notes that there is little point in improving training programs or increasing "work incentives" if there are no jobs available for the re-trained and remotivated. The federal government controls macroeconomic policy, while provincial governments administer social assistance and deliver most training programs. In the absence of a commitment to full employment by the federal government, social policy reform at the provincial level is doomed to failure.

In the debates about what Canada should do about the debt, the deficit and the high unemployment that have dominated the nineties' economic agenda, we often hear the assertion that the remedy lies in social policy. Cuts in social transfers are seen as necessary to reduce the deficit, while improved training and increased incentives for workers are advocated as a way to lower the rate of unemployment. In part, this emphasis on social policy arises because the priority of deficit reduction seems to rule out the option of stimulating the economy by increasing the demand for labour and thus reducing unemployment. Improved social policy is being advocated as a way of increasing the potential output of the economy, with the hope that a more productive labour force will lead to faster economic growth, a larger primary surplus and faster elimination of Canada's debts.

Social policy practitioners protest that the deficit reduction agenda has produced program cut-backs which are reducing the accessibility of training and postsecondary education and that macroeconomic policy has produced a labour market in which there are no jobs for the retrained or remotivated. However, such objections appear to have little influence on policy, partly because the frames of reference of macroeconomic analysts and social policymakers differ so dramatically.

When the current generation of macroeconomic policy analysts in Ottawa discuss unemployment and economic growth, they are likely to use econometric techniques such as vector auto regression to analyze highly aggregated time series data. They often do not mention how individual firms or workers would behave; at best, they consider the behaviour of a single "representative agent." At the Bank of Canada, the "calibrated" type of economic model, which depends heavily on "judgement," has become common.[2] The world of economic decision makers has thus become rather distant from concrete economic phenomena.

Social policy practitioners, on the other hand, speak a very different language. Because they often come from an academic tradition that favours case studies and because they focus on the casualties of society, they are concerned with why the particular characteristics of some individuals put them at the margins of mainstream society. As a result, models of how a "representative agent" might behave are of little interest. As well, designers[3] of social policy interventions (such as training programs for the unemployed) tend to adopt a micro-economic orientation, since their interest lies in learning which *types* of interventions, for which types of clients, can increase the chances of moving from transfer dependency to paid employment. As a result, the debates of social policy designers tend to emphasize the determinants of the skills and motivation of workers; that is, they focus almost exclusively on the supply side of labour markets.

All too often, discussions between social policy advocates and macroeconomists rapidly descend into mutual incomprehension. This essay, however, emphasizes the interactions between macro-economic policy, social policy, and the debt and deficit. It does so because deficit reduction is now forcing major changes on social policy and because a prime objective of social policy is to move individuals from dependence on social assistance to paid employment. However, despite the financial and social benefits of getting people off welfare and into jobs, it is obvious that, whatever their

motivation or training, individuals cannot make such a transition if no jobs are available. To be more precise, if there are not *enough* jobs available, social assistance clients will remain on social assistance, because available vacancies will be filled by those who are favoured by age, gender, race, class, education or experience. Cuts to social assistance payments will increase the depth of poverty, but such cuts do not create jobs.

Although it is sometimes asserted that better training or education can reduce unemployment, such policies cannot, by themselves, do the job. An analogy may help make the point. In many ways, having a job in today's labour market is like having a seat in a lifeboat. Although there are a number of lifeboats in the water, there are many people trying to get into them. Since the sea is storm-tossed, some lifeboats occasionally sink, and their occupants have to swim for safety. (Indeed, lifeboats which are in danger of sinking have been known to throw some of their occupants overboard.) Once in the water, people have to swim for the nearest available boat; some people make it, some people don't and some keep treading water, in the hope that a lifeboat will appear.

To extend the analogy to labour markets, we have to allow for the idea that new entrants to the labour force are continually trying to find a seat, and new lifeboats (that is, firms) are always being launched. The number of lifeboats varies, since bad weather (e.g., a recession) means that more lifeboats sink and that fewer are launched, and the total number of available seats (that is, jobs) shrinks. Some lifeboats have higher sides than others and are much safer, but they are also harder to get into. To get into the best lifeboats, people have to have special training and strength or a helping hand from someone inside.

At any given time, what kind of people get a seat? Basically, those who make it to safety are the individuals who are stronger, who had swimming lessons or who knew someone who threw them a line and pulled them in. In the labour market, analysts have long stressed the importance of ability, training and personal contacts for getting ahead. However, although it is true that better swimmers have a better chance of getting lifeboat seats, it does not necessarily follow that more swimming lessons will decrease the number who drown.

If there are plenty of lifeboats, swimming lessons will help. The faster swimmers will fill up the closer lifeboats first, but even slow swimmers will eventually make it to safety. Analogously, if job vacancies are available, training programs have powerful social payoffs. However, if there are not enough lifeboats, there simply will not be enough spaces available. Swimming lessons (job training) can help some individuals get to safety faster than others. But if there are not enough spaces available, those who are relatively slow cannot make it. The key issue then is how many places are available, that is, how many jobs the labour market is producing.

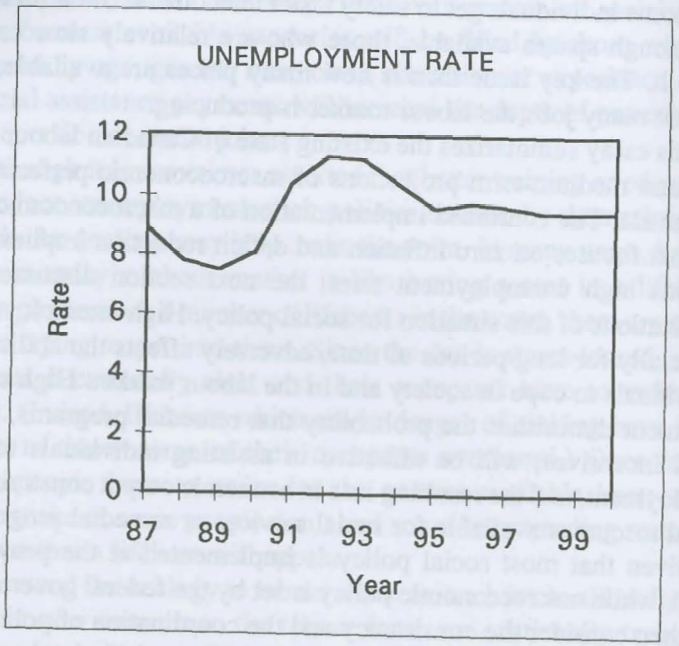
This essay summarizes the existing state of Canadian labour markets and medium-term projections of macroeconomic performance in Canada. The continued implementation of a macroeconomic policy that focuses on zero inflation and deficit reduction implies continuous high unemployment rates; the next section discusses the implications of this situation for social policy. High unemployment, especially for long periods of time, adversely affects the abilities of individuals to cope in society and in the labour market. High unemployment diminishes the probability that remedial programs, or altered incentives, will be effective in assisting individuals to find employment, and the resulting loss in economic output constrains the fiscal resources available for social services or remedial programs.

Given that most social policy is implemented at the provincial level, while macroeconomic policy is set by the federal government, we then consider the consistency and the coordination of policies in a federal system. In Canada, the objective of zero inflation has taken precedence over other objectives and produced a rate of unemployment in labour markets that dooms long-run structural adjustment policies, like retraining, to failure. Provincial governments cannot deliver, in the short run, the jobs which their electorates demand, while the federal government continues to bewail the failure of provincial social assistance reform and training policies which stems from its own macroeconomic policies.

The Labour Market in the Nineties

If monetary policy in Canada remains focused on preventing inflation and fiscal policy remains preoccupied with reducing the federal budget deficit, then the combination of restrictive macroeconomic policy, a slight appreciation of the exchange rate and modest growth in the U.S. economy results in annual GDP growth of 2.4 per cent in 1995. This growth is expected to slow to 1.6 per cent in 1996 and 2.0 per cent in 1997, before recovering to 2.4 per cent in 1998 (constant dollars). Since labour productivity is expected to grow at 1.1 per cent per annum, the increase in employment (at 1.8 per cent in 1995, declining to 0.9 per cent in 1996 and 1.2 per cent in 1997)

Figure 31



1987–1994 Statistics Canada *Historical Labour Force Statistics* Cat. No. 71-201.
1995-2000 Informetrica Limited *The National Forecast* — July 1995.

only marginally exceeds growth in the labour force (1.1 per cent). As a result, unemployment decreases at a painfully slow rate from 1995 to 2000, with an increase to 9.8 per cent in 1996 before a slight decline to 9.5 per cent in 1998. Only when the model is extended to does the slower rate of growth of an aging labour force eventually produce a decline in unemployment rates.

This forecast is shown in Figure 31, which is taken from the July 1995 National Forecast of Informetrica Ltd. All forecasts are conditional, and changes in economic policy or in the international economic environment could produce different outcomes. However, the National Forecast assumed a continuation of the macroeconomic policy then in place.

If unemployment continues to be over 9 per cent, there will be so much excess supply in labour markets that there is no danger of inflation. Although there is substantial uncertainty about the exact

rate of unemployment at which inflation might re-emerge (see Setterfield, Gordon and Osberg 1992), this chapter adopts the estimate of researchers at the Department of Finance and the International Monetary Fund[4] of the long-run, natural rate of unemployment in Canada as about 7 per cent. This estimate reflects the efficiency of current training and educational programs and the incentives to individual behaviour which are implicit in existing social programs. If Canada adopts more effective educational, training and social policies, the natural rate of unemployment will fall, since the potential capabilities of unemployed individuals will more accurately match the needs of employers. However, without an improvement in the aggregate demand for labour, such policies will only add to the gap between the natural and the actual rates of unemployment.

When aggregate demand increases and the unemployment rate is reduced, firms move closer to full utilization of their capital stock. Greater efficiency in the utilization of capital equipment and the workforce means that productivity increases as unemployment falls. Okun (1981) argued that the output gap (the percentage difference between potential and actual output) could be approximated as 2.5 times the difference between the actual and natural unemployment rates. In Canada in 1995, this calculation is 2.5 per cent x (9.6 – 7.0) = 6.5 per cent of GDP. Since Canada was approximately $777.2 billion (in current dollars) in the second quarter of 1995, this type of rough calculation a current estimated output gap of about $50 billion per year. (Fortin [1994] surveys other methods of calculating the output gap and reaches approximately the same figure.) Since actual output is predicted to grow less than potential output in 1996, the output gap will widen, and the slow decline in unemployment over the next four years means that the output gap will not shrink appreciably for the rest of the nineties.

Implications of High Unemployment for Social Policy

As unemployment increases, it is obvious that household income decreases because of job loss, the increasing number of individuals outside the labour force and downward pressure on wage rates in depressed labour markets. In addition, the availability of a queue of qualified potential employees has made it easier for employers to shift to a "just-in-time" labour strategy, in which they hire part-time, casual or contract workers when necessary to accommodate peaks in labour demand.[5] The Economic Council of Canada (1991, 81) estimated that "nonstandard" forms of employment accounted for 44 per

cent of the growth in employment in the eighties. As a result, the workers who shift to the casual sector because they cannot find permanent employment face greater insecurity of income flows, as well as depressed expectations of earnings. Both the instability and the lower level of labour earnings increase the demand for social services.

In the short run, each household faces an increased risk and the chance of a greater depth of poverty. Despite UI and social assistance payments, the National Council of Welfare (1993) estimated that the poverty gap (the difference between an income at the poverty line and actual incomes, summed over all low-income households) increased from $11.167 billion in 1990 to $13.402 billion in 1991. As a percentage of GDP, the poverty gap (at 1.6 per cent in 1990 and 1.99 per cent in 1991) is far smaller today than the output gap, but much of the poverty gap can be attributed to high rates of unemployment. When the national unemployment rate is 7.5 per cent (as in 1981 or 1989), the poverty gap is about 1.3 per cent of national GDP, but the reductions in social assistance rates and UI coverage of the nineties have undoubtedly widened this gap.

In the long run, high unemployment increases the demand for social services because the characteristics of households change. Prolonged unemployment does bad things to people. It is well established that high unemployment produces higher rates of mental and physical illness, suicide, crime, drug abuse, child abuse and divorce.[6] These problems increase the probability that individuals will have to rely on social assistance and decrease the probability that they will be able to move off it. As a consequence, the health care and criminal justice systems face increased demands. And because more people are sick and in trouble with the law, greater expenditures on hospitals, prisons, physicians and police officers swell the deficit, while illness and incarceration diminish the productivity of the labour force.

In the sixties, the War on Poverty in the United States adopted the maxim "a rising tide lifts all boats." At that time, the U.S. government decided to stimulate the macroeconomic demand for labour in order to ensure the availability of jobs for the graduates of new training programs for the disadvantaged. The sixties consensus on the efficacy of macroeconomic policy became unfashionable in the seventies and eighties, when, with hindsight, it became apparent that although a rising tide may lift many boats, some boats will still need repairs. But in the nineties, it has become clear that without enough

water, even the best-repaired boats do not float. Emphasis on the supply side of labour markets — on education, training and the incentives of social policy — is important, but when jobs are not available, policies to increase the supply of trained labour are pointless.

Government policies affect the amount of training delivered in the government sector and influence the level of training provided in the private sector. Many commentators (e.g., Betcherman 1992) have noted the relatively low levels of investment in training by Canadian employers; what should be stressed are the reasons for this strategic choice by Canadian firms and the influence of unemployment. Employers who face depressed conditions in product markets and who are laying off skilled workers have no need for training programs to increase their supply of skills. Employers who have a queue of qualified workers available in the labour market have no incentive to bear the costs of training programs.

Although it may be widely recognized that, in the long run, productivity and jobs in Canada depend upon the skill level of the labour force and the quality of training programs, lamenting the lack of a "training culture" in Canadian industry is pointless if long periods of high unemployment imply that it is irrational for employers to invest heavily in training. It is not surprising that employers do not bother with training programs, when an excess supply of labour means that the skills which they need are readily available on the open market. As Sharpe (1993) has noted, a mismatch between labour market demands and available candidates may have been an important source of unemployment in 1988–89 in Canada, but continued high unemployment has created a generalized surplus of labour in almost all skill categories.

Government provides training directly to individuals through the standard system of primary, secondary and postsecondary education and through the specialized set of remedial programs provided to social assistance clients and, increasingly, to UI recipients. The proportion of students who stay in school and levels of enrolment in university and community colleges increased substantially in Canada during the eighties. (Between 1980 and 1992, for example, the proportion of students who attended grade 12 in Nova Scotia increased from 57 to 94 per cent; see Osberg, Wien and Grude 1995). Economists have always emphasized that foregone wages are one of the major costs of continued education, and one implication of high unemployment is that the opportunity cost of staying in school falls.

In a relative sense, this investment in higher education is a successful strategy for individuals, as evidenced by the continued differential in unemployment rates and income levels between university and high school graduates.

However, the other side of the coin is that the increasing educational qualifications of the mainstream population do not make it easier for the disadvantaged to succeed in the competition for jobs. Fewer years of education can also make it increasingly difficult for the disadvantaged to gain access to job training. For example, although one of the intended functions of the Nova Scotia Community College system was to service the need for job-relevant training of high school drop-outs, the abundance of well-qualified applicants means that grade 12 graduation is now the de facto entry requirement for almost all training programs.

In addition to the standard courses available at secondary schools, community colleges and universities, government finances a wide range of special remedial services targeted at those on social assistance. Counselling, supported work and life skills programs help individuals acquire the self-esteem, interpersonal skills and attitudes which are even more fundamental to employability than cognitive skills. Remedial literacy programs raise the educational level of individuals to one at which they can begin to assimilate training, and customized training modules teach job-relevant skills, such as word processing. And for the fastest-growing segment of the social assistance population — the "Steady Eddies" who have decades of work experience, a stable family life and no disabilities, but who also have no job and who have run out of UI — there are "job-finding clubs" to help with the unfamiliar skills of searching for a job.

In the United States, there have been a number of careful econometric analyses of the effects of job search assistance and training on displaced workers (which often use control groups of nonparticipants). This literature is not entirely negative: job search assistance can yield benefits, and carefully designed programs, with effective integration of remedial education, vocational training and job placement, can make a difference. However, these positive effects occur only if the number of jobs in the local labour market is expanding rapidly. Evaluation surveys of training interventions are, in the main, fairly depressing reading, since so many training experiments have had statistically insignificant results for later income levels or for chances for employment (e.g., Decker and Corson 1993; Leigh 1993).

As part of a larger research project that examined this phenomenon, I interviewed some of the people who administer these remedial programs in Canada. Although many of these programs seem to be well conceived and well executed and have a history of previous success, the administrators' depression and sense of futility in facing today's labour market is tangible. After all, their "graduates" have to compete in the labour market with the unblemished new graduates of universities, community colleges and high schools, many of whom will take almost anything today.

When the advertisement of a low-level clerical position produces upwards of 100 applications, it is not surprising that the skills taught in remedial programs (and the work history of their clients) are less attractive than the qualifications of other applicants. Although remedial training programs may well provide the skill set which is actually required for the job, and many of the other applicants for the same position are overqualified and would, essentially, be "underemployed," in today's tough economic times, we can hardly criticize employers for hiring the applicant with the best possible qualifications at the going wage.

One of the main lessons from the evaluation literature is the diversity of needs of the social assistance population. For example, the needs of teenage, single parents are very different from those of mature, displaced workers, and the overlap of social, psychological and educational disadvantages is far from perfect. People with multiple, severe problems are at great risk of long-term welfare dependency, while others' receipt of social assistance can be very short term.

While a large fraction of the population touches the social assistance system for a brief period, only a small proportion is dependent for longer periods of time and thus accounts for most of the costs. In social assistance, as in health care, a few people incur the bulk of the costs, and prevention is often *much* cheaper than cure (see ECC 1992).

However, in a high-unemployment environment, the few tend to become many. As mentioned above, high unemployment results in more single-parent families, abuse victims, psychologically disabled individuals, and so on, who are at great risk for long-term dependency. Furthermore, both preventing the problem and implementing the cure become much more difficult, since it becomes harder for training programs to actually lead to employment.

Clearly, any society that foregoes $50 billion of potential income will have difficulty satisfying competing demands for resources. As

noted earlier, the poverty gap in Canada has been about 1.3 per cent of GDP when the rate of unemployment was in the range of 7 to 7.5 per cent. However, the output gap is currently about five times this value. A tax of 20 per cent on the increase in output, if we moved to 7 per cent unemployment, would entirely finance the transfer-payments required to eliminate poverty in Canada. The remaining funds would be sufficient to significantly reduce the budget deficits of provincial and federal governments, as well as to increase aggregate consumer expenditure.

In the popular press, we sometimes hear of "jobless growth" in reference to firms which have increased output while decreasing employment. However, growth in labour productivity is not a new phenomenon. Since the Industrial Revolution, over two centuries ago, firms have been replacing workers with machines. Greater productivity means that more output can be produced by fewer workers, but if demand is growing fast enough, firms will also want to hire new workers, to satisfy that demand. The output gap and the rate of job creation depend primarily on the growth rate of aggregate demand. If aggregate demand grows fast enough, unemployment will decline.

As the recent history of employment in Ontario manufacturing illustrates, high real interest rates can produce capital inflows and an overvalued exchange rate (averaging U.S.$.86 in 1990), which will price firms out of export markets — as we saw from 1988 to 1991. However, prices in general (and exchange rates in particular) do matter, even if they operate with a lag. In 1993, the Bank of Canada lowered interest rates, and the resulting drop in the exchange rate to U.S.$.72 produced a resurgence in exports and in manufacturing employment during 1994. This flurry of activity was stifled in 1995 by a surge in interest rates. One of the advantages of being a small country is that Canada could let short-term interest rates decline and allow further decreases in the exchange rate, without major international retaliation.

We must recognize that a strategy of declining exchange rates and "export-led growth" would have costs. There would be implications for income distribution, since a lower exchange rate means higher prices of imported goods and services and, effectively, a cut in real incomes. However, if the alternative to cutting real wages quickly in this way is to cut wages slowly and unevenly through the cumulative pressure of long-term, mass unemployment, it seems fairer and more efficient to use the exchange rate mechanism. Historically, Canadian governments have often made use of exchange rate flexibility to produce periods of sustained growth (e.g., from 1962 to 1970). Higher growth rates of GDP and lower unemployment rates are entirely feasible.

Furthermore, depressed tax revenues and the higher UI and social assistance payments that accompany slow growth continue to sabotage Canada's attempts to reduce the deficit. Faster growth is essential for regaining control of the debt-to-GDP ratio, and panic over this ratio is now the main constraint on the available funding for social assistance and UI and for remedial social policies.

Although, in a financial sense, Canadians could "solve" the poverty problem with resources equivalent to a small proportion of the output gap, this chapter is not arguing for "cheque-book social work." Even though individuals on social assistance live well below the poverty line in all provinces in Canada, and many of these people need primarily more income (preferably through employment), there remains a significant group who need more than money. For those people who have been damaged by abuse or handicapped by psychological problems or substance dependency, counselling, retraining and supported work initiatives are essential supplements to cash payments. However, if the number of such casualties is to stop increasing, or if their training programs are to have a hope of success, lower unemployment is essential.

The Interdependency of Macro and Micro Policy

In the 1993 Nova Scotia provincial election, polling data revealed that the primary concern of the electorate was unemployment, and all the aspiring politicians therefore promised that their party would deliver "jobs, jobs, jobs." Each candidate suggested that the promises of the others would not be fulfilled, but no one was willing to admit that a provincial government (especially in a small province) cannot significantly reduce unemployment within a single electoral mandate of four years.

According to the Constitution of Canada, provincial governments control:

- the labour legislation, which frames the industrial relations system;
- the primary, secondary and postsecondary education system, which trains the labour force;
- the health care system, which keeps the population healthy; and

- the social assistance system.

Although Human Resources Development Canada contributes sizable funds to training, provincial government community colleges actually deliver most of the training.[7] The "structural policies" of government, which help to ensure that a healthy, well-trained and highly motivated labour force is available for business, are, in Canada, provincial responsibilities.

In the long term, structural policies are crucial to the health of the Canadian economy, and provincial government decisions do make a major difference. However, it is simply not possible for structural policies to have rapid results. Recently, much attention has been given to failures in the education system, and since the issue is fairly easily quantified, we will use education as an example.

Even if the best possible education system in the world could be implemented in time for the first day of school next year, the immediate implications of education reform for the quality of the labour force would be rather small because:

- the number of people who graduate from high school each year is a small percentage of the labour force (approximately 2.5 per cent);
- most students have already gotten most of their education under the old system; it would take twelve years for a reform of primary and secondary education to have its full effect on graduates;
- the potential benefit of educational reform is the difference between current educational achievement in Canada and that in other countries. Although some other students do better than Canadian students in international comparison testing, the difference is not huge.[8]

Believers in "quick-fix" social policies, who have an exaggerated idea of the size of labour supply elasticities, want to think that changes in the implicit incentives of social policies can have immediate, significant effects. As Phipps has shown (1993), there is a large body of econometric literature which demonstrates that labour supply elasticities are typically quite small, even for individuals who are not constrained by the availability of employment hours.[9] Changing the incentives implicit in social assistance policies will affect the desired labour supply, but only slightly. Furthermore, whatever the size of

the effects of lower marginal tax-back rates in social assistance and of greater financial incentives to work, these policy measures affect only the desired hours of work of individuals (i.e., the supply side of labour markets). They have no direct consequences for the desired employment levels of firms. However, getting a job is a joint event: an individual must want a job *and* a firm must want to hire him or her. In a market with an excess supply of labour, greater incentives only add to the excess of supply.

Over time, the health care, counselling, retraining and educational policies of provincial governments can have significant implications for labour force productivity by changing the characteristics which the clients of these programs bring to the labour market. Since it takes a long time to affect the average characteristics of the labour force stock, however, these policies can only have long-term pay-offs. Provincial governments control most of the policy levers which affect lasting structural change in the labour market, but these policies cannot be expected to have more than marginal significance for unemployment within a single electoral mandate. By contrast, it is clear that the fluctuations of the business cycle can create or destroy hundreds of thousands of jobs within a one- or two-year period. The federal government can influence the timing and intensity of the recessions and recoveries of the macroeconomic business cycle through its control over fiscal, monetary and exchange rate policies, but it can do much less to influence the long-term structural policies.

In adjusting to structural change, Canada has the significant advantage of a relatively mobile and well-educated population. As the majority has adapted, however, it has left behind an increasingly large minority. High unemployment impedes structural adaptation by "chilling" the labour market; it reduces the number of people who voluntarily change jobs or relocate and increases the difficulties of the disadvantaged in gaining access to the labour market (Osberg 1991; Picot and Pyper 1993). High unemployment therefore hinders structural adjustment.

Short-term and long-run unemployment also interact, since workers who have been unemployed for long periods of time bear the social costs in health and family life and the economic costs of obsolescence of their skills. In recent years, the term "hysteresis" has been coined to describe the idea that high unemployment feeds on itself; those who have been unemployed for a long time eventually become unemployable. However, the debate on hysteresis in unemployment has, in Canada, a particular federalist wrinkle. Federal

government decisions on fiscal and monetary policy can quickly influence the rate of unemployment, and this higher unemployment creates social casualties, firm closings and depreciation of human capital, which contribute to long-term unemployment. Provincial governments' social policies then have to react to an increased demand for social services, fewer financial resources and a diminished probability of program success, due to the unavailability of jobs. The failure of these provincial policies increases the rate of inflation associated with any given level of unemployment, worsening the trade-off between inflation and unemployment which faces federal decision makers.

Conclusion

In Canada, the day-to-day reality of labour markets is not consistent with the objective of structural change. A long-term objective of social policy is to help Canada adapt to structural change and to integrate those who now depend on UI and social assistance into employment. The short-term reality is a generalized surplus of labour. This surplus makes getting ahead in the competition for jobs extremely difficult for the disadvantaged. How can the socially disadvantaged be integrated into employment if they face, year after year, a labour market crowded with an excess supply of qualified new graduates? In this situation, how can prolonged high unemployment *not* generate more long-term candidates for social assistance?

When the economy grows slowly and interest rates are kept high, reducing the debt-to-GDP ratio requires governments to make massive cuts to social assistance payments and to the programs that try to move people off social assistance. Meanwhile, the social costs, in health care and crime, of intensifying competition for jobs, less job security and high unemployment simultaneously increase the deficit pressures facing governments.

In Canada, the failure of one level of government reduces the likelihood that another level can be successful. The policy levers which might influence the rate of structural change in labour markets are almost entirely under provincial jurisdiction, but the success of these policies depends heavily on whether there are any jobs available for the clients of counselling, retraining or mobility programs. In other words, provincial success depends on federal macroeconomic policy. Although macroeconomic policies are firmly under federal control, their long-term success depends on the effectiveness of the provincial policies which might help to prevent increases in

the natural rate of unemployment. Federal government decision makers seem, however, either unable or unwilling to recognize the interdependence between short-term macro-economic policy and structural change, or the implications of their decisions for provincial governments.

In a very real sense, however, macroeconomic policy is implicit social policy. Macroeconomic policy has profound social implications and social policy has serious macroeconomic implications in the long run. But if both types of policies are to be successful, they have to be coordinated, both across levels of governments and in time, and the crucial ingredient for success is recognition, by *all* policy actors, of the paramount importance of full employment.

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