

DISCUSSION

LARS OSBERG

DALHOUSIE UNIVERSITY

This paper contains a discussion of the fiscal determinants of migration which is somewhat inconclusive and a general discussion of the impact of current high unemployment rates on manpower projections and labour mobility in Canada in the 1980s which is rather important. I will discuss them in that order.

Grant and Vanderkamp argue, on the basis of the work of Winer and Gauthier,¹ that "the unemployment insurance system reduced migration for a selected subset of the Canadian labour force [low-income workers from Atlantic Canada]". Although no policy implication is drawn from this in the current paper, the conclusion does raise interesting methodological issues. I read the same book and my reading is that the econometric evidence is not selective, rather it is ambiguous. As one of those who migrated from Ontario to Nova Scotia, for economic reasons, during the sample period, I tend to feel that an economic theory of gross migration flows should be consistent with the data on flows in both directions - for example, both from Ontario to Nova Scotia and from Nova Scotia to Ontario. And I would also argue that the theory should be consistent with other migration flows. The Winer and Gauthier hypothesis is that U.I. generosity makes Atlantic Canada excessively attractive, from an efficiency point of view, to low-income individuals. Hence, the prediction is that measures of relative U.I. generosity will be negatively associated with outflows from Atlantic Canada and positively associated with inflows. The predicted associations are found for out-migration but not for in-migration. Similar predicted associations are only significant with the correct sign for about 1/3 of the other interprovincial flows.² We are, therefore, presented with a problem which is familiar to all who run regressions - some regressions support the hypothesis, some results are statistically insignificant³ and some contradict the hypothesis (*e.g.*, Table 2-3). Do we, at this point, accept the hypothesis and perhaps think of non-economic reasons which "explain" any "disappointing"⁴ results? Both the in-migration equations and the out-migration equations contain the same variables and have the same degree of theoretical validity (or lack thereof). Grant and Vanderkamp choose to accept the out-migration equations and disbelieve the in-migration equations - others might reasonably consider the case "not proven".

However, if the problem of high Atlantic Canada unemployment is that of too many people for the available jobs, then it is *net* migration flows which should interest us. Should one then not use *net* migration flows as the dependent variable in any study of the influence of unemployment insurance or other transfers on labour market adjustment processes? When we examine the tax data file of Winer and Gauthier (a 10 percent sample) we find that the net migration of poor Nova Scotians to all other parts of Canada during the period 1972-77 was, by year, -5, +14, -6, +42, -144, -31.⁵ Evidently this is a very "noisy" data series. If we smooth the data and compute the annual average net migration flows for the (post U.I.) 1972-77 period it amounts to a net outflow of 21.6 persons per year, as compared to an average annual outflow for 1968-71 of 19.8 persons.

Such small numbers (even multiplied by 10) should caution us about economic

significance as well as statistical significance. We should not forget that the total labour force of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland, added all together, is about half the labour force of metropolitan Toronto.⁶ The Atlantic provinces are a nice place to live and they have been the source of many interesting studies on migration behaviour. However, their labour market problems are essentially peripheral to the labour market problems of Canada as a whole in the 1980s.

More importantly, Grant and Vanderkamp emphasize that a slow and shallow recovery from our current high levels of unemployment will mean that national and regional labour imbalances are all likely to be in the single direction of excess supply. In addition, they emphasize the uncertainty in sectoral projections of labour demand that stems from the uncertainty in projections of aggregate GNP growth (both foreign and domestic) as well as the dependence of manpower demand forecasts on productivity forecasts and such specific scenarios as "megaproject" development and uncertain oil prices. These uncertainties on the demand side of labour markets clearly dominate the medium term but I would like to add two notes on the supply side.

First, there is a tendency, in this paper and in our discussion this morning, to focus on the level of *legal* international migration. To my mind, the real growth sector in migration internationally is *illegal* migration. Piore⁷ has argued that illegal aliens comprised 4 percent to 12 percent of the U.S. labour force in the late 1970s. This is a large number of people, increasingly important in certain industrial sectors. We must realize that the number that *come in* are greater than the number we decide to *let in*. The control of illegal migration will confront us, in the 1980s, with some of our most delicate policy issues.

Second, one ought *not* to assume that the supply side of labour markets will remain unaltered by our recent economic history. As I see it, the danger is that prolonged high levels of unemployment may permanently alter the adjustment mechanisms of the Canadian labour market, producing less flexibility where more flexibility is required.

High unemployment which penetrates significantly beyond its "traditional" populations (the young, labour force re-entrants and permanently marginalized workers) to affect the continued existence of what were previously thought to be "lifetime jobs"⁸ has been for many workers an "incredible" event. The implications for their future behaviour may perhaps best be introduced by way of analogy. If a torrential downpour of rain fell for many days upon the featureless plain so beloved by economic theorists, all the inhabitants of this plain might suffer some degree of dampness but the harm to any individual would be relatively small. In the real world, a prolonged torrential downpour would produce substantial amounts of flooding in low lying areas but those individuals who live on hills or who live behind strong dykes would be relatively unaffected by the flooding. However, those without natural or man-made protections would suffer catastrophic losses. One would not expect such an event to teach individuals the lesson that, since no one would have suffered catastrophic loss had they all lived on a featureless plain, one should destroy all dykes and level all hills. Instead, one would expect that an unexpectedly severe flood would teach the lesson that those who survive unscathed are those who live behind sufficiently tall dykes or on sufficiently high hills.

Similarly, an unemployment rate of 13 percent represents in many ways an object lesson in the personal benefits to an individual which can be derived from labour market rigidities. Both the 13 percent who are unemployed and the 87 percent who are employed recognize that some workers will live through the current recession almost completely unscathed. To the extent that central bank authorities achieve

"credibility" in their pursuit of monetary policy, we must all believe that similar monetary policies would be followed again in the future if inflation should again accelerate. Very few people would believe, by now, that inflation *cannot* re-accelerate should western economies return to a higher rate of economic growth. Therefore, to the extent that the Bank of Canada has attained "credibility" in its fight against inflation, it has also ensured that even if unemployment declines somewhat in the near term workers will continue to believe that there is a significant probability of a return to similarly high unemployment rates in future years.⁹ In that case, the problem for an individual is to ensure that he or she will be one of those who is unscathed by the next recession rather than one of those who are its casualties.

As Hirschman¹⁰ has pointed out, workers do not just have the market option of going elsewhere (exit) if a job situation is less than satisfactory. They also have the option of taking action (voice) to change the situation through collective bargaining, political pressure, etc. Over the years, individuals have used the option of "voice" in order to construct a wide variety of impediments to the free play of market forces. The seniority system, academic or bureaucratic tenure, quotas, tariffs, local content rules and much of the regulatory environment provide mechanisms to shelter particular individuals from potentially adverse movements in labour market demands. The creation of such labour market shelters may impede the efficiency of the operation of the labour market as a whole, but they are individually desirable sources of security. The greater the perceived insecurity of one's own job and the more difficulty which is expected in finding an alternative job, the greater also will be the effort which one will expend in attempting to create, or to strengthen, labour market shelters. The legacy of a prolonged period of high unemployment is therefore likely to be increasing labour market rigidity. Job security clauses are liable to be central considerations in collective bargaining.¹¹ The management of technological change is liable to challenge as an undisputed management prerogative. There is likely to be even more political pressure to enhance and maintain regulatory constraints and tariff and non-tariff barriers to trade.

Rigidity-increasing behaviour is *not* limited to collective action. When the perceived probability of future unemployment is low, there is little cost to surrendering a guarantee of future employment. In such circumstances, declining relative wages can provide, through increased voluntary attrition, some flexibility even to those employers (such as governments and universities) who have historically provided strong employment guarantees to more senior employees. But when perceptions change, and future unemployment in another career becomes a distinct possibility, how many will voluntarily surrender tenure? Industrial workers will also begin to pay very close attention to the sacrifice of seniority which they incur as the result of a voluntary job movement. Laid-off workers are more likely to wait for recall in the hope of moving up the seniority scale and avoiding future layoffs. In short, older workers with some seniority will hold on to what they have. Since there will be fewer younger workers in any event we are likely to see systematic decreases in job mobility and internal integration. These tendencies are likely to reduce labour market flexibility in Canada during a period when the aging of the Canadian labour force, the rapid pace of technological change and the substantial shifts now occurring in international trading relationships would have, in any event, created a greater need for adaptation in the Canadian labour market.

To summarize, the Grant/Vanderkamp paper's central thrust is the difficulty of forecasting, on a regionally disaggregated basis, the future pattern of labour demand and the consequent importance of facilitating adjustment mechanisms in the Cana-

dian labour market. With this I agree, but I cannot believe that penalizing the unemployed of the Atlantic region will have anything but a very marginal impact on aggregate labour market efficiency. The major current influence on labour market efficiency is, I fear, the systematic and economy-wide revision of labour market institutions that is being set in place as individuals adjust to the idea that unemployment could happen to me.

Notes

- 1 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).
- 2 *Ibid.*, Table 4-14, p.56.
- 3 *Ibid.*, Tables 4-14 and 4-15, pp.56 and 58.
- 4 *Ibid.*, p.24.
- 5 Winer and Gauthier, "Interprovincial Migration Data: A Supplement to *Internal Migration and Fiscal Structure*" (Working paper, Economic Council of Canada, 1982).
- 6 The January 1983 numbers were: Newfoundland, 202,000; Prince Edward Island, 52,000; Nova Scotia, 359,000; New Brunswick, 278,000; and metropolitan Toronto, 1,751,000.
- 7 M.J. Piore, *Birds of Passage: Migrant Labor and Industrial Societies* (New York: Cambridge University Press, 1979).
- 8 See G. Glenday and G.P. Jenkins, *The Unemployment Experience of Individuals*, Task Force on Labour Market Development, Technical Study, no.14 (Ottawa: Supply and Services Canada, 1981) for evidence that the labour force could be dichotomized in the 1970s into those who seldom, if ever, became unemployed and those who were repeatedly unemployed (some 24 percent to 36 percent). R.E. Hall, in "The Importance of Lifetime Jobs in the U.S. Economy," *American Economic Review* 72(1982): 716-25, presents American evidence on the importance of "lifetime" jobs to most workers.
- 9 How many people believe that, "next time", deflationary monetary policy will affect only prices and not quantities? A number of monetary economists, certainly, but a very small fraction of the population.
- 10 A.O. Hirschman, *Exit Voice and Loyalty* (Cambridge, Mass.: Harvard University Press, 1970).
- 11 One can note that the Quebec teachers' strike was not about wage rigidity (since roll backs were implicitly accepted fairly early), rather it concerned job security or, in economists' terms, the labour market adjustments to a changed demographic structure. It is hard to believe that the militance of Quebec teachers was unconnected to the lack of job opportunities which faced laid-off teachers. Employers who resist such demands for job security are apt to be faced with significant industrial conflicts, with uncertain long-term consequences.