

Comment: The Nature of Dependency

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There are a great many insights and observations in Tom Courchene's chapter — some I agree with heartily and some I disagree with. Since a commentary should be somewhat shorter than the original paper, I will select one aspect of the chapter I dislike and one aspect that I like, and make a general, overall comment.

The aspect that I dislike is the use of the term "dependency." This term is used repeatedly and has been used and re-used in the broader public discussion until it has become a cliché. However, the phenomenon which the term seeks to describe is rather vague and all-embracing, and the evidence that is cited is often entirely anecdotal. In fact, the term "dependency" has two quite distinct meanings and the debate on "dependency" has become sloppy and misleading because people often shift back and forth between these two meanings, without realizing the transition.

The term "dependency" is sometimes used in the accounting sense of "being reliant on," as indicated by the fact that a relatively high percentage of total income comes from a particular income source. In the accounting sense, senior citizens are highly "dependent" on unearned income in transfer payments and pensions, while the Alberta government is heavily "dependent" on transfer payments from oil companies. Dependency, in this sense, is an *ex post* accounting relationship which describes income flows. Since this conference has already heard numerous comparisons between Atlantic Canada and the rest of the country, and since unemployment insurance has often been mentioned, I could not resist the temptation of preparing Table 1. In order to maintain comparability, Table 1 compares urban areas only and it is notable that in the

TABLE 1: 1992 Unemployment and Unemployment Insurance Dependency

	<i>Halifax</i>	<i>Toronto</i>	<i>Montreal</i>
<i>Unemployment Rate (%)</i>			
Age 15-24	15.4	19.1	18.0
Age 25-44	8.9	11.0	12.6
Age 45+	7.7	8.1	11.4
Total	9.9	11.5	13.1
<i>Labour Force (000's)</i>			
Total	166.8	2,005.2	1,585.6
<i>Population >15 Years of Age</i>			
	246,200.0	2,890,900.0	2,469,900.0
<i>UI Claimants</i>			
Number	11,594.0	161,472.0	136,356.0
% of Labour Force	7.0	8.1	8.6
% of Population	4.7	5.6	5.5

Note: Regular benefit claimants only.

Source: Author's compilation

accounting sense, Halifax had in 1992 a *lower* rate of "dependency" on unemployment insurance than either Toronto or Montreal.

However, the term "dependency" is also often used in a behavioural sense to evoke images of addiction, false reliance on transfers and bad behaviour induced by the presence of transfer mechanisms. Observed outcomes are in this context, interpreted as voluntary choices and evidence on *ex post* accounting flows is used to justify the presumption of behavioural impacts from the presence of transfer payments. The Courchene chapter, like much of the literature in this area, shifts back and forth between the accounting and the behavioural interpretation of dependency, often without any apparent realization of the transition.

It is often hard to penetrate this dialogue with empirical evidence since "dependency" in the behavioural sense is vaguely specified, and it is an easy slide from stereotypes and anecdotes to macro data on accounting flows between provinces and broad generalizations about the psychological attitudes of entire regions of the country. Courchene's chapter, for example, discusses a hypothetical example of a worker who is employed for ten weeks and on unemployment insurance for 42 weeks. This sentence is followed by the statement that in two New Brunswick counties 100 percent of two-earner

households accessed UI at some point during 1992 and the ratio was above 90 percent in "many" other counties. The paragraph concludes with the statement "this is transfer dependency." Although the insinuation is clear, no attempt is made to ascertain whether the average duration of unemployment insurance receipt was two weeks or 20. There is no attempt to examine whether similar concentrations of unemployment insurance receipt could be found elsewhere (e.g., in east end Montreal) and there is no consideration of whether individuals "chose" in any sense to become unemployed.

For the record, however, ten-week workers are a very small proportion of total employment. Christofides and McKenna (1992) report that nationally, ten-week jobs were 2.19 percent of all jobs in 1988. Green and Riddell (1993, Table 6) report that in high-unemployment local labour markets the number of 10-13 week jobs were 2.44 percent of total jobs. Since some fraction of these jobs were followed by a return to school or a short duration spell of unemployment, the stereotypical "10/42 worker" is necessarily a smaller percentage of total employment. The continued reappearance of this stereotype in the public debate indicates the important fact that anecdotes have a far greater political and social impact than their numerical importance would warrant.

It is observably the case that people and governments in Atlantic Canada, and in depressed regions of the country generally, receive transfer payments. However, before those accounting flows are transmuted into a broad, overall behavioural assertion of "dependency," the mechanisms of presumed behavioural change should be specified. *Which* program is affecting *what* behaviour? *Who* is doing *what* differently? *How much* does behaviour actually change in response to program changes?

As it stands, the "dependency" argument is often used in a vague, overall macro sense, but is it individuals, firms or governments that are supposed to be behaving differently? The recent literature on unemployment insurance is far more uncertain about the behavioural impacts of UI than the literature of the early 1970s (see Osberg 1993). Is it being suggested that equalization payments to provincial governments are altering the wage elasticity of labour supply of individuals? Are firms supposed to be less profit-maximizing because provincial governments have additional revenue? Why is it that additional revenue in equalization payments to Saskatchewan induces "dependency" while additional revenue in oil royalties to Alberta does not? Economists have long argued that decisions are influenced by prices at the margin, and federal transfer payments such as equalization and EPF are unconditional — how is it that these transfer payments are supposed to influence provincial government priorities?

On the other hand, if one prefers broader generalizations, should Canadians be using the evidence of Table 1 to support a whole new series of anecdotes

about lazy residents of Toronto and Montreal, living a life of leisure on unemployment insurance? I think not, because Table 1 really indicates the disproportionate impact of the 1990-93 recession on Toronto and the longer term structural problems of the Montreal economy. As Sharpe (1994) has shown, two-thirds of the job loss of the 1990-93 recession was concentrated in metropolitan Toronto. (On the other hand, Montreal has had higher unemployment than Halifax since the late 1970s.) The serious point to make is that the demand side of labour markets is crucial to our understanding and interpretation of accounting data on unemployment insurance flows.

A second point to emphasize is the sharp divergence between urban and rural labour markets in many parts of Canada. Atlantic Canada's rural problems are not unique. Although fishing villages in Atlantic Canada have been dramatically affected by the collapse of the east coast fishing industry, the broad employment trends in farming, forestry, and mining are similar across Canada. And although the problems of Algoma Steel may be relatively new, while those of Sydney Steel are long-standing, they are very similar. The greater relative importance of the rural, resource-based economy in Atlantic Canada heavily influences interprovincial statistical comparisons, but the fundamental structural problem is rural-urban, not interprovincial, in nature.

One thing that I agree with strongly in the Courchene chapter is the emphasis on knowledge and information as being the cutting edge of international competitiveness and his statement that a well-educated labour force is essential for future prosperity. Intergovernmental transfer payments are crucial to maintaining accessibility of education. In discussing educational attainment, it is essential to distinguish carefully between stocks and flows. As Table 2 indicates, there has been a dramatic change in recent years in the Grade 12 retention rate in Nova Scotia. However, the educational characteristics of the labour force stock are still dominated by the older cohorts of workers who entered the labour force during a period when educational attainment was much lower. In the mid-1960s two-thirds of Grade 7 students in Nova Scotia dropped out before Grade 12 — these people are now in their mid-40s and will continue to be in the labour force for about the next 20 years. As Table 3 indicates, the educational attainment of Atlantic Canadians differs dramatically by age cohort, and older cohorts have a relatively low attendance rate at university, compared to the national average. However, since Courchene's chapter points out the necessity for reformed social policy to emphasize the development and enhancement of human capital potential, it is worth recognizing that the recent dramatic increase in educational attainment in Atlantic Canada has produced a rate of university attendance among 20-24 year olds that is *higher* than the national average.¹

TABLE 2: Nova Scotia Department of Education Provincial Retention Rates*

Grade 12		Grade 7		Retention Rate (%)
Year	Enrolment	Year	Enrolment	
1992	12,881	1987	13,678	94
1991	12,165	1986	13,981	87
1990	11,578	1985	14,099	82
1989	11,662	1984	14,450	81
1988	11,834	1983	14,927	79
1987	11,408	1982	14,576	78
1986	10,972	1981	14,999	73
1985	10,777	1980	15,372	70
1984	11,376	1979	15,794	72
1983	11,691	1978	16,826	69
1982	11,637	1977	18,360	63
1981	10,910	1976	18,832	58
1980	10,742	1975	19,003	57
1975	9,817	1970	18,417	53
1970	8,860	1965	17,111	52
1965	5,315	1960	16,146	33

*Retention rates may be over-estimated as there is no record of the number of students returning to grade 12 after dropping out for a period of time. During downturns in the economy, more students are likely to return to school.

Source: Author's compilation.

TABLE 3: Percentage of Population Years 15 and Older Who Have Attended University

Age Group	Nfld.	N.S.	N.B.	P.E.I.	National
(percent)					
All>15	16.4	20.9	17.9	20.7	20.8
15-19	10.0	9.1	10.2	12.3	5.5
20-24	31.9	34.7	33.0	35.7	29.9
25-34	20.5	27.1	22.1	24.9	26.3
35-44	19.4	26.8	21.8	27.4	27.9
45-54	14.4	19.1	16.7	18.8	21.7
55-64	7.5	13.1	10.8	13.4	13.3
65+	4.9	10.1	8.0	9.7	9.8

Source: Census of Canada, 1991. Cat. No. 93-328 pp. 24-29.

It is clear that the governments of Atlantic Canada have delivered substantially more educational services to their population in recent years. Clearly, intergovernmental transfer payments are a crucially important part of the revenues of the provincial governments in Atlantic Canada, from which educational expenditures are financed. Although it is hard to know for certain the counterfactual case — what quantity and quality of educational services provinces would have been able to deliver in the absence of federal transfer payments — my suspicion is that money matters. The educational system has managed to deliver a relatively high level of accessibility and quality, even in some of the poorest rural areas of Atlantic Canada. I do not see how this would have been possible in the absence of intergovernmental transfer payments and I think that such investment in education is highly desirable, on both equity and efficiency grounds. In all our talk of fundamental reforms to intergovernmental transfer payments we should, therefore, remember that there really is a baby in this bathwater.

As to transfer payments to individuals, one of the proposals in the Courchene chapter that I do like is his suggestion for a negative income tax for children. The chapter does not provide many details and one has to recognize that such a program will be inserted into an economy, and a society, undergoing very rapid change. The high rate of divorce and remarriage (as well as more informal mergers and dissolutions of households) means that the membership of family units changes continually. Increasingly sophisticated managerial strategies for the “just in time” hiring of labour and an increased casualization of the low wage labour force means that *individual* income flows have also become highly variable. As a result, a negative income tax scheme which requires people to qualify *ex-ante*, *before* they receive benefits would face very high administrative costs, because individual children will be continually moving into and out of eligibility. Since it is essential for income to arrive *in time* to pay for the groceries, a negative income tax scheme, to be useful, must have fairly frequent payments. There are, therefore, substantial administrative advantages to delivering the guarantee level of a negative income tax for children as a demogrant and taxing back any excess payments through an existing mechanism such as the income tax system. An effective negative income tax for children would, therefore, be very similar to the recently abolished family allowance system, although presumably considerably larger in value.

My most general comment on the Courchene chapter is that although I found it relatively easy to agree with the need to “restructure” social policy in some general sense, I found very few details. I agree that changes must always be made in social policy because social problems are always changing. I agree that it is increasingly necessary to recognize the linkages between economic and

social policy. However, I am left wondering what exactly is meant by "restructuring."

Furthermore, I would argue that one cannot realistically consider restructuring social policy without paying some attention to the macroeconomic context. In many ways, redesigning unemployment insurance and social assistance in the middle of a recession is like redesigning bathing suits in January. Although little harm is done by conceptual redesign (indeed one must plan ahead if new bathing suits are to be delivered in July) people will resist wearing new bathing suits right away — and their resistance is entirely reasonable, if, in fact, the lake is frozen.

If continued high unemployment means that jobs are not, in fact, available there is little point in reforming social policy to "increase incentives" to accept (non-existent) jobs. Without a demand for trained labour, there are few payoffs to increasing the supply of training. A balanced reform of social policy must recognize the crucial importance of the demand side of labour markets, and the role of macroeconomic policy in influencing aggregate demand.

NOTE

1. Although, during the school year, Nova Scotia attracts a substantial inflow of out-of-province students, the census data on which Table 3 is based measures population as of 1 June, and records residence as "place of normal residence."

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