



## PUBLIC POLICY

W. Craig Riddell and France St-Hilaire, eds. *Adapting Public Policy to a Labour Market in Transition*. Montreal: Institute for Research on Public Policy, 2000. xx + 317 pp. \$24.95 paper.

This book comprises eight invited papers, all from prominent Canadian labor economists. Each of the essays addresses an important Canadian labor market phenomenon and gives suggestions for future policy direction in an ever-changing labor market environment. In the first essay, Morley Gunderson and W. Craig Riddell argue that many current labor market policies were implemented when blue-collar, unionized, permanent jobs were held by males who worked 9-to-5 in industries shielded from international competition. Today the labor force is more characterized by multiple-earner families working flexible hours in a non-unionized environment and in industries that are competing internationally. These changes have come from the demand-side (for example, international competition), the supply-side (for example, increased labor force participation of women), and institutional changes (for example, lower unionization rates in the U.S.).

Employers have responded by attempting to increase the flexibility of their organizations. This has been done through traditional means such as layoffs, and also through methods such as outsourcing contracts, tying pay to performance, and flexible staffing arrangements. For their part, employees and labor unions have also reacted. The result has been more flexibility in employment contracts and, in some cases, more union-management cooperation. For governments, too, the key word has been flexibility, as programs are expected to do more with fewer resources. Education and retraining have become more important than passive income-support programs. The federal government has also handed much of the responsibility for these programs to the provinces, partially for reasons of increased flexibility and also because of the never-ending provincial-federal squabbling over jurisdiction.

The authors here present evidence showing that these changes have occurred gradually. The trick is for government to separate reality from myth, and design proactive, equitable, and efficient labor market policies in response to these changing conditions, while considering the influence that labor market policy changes can have on other economic and social objectives. The chapter by Paul Beaudry and David A. Green addresses one of these (potential) myths: that the labor-market position of many Canadians, especially young Canadians, has declined since the 1960s. The authors measure employment stability along three dimensions: employment-to-population ratio, full-year full-time employment rates, and duration of uninterrupted job tenure. They use a cohort analy-

sis technique in which the samples are divided by gender and level of education, and then placed into seven cohorts based on age at the time of labor-market entry. Business cycle effects are also removed. This analytical design allows the authors to address the experiences of each cohort at the same stage of the life cycle. In other words, they compare apples with apples.

The results are gender-specific, with labor-market outcomes along the three studied dimensions improving for high school- and university-educated females, worsening for males with only high school education, and mixed for university-educated males. The results indicate that the perception of a secular worsening of employment prospects for the most recent generations may not be correct; the exception being young, uneducated males.

The third paper by W. Craig Riddell and Arthur Sweetman begins with some stylized facts about education—namely that Canadians, especially recent generations, are among the most highly educated people in the world. The theoretical reasons for this are twofold: increasing use of technology and globalization of labor markets have led to increased demand (and hence higher wages) for skilled labor, and poor employment prospects for young Canadians have decreased the opportunity costs of attaining higher education. Both phenomena would increase educational attainment, but the former argument is more sanguine, suggesting that Canadians are responding to new and better opportunities. The latter outcome means that resources could be inefficiently channeled into higher education as university graduates are hired where once a high school graduate sufficed. Riddell and Sweetman show that wages for Canadians with higher education have not fallen, implying that the increased supply of educated labor has been outpaced by increased demand, evidence that is consistent with the first explanation. Furthermore, the commensurate decrease in the supply of less-educated workers means that their wages have not fallen as dramatically, despite decreased demand for their services. Contrast this with the situation in the U.S., where wage premiums to education have increased substantially, widening the wage distribution.

In the next paper, Jean-Michel Cousineau and François Vaillancourt show that provincial per capita personal incomes have tended to converge since the early-1970s. Consistent with economic theory, individuals will migrate to higher-wage and lower-unemployment areas. This will hold down wages in these areas (mainly Ontario, Alberta, and British Columbia), while relieving downward wage pressure in areas with low wages and high unemployment (mainly the Atlantic provinces). Still, rates of migration have been declining over the past twenty-five years, and thus this argument fails to explain the magnitude of this income convergence. Technological diffusion and redistributive federal transfers offer alternative hypotheses, with the former offering the best explanation. The results imply that emphasis should be placed on better diffusion of technology (that is, technological catch-up), accumulation of human and physi-

cal capital (to complement technology), and policies that enhance interprovincial migration.

Peter Kuhn's essay contributes to a perennial Canadian question: Why is the Canadian unemployment rate higher than that of the U.S.? Is it due to a relatively inflexible labor market in Canada? Kuhn critiques this explanation. In particular, the "quantity version" of the labor-market inflexibility argument points to stricter employment protection laws (EPLs), which hinder hiring because the ability to fire is weakened. The "price version" of this argument contends that higher minimum wages and unionization rates increase wages above the market-clearing equilibrium, which itself has declined for unskilled workers due to technological change and globalization. The result of either will be a higher unemployment rate.

Kuhn notes that EPLs, minimum wage laws, and higher unionization rates in Canada vis-à-vis the U.S. all point to a higher unemployment rate. After a careful review of the empirical evidence, he concludes that neither version of the argument explains much of the unemployment gap between the two countries. Rather, we must look to other explanations, such as differing labor-demand shifts or the disincentive effects of government transfer policies. He is cautious of wantonly adopting U.S. labor-market institutions in Canada just because the U.S. economy performed well in the 1990s. He reminds readers that many analysts were in favor of adopting Asian-style employment practices when the Asian Tigers were outperforming the North America economies. Today nobody would be quick to call for such labor-market reforms.

Nicole Fortin and Thomas Lemieux also address the minimum wage, as well as social assistance and unemployment insurance, and compare each in terms of their efficacy in changing income distribution. The authors debunk the myth that the minimum wage is earned primarily by individuals who are not the primary wage-earners in the family (that is, individuals with working spouses and teenagers from middle- and upper-class families). They note that the minimum wage is a small transfer program in Canada. Still, it may have sizable effects on the group of workers near the minimum wage (as higher minimum wages put upward pressure on other low-wage jobs).

Of the three programs, social assistance has the largest redistributive effect, mainly because it targets low-income families. Minimum wages and unemployment insurance, which are not targeted, are rather blunt policy instruments. Still, the minimum wage is likely to increase in importance as an income redistribution program owing to recent cuts to the other two programs. Furthermore, "workfare" in jurisdictions such as Ontario and Alberta is putting pressure on individuals to work more hours, many of which are likely to be at or near the minimum wage.

Guy Lacroix continues with a related theme of reforming Canadian social assistance. Social assistance in Canada falls under the jurisdiction of the provinces, and lower transfers from the federal government coupled with increased

caseloads have led the provinces to reconsider existing programs. Unfortunately, most existing research has dealt with the cases of the U.S. and Europe. Lacroix attempts to fill this gap by addressing the dynamics of welfare participation in British Columbia and Quebec. He finds that a large share of welfare expenditures is devoted to long-term welfare recipients, especially single parents. Policy initiatives should therefore address shortening welfare spells and reducing the rates of recidivism among these individuals. The dearth of research in Canada, however, means that Lacroix is short on providing specifics, although evidence for Europe and the U.S. points to the importance of disincentive effects and job training programs as promising future Canadian research directions.

In the volume's final chapter, Michael Baker and Dwayne Benjamin tackle the challenges facing the Canada Pension Plan (CPP) and its Quebec counterpart, the Quebec Pension Plan (QPP). Like Social Security in the U.S., the CPP and QPP are essentially pay-as-you-go systems. This is not problematic until it is coupled with the fact that both plans have been subjected to increased expenditures and decreased contributions due to demographic shifts (that is, fewer young workers, more older workers, and higher female labor force participation), as well as earlier retirement ages. The government response has been to increase contribution rates in order to correct this fiscal imbalance. But can policy changes result in delaying the retirement age and thus decrease the financial strain on the systems? The authors' evidence suggests that factors other than the parameters of the CPP and QPP (such as health, employment opportunities, and private wealth) have more of an influence on retirement behavior. This diminishes the ability of public policy to change retirement behavior. Introducing earnings testing would help to reduce payments, as would increasing the age of eligibility for benefits. But either would simply reduce payments, not enhance receipts. They conclude by noting that these issues are the same as those in other countries but, once again, more Canada-specific research is warranted.

The book is smoothly written and edited with one chapter leading seamlessly into the next. The papers in the collection all address important current or future Canadian labor market phenomena, and tackle the role of public policy in this rapidly changing environment. The essays collectively offer a fresh analysis by first meticulously ascertaining if a problem exists, offering potential solutions, and calling for more targeted research. While this collection is written by economists, it is not written exclusively for economists. This book will be of interest to anyone who is interested in the changes and the public policy challenges facing the Canadian labor market.

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