

### Chapter 3

# Employment, Unemployment, and Pay Questions

## Voluntary unemployment?

The thesis of Chapter 2 implies the existence of voluntary unemployment in Atlantic Canada, and that will strike some as odd. A few quick observations are in order. Most economists accept the existence of voluntary unemployment even in times of high unemployment, though its magnitude is controversial. Workers are reluctant to accept jobs which pay below what the community accepts as an appropriate level of pay, and workers are likely to voluntarily increase their search time — and thus the unemployment rate — if only jobs below this rate, the workers' reservation wage rate, are available. Thus, unemployment can be increased when government activity pushes up the wage rate.

Search time is further increased if spells of unemployment are subsidized, as they are by UI. UI can have an even more direct impact on the unemployment rate. May and Gunderson (1996), for example, show how it is often more remunerative for workers to enter the UI stream than to find permanent employment. This is reinforced if, as is often the case in rural communities, profitable opportunities are available in the underground economy which produce gain without the pain of taxes and UI work-related penalties. Much anecdotal evidence suggests that it can actually be difficult to find workers for non-underground contract work in some high-unemployment, high UI-subsidized regions of Atlantic Canada.

Finally, even workers willing to accept sub-community standard wages may have difficulty in finding such work. Unions and the reaction of the existing workforce may make it difficult for employers to offer pay below the accepted level, even when they could offer more jobs at a reduced wage. Employers may be worried about the impact on workplace morale and productivity or about being seen as unfair if they try to employ workers at low wages. Certainly, there is much evidence here as well as elsewhere that workers can react strongly if they believe pay rates are unfair in relation to accepted standards in the community. The end result is that employers are not able to create all the employment they otherwise would have if various government programs and initiatives had not put upward pressure on wages. This hardly exhausts a summary of the extensive labour market literature, but it does give some sense of how a bidding up of a region's pay rate can result in what might loosely be termed voluntary unemployment.

## Equity questions

The last chapter seemed to argue that it is proper and fitting for Atlantic Canadians to be paid less than other Canadians — surely an inequitable conclusion.

However, the economic damage caused by above-market pay in Atlantic Canada has been recognized by many who closely study the issue.

*[C]lear objectives would no doubt necessitate some difficult policy choices. If, for example, Ottawa and Prince Edward Island or New Brunswick agree that the overriding regional development goal is to create self-sustaining economic activity, then decisions will be required that may well prove painful to some. For instance, the federal government may have to set public-service wages more in line with the wages for comparable work in the private sector in the region... [P]rovincial governments might lower the provincial minimum wage in order to lower unemployment. Obviously both these measures might be seen as politically unacceptable. This view, however, should be considered against the backdrop of the continuing dependence of certain regional economies on federal transfer payments. (Savoie, 1992, pg. 224)*

A lower level of pay in Atlantic Canada relative to the rest of Canada does not translate into a equivalently lower standard of living. With a lower level of regional pay, all locally produced goods and services will also cost less, reducing the standard of living gap. As well, housing costs throughout the region are low compared to the Canadian average. This is particularly true in less populated rural areas, where the wage gap is largest, again ameliorating the impact of a pay gap. Other factors suggest that a rate of pay does not translate automatically into a lower quality of life. (See Mansell and Copithorne, 1986, for a discussion of this issue.)

Whatever one's view on the equity question, in the long term, market-based pay is an economic necessity. The rest of Canada will not indefinitely support Atlantic Canada. A daycare worker in Calgary or an unemployed truck driver in Toronto are likely to believe their tax dollars are better spent at home. Unless the rest of Canada continues regional subsidies at current levels, market-based pay is a necessary part of the adjustment process to a more dynamic economy. Ultimately, as noted earlier, this dynamic process itself leads to wage increases as the region's human and physical capital grows. This process leads to higher wages which are sustainable without government intervention.

The question of equity cuts another way and that is whether the inflow of regional subsidies has produced equitable results. While the subsidies the region receives have almost certainly raised pay levels region-wide, the benefits of these regional subsidies are not equitably distributed. Some receive higher pay, but many other Atlantic Canadians have been left unemployed over the last two and a half decades. UI is often believed to be a program which helps the poorest in society, but May and Hollet (1995) show how a shockingly high proportion of UI payments go to the best off economically in the region. And, while the class distribution of net regional subsidies is not examined here, the international evidence on foreign aid, equivalent to our regional subsidies, indicates the benefits of foreign aid flow largely to the most privileged in society, even when corruption is not a significant factor. (See Chapter 6.)