10-a)

# Ten Good Reasons for Full Employment

Speaking Notes for:

**Economics of Work: The Impact of Public Health**

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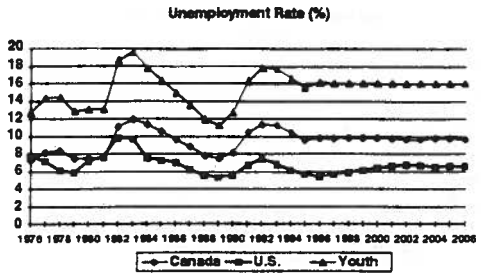
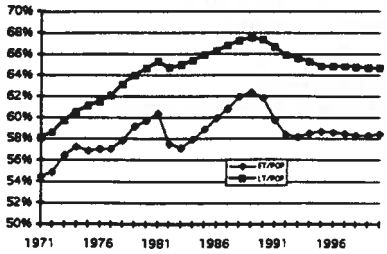
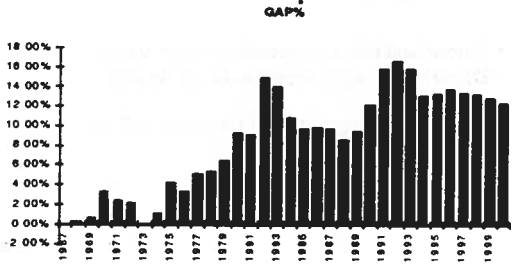
## Unemployment - Canada & US




## Employment Ratio




## The Gap




## The Good News

- More people will be working
- Incomes are finally rising again
- Fiscal crunch on governments is over
- Interest rates have returned to sensible levels
- Inflation is under control
- Premium on education

## The Bad News

- More people will be looking for work
- Governments are pulling back
- Pace of recovery will be modest
- Polarization of incomes continues
- Education will be a necessity

## Ten Good Reasons for Lowering the Unemployment Rate

- Economic
- Social
- Health
- Other

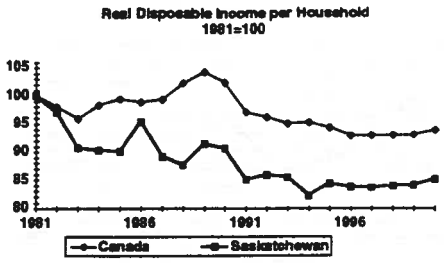
## Improve Real Disposable Income per Capita

Three sources of improvement:

- Increased employment
- Improved real wage rate
- Lower payroll taxes

Help to turn around domestic sectors

## Real Incomes




## Improve Income Distribution

- Reduced polarization of hours
- Reduced polarization of wage rates
- Improved prospects for new entrants
- Improved prospects for relatively low education groups
- Room for improving on earned incomes through tax and transfer system

## Improve Debt Stability

- Fewer business and consumer bankruptcies
- Government balances improve, lower debt ratios
- Keys are more growth and lower real interest rates

## Stability of Debt Ratio

$$D = \frac{(1+i)}{(1+y)} D_{-1} + PD$$

$$\Delta D = (i - y) D_{-1} + PD$$

Stability Factor

Primary Deficit

D = Debt / Nominal GDP
i = Interest rate (90 day T-Bills)
y = Nominal GDP growth rate
PD = Primary Deficit Ratio: Deficit plus net interest payments over nominal GDP.

## Enhance Business Performance

With more rapid pace of growth:

- Increased capacity needed, leading to more investment
- Increased productivity
- Higher real wages
- Higher profitability

## Reduce Social Dependency Rates

- Raise self-esteem
- Reduce family disruption
- Help provincial and local balances
- Room for rate increases

## Leveraged Reductions in URATE

Reduction in overall unemployment rate reduces more than proportionately:

- Youth unemployment rates (new entrants)
- Aboriginal
- Visible minorities
- Less educated

## Reduce Crime and Violence

- Lower property crime
- Fewer murders
- Less physical abuse
- Improved employment opportunities for previous offenders

## Improve Population Health

- Better nutrition, healthier lifestyles, less mental stress
- Reduced morbidity and mortality
  - Heart attacks and strokes
  - Suicides

## Reduce Regional Imbalances

- All regions benefit from growth
- Relocation and spinoffs
- Fiscal capacities improved for provincial and local governments
- Fewer regional frictions?

## Turn to New Dimensions

- Longer-term strategies for health
- Extend healthcare to pharma/dental/vision/ etc.
- Enhance Culture
- Improve access to PSE
- Focus on Children and Family

## Bonus Reasons

- Kids able to leave home before 40!
- Would irritate Bay Street bashers!
- Would prove editorial writers wrong!

## Policy Package

- Change in Monetary Policy
- Change in Fiscal Policy
- Change in Incomes Policy
- Change in Structural Policies
- Change in Institutions

## Macroeconomic Performance

| Healthy Economy | Weak Economy |
|---|---|
| Low Urate | High Urate |
| Welfare to employment | Unemployment to welfare |
| All regions improve | Double-digit Urate |
| Incentives for education | Education for what? |
| Business trains | Why train? |
| Optional retirement | Forced retirement |
| Fiscal capacity | Fiscal pressures |

## Monetary Policy

- Real interest rates less than 3%.
- Floating Exchange Rate
- Encourage Domestic Lending
- Reduce Credit Gaps

## Fiscal Policy

Objective: Stimulus of Demand

- Accelerate Infrastructure Spending
- Social Employment Programs
- Stimulus to consumers through tax cuts or transfer increases
- Pick actions that have high payoff in jobs
- When full employment approaches, raise taxes.
  - CPP/QPP contributions up.
  - Personal income taxes up.

## Incomes Policy

- Consensus on national wage and price guidelines.
- Encourage voluntary sectoral guidelines.
- Enforcement of overshooting is a federal and provincial responsibility.
- Net CPI for indexing (omit effects of indirect taxes, exchange rate, and commodity price shocks).

## Structural Policies

- Raise investment effort.
- Improve Productivity.
  - Education and training
  - R&D
  - Cyclical bounce?

Competition Policy

- Trade Promotion.
- Promote Innovation.
- Changes in Working Time and Distribution.

## Institutional Realities

- Federal-Provincial
  - Cooperation/Coordination
  - Infrastructure planning and finance
  - Rationalization of Indirect taxes
  - Reduced borrowing costs
- National Institutions
  - Incomes policy (ECC-like institution?)
  - Training and education
  - Science and technology
  - Health (drug prices, health promotion, etc.)
- Finance and the Bank of Canada at the table!

## Canadian Unity

•Is Canada Greater than the Sum of its Parts?

## Multipliers

| Actions | GDP | Jobs |
|---|---|---|
| Hiring people | 2.7 | 56 |
| increase Goods&svcs | 1.6 | 28 |
| Infrastructure | 1.7 | 26 |
| Indirect tax cuts (GST) | 1.1 | 17 |
| Corporate tax cuts | 1.1 | 14 |
| Personal income tax cuts | 0.8 | 12 |
| Payroll tax cuts | 0.6 | 9 |