

place of residence, and be designed to result in a minimum level of distortion to the economy as a whole, to individual sectors, and to the decisions made by the recipients of the transfers.

With regard to unemployment insurance, we can be a little more specific. Based on the evidence, the program is clearly distorting the functioning of the economy and mitigating against sound economic development, not just in the poorest regions but in all of Canada. In our opinion, the existing system of unemployment insurance should be revised to eliminate its tendency to distort patterns of work and to contribute to regional stagnation.

While we are not recommending that individuals be sacrificed on the altar of economic efficiency, we are suggesting that the side effects of the current system create economic conditions that actually work to the detriment of many Canadians and mitigate against the economic growth and development that would contribute to the well-being of all. We recognize as well that in some circumstances, it is only reasonable that assistance, especially of a short term nature, be geographically limited in its availability. Disaster relief is one obvious example. Assistance related to plant shutdowns that severely affect certain areas but not others might be another. We would, however, repeat our earlier assertion: this assistance should be designed to have a minimal effect on the normal operation of the economy.

**Transfer payments to individuals help to improve living standards in the less developed regions of the country and thus contribute to regional development. However, they can interfere with worker mobility and they impede the adjustment of costs in the lagging regions which, if not allowed to occur, discourages new investment. Although most transfer payments are geographically neutral, some are not; these distort the functioning of the market economy and exacerbate the structural causes of regional disparities. The unemployment insurance program is the best example of this tendency, for it results in inefficient decisions by individuals and businesses, thus affecting work patterns and mobility, leading to dependency and retarding growth. It should be revised or replaced by an alternative system of income replacement that helps to preserve the work ethic and does not discourage worker mobility.**