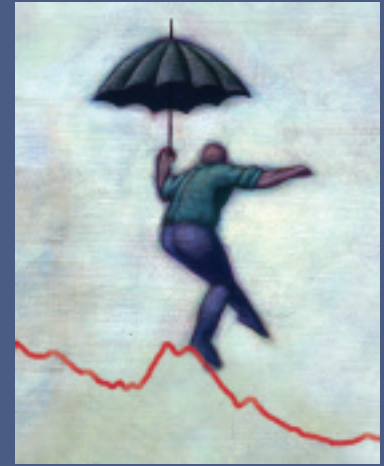


EI: THE LAW OF UNINTENDED CONSEQUENCES

Janice MacKinnon

The current employment insurance (EI) system discourages Canadians from moving to pursue employment and should be replaced by uniform standards for access to, and duration of, EI benefits. Such a change would help address labour shortages that threaten to curtail Canada's economic growth and worsen our productivity. Moreover, training opportunities need to be improved, access to EI should be expanded and there needs to be a stronger link between premiums paid and benefits received. Though EI needs to be changed, the question remains: should there be an election this fall over the issue ?

L'actuel régime d'assurance-emploi (AE) dissuade les Canadiens de déménager pour trouver du travail et doit être remplacé par des normes et une durée uniformes d'admissibilité aux prestations affirme Janice MacKinnon. Ce changement aiderait à combattre la pénurie de main-d'œuvre qui menace de freiner la croissance économique du Canada et d'aggraver ses problèmes de productivité. Il faut de surcroît améliorer les possibilités de formation, élargir l'accès à l'AE et renforcer le lien entre les cotisations payées et les prestations reçues. Mais si le régime AE doit effectivement être réformé, faut-il pour autant déclencher cet automne des élections sur la question demande-t-elle ?



Recently, a Saskatchewan business person asked a pertinent and revealing question: why don't more unemployed Canadians from parts of the country with high jobless levels move to provinces that are experiencing labour shortages? One explanation is that Canada's employment insurance system does not provide incentives for unemployed people to relocate. In fact, there are disincentives for EI recipients to relocate to where the jobs are. Indeed, the EI system, as it is presently structured, has the potential to sap future economic growth and accentuate Canada's productivity challenges.

Thus, the system needs to be changed to encourage mobility. EI also needs to do a better job of insuring Canadian workers against the misfortune of unemployment while helping them relocate to where there are better job opportunities. Major changes in EI are warranted. But does it make sense for Canadians to go to the polls over the issue of EI?

The disincentives to mobility are rooted in the basic structure of EI. Under the current EI system Canada is divided into 58 regions, and the length of time that people have to work to qualify for EI and the duration of the benefits they receive vary from region to region, depending on the unemployment levels in the area. In a high-unemployment region, it is possible for an unemployed person to qualify for

benefits after 420 hours of work and to receive benefits for 50 weeks. The same person living in a region of low unemployment would have to work as long as 700 hours to qualify for benefits and would receive assistance for as little as 19 weeks.

The system discourages mobility: an unemployed Canadian from a high-unemployment region who moves to an area with low jobless levels might have difficulty finding long-term work. If this happens and the person has to access EI, then he or she will wait longer for benefits and receive them for a shorter period of time. How many jobless Canadians living in areas with high unemployment decide it is better to stay put and enjoy a higher level of benefits? By the same token, how many would even move to another region within the same province that has more economic opportunities, lower levels of unemployment, but less generous benefits if EI has to be used? The decision to avoid a risky move is reinforced by the federal government's failure to assist people who are willing to move to find better economic opportunities.

As well as discouraging mobility, the current system is also unfair to unemployed Canadians in certain regions. Jobless Canadians living in areas of low unemployment — Toronto and Calgary, to name two such areas — are treated less generously by the EI system even though, in many cases, they live in places in which the cost of living is

high. The current EI system also benefits some regions more than others. “Only one in three of the unemployed in Ontario and the Western provinces receive Employment Insurance, compared to eight in ten in Quebec and the Atlantic provinces” (*Caledon Commentary*, April 2009). This is a source of signif-

icant frustration on the prairies because the three provinces have maintained low levels of unemployment during difficult economic times since people have traditionally left them to find jobs.

The current system also rests on the assumption that it is in the best interests of individuals and the economy for unemployed Canadians to remain within their region, hoping that the jobs will come to them, rather than moving to faster-growing regions where there are better job opportunities. Is this a valid assumption? Is it one that lays the basis for a dynamic, prosperous future for Canadians, especially in light of our need to address the challenges posed by an aging population?

The rationale behind the current system is that it is more difficult to find work in an area of high unemployment and, by extension, there has to be easier access to EI benefits, which are made available for a longer period of time. But the current system also rests on the assumption that it is in the best interests of individuals and the economy for unemployed Canadians to remain within their region, hoping that the jobs will come to them, rather than moving to faster-growing regions where there are better job opportunities. Is this a valid assumption? Is it one that lays the basis for a dynamic, prosperous future for Canadians, especially in light of our need to address the challenges posed by an aging population?

The recent recession has obscured our demographic challenges: the Canadian population is aging, and as the baby boomers retire there will be significant labour shortages. This challenge is already manifest in pockets of western Canada, where more tempo-

rary foreign workers are being hired, and businesses are taking matters into their own hands by participating in delegations to other parts of the world to seek immigrants and to other parts of Canada in pursuit of unemployed Canadians willing to move.

Labour shortages, unless addressed, will curtail Canada’s future prospects in many ways. For example, existing companies will be unable to expand, and fewer new ones will be started. This, in turn, will lead to lower levels of economic growth and less government revenue to fund programs.

Another related economic challenge is the need to improve Canadian productivity. This is an area in which Canada lags behind other countries, most notably the United States. While many factors impact productivity, the allocation of labour resources is a significant one. If some parts of the country that are growing quickly and experiencing labour shortages are unable to realize their growth potential, the result will be lower levels of productivity. The problem will be accentuated if many other parts of Canada have significant levels of unemployment.

Flagging productivity and economic growth will mean a lower standard of living for Canadians. Thus it does not make sense to have an EI system that encourages workers to stay in their regions, hoping for jobs.

It is time for the federal government to use the policy tools at its disposal to encourage Canadians to move to where the jobs are. One of the main responsibilities of the federal govern-

ment is to promote the economic union by encouraging the free movement of people and goods across Canada. In some instances, the federal government lacks the power to force needed changes. For example, Canada’s economic growth and productivity would be enhanced if inter-provincial trade barriers were eliminated. However, the federal government does not enjoy the power to force provinces to lower inter-provincial barriers to trade and mobility. Disillusionment with this has led Alberta and British Columbia to sign an agreement to remove inter-provincial barriers to trade and mobility, a development that will enhance economic growth and productivity in these two provinces.

While the federal government does not have the power to promote the mobility of goods and people by removing inter-provincial trade barriers, it does have the power to change the EI program. EI is a federal program (although the provinces deliver training). Thus there are no constraints on its power to change the basic structure of EI to encourage mobility in the workforce.

Federal leadership in changing EI is also needed because provinces are deeply divided over the issue. EI is a regionally divisive issue: changes that might benefit one region might adversely affect another one. It is not surprising, then, that at the August meeting of the Council of the Federation the provinces were unable to agree on how EI needs to be changed to be more effective. Even in western Canada, where there would be significant public support for uniform national standards for EI, the premiers and territorial leaders have advanced a compromise position that would create three levels of benefits: one for urban areas, another for rural Canada and a third one for remote regions.

One suspects that the western premiers adopted this compromise position to maintain the support of the three northern territorial governments. Thus the provinces are not in a position to provide leadership on this issue.

It is necessary, therefore, for the federal government to signal its intention to move toward a new EI system. Ideally, the time that one must work to

workers must be commensurate with the needs of employers. Hence, the federal government, in conjunction with the provinces, has to ensure that unemployed workers are being trained in such a way that they can secure meaningful, long-term employment.

Improvements in training opportunities and uniform EI standards are changes that can be made in the short

stronger link between premiums paid and benefits received. Much of the money collected from employers and employees funds non-insurance benefits, such as maternity or parental leave, and subsidizes industries that provide seasonal employment. The latter issue raises a fundamental question: should Canadian taxpayers be subsidizing seasonal industries? The

social benefits covered by EI, such as maternity and parental leave, are important programs that should continue to be funded. The issue is whether they should be funded by EI. If the non-insurance social benefits

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qualify for benefits and the period during which benefits can be enjoyed would be the same in all parts of Canada. This new approach would remove the disincentive for unemployed Canadians to locate to another part of Canada or to another region within a province where the prospects for finding jobs are better.

But the federal government has to do more than merely remove the disincentives to mobility. The federal government should actively encourage Canadians to relocate to the parts of Canada with the greatest economic opportunities. At present, citizens and companies have borne the costs of moving workers to where the jobs are. Newfoundland workers fly regularly across the country to work in the Alberta oil fields, and families, with all of their possessions in their vehicles, move "down the road" in pursuit of better opportunities. The federal government can ease the burdens of relocation by providing financial assistance to help unemployed Canadians move to where they are more likely to find long-term, meaningful job opportunities.

While the active encouragement of migration will improve opportunities for jobless Canadians, the skills of

term. There are, however, other changes to EI that should be considered. Some will require more time and consultation with the provinces before they can be implemented.

EI is not fulfilling its mandate of providing insurance to Canadian workers who have the misfortune of being unemployed. A major shortcoming of EI is that many workers who are unemployed do not qualify for assistance. To remedy this, the federal government should consider extending benefits to those holding non-traditional jobs, such as the self-employed, contract workers various kinds of part-

provided by EI are to be funded and delivered in another way then there needs to be extensive consultations with the provinces. Moreover, it is clear that there needs to be a broader federal-provincial analysis of the effectiveness of the social safety net for unemployed workers, whether they are receiving federal EI payments or are on the provincial welfare rolls.

The issues of coverage, the adequacy of benefits, the subsidization of seasonal industries and the best way to develop social benefits currently delivered by EI — all will require detailed

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time workers and those holding multiple jobs.

Moreover, workers who have paid into the EI system for many years often discover when they are unemployed that the level and duration of benefits are insufficient to sustain them until they find a new job. To help address this problem, the government should return EI to its social insurance roots by establishing a

study, debate and discussions with the provinces. In short, they are long-term, complicated issues that are not easily captured in the crisp sound bites of an election campaign.

Also, moving toward an EI system where the length of work required to access benefits and their duration are uniform across the country raises difficult questions; for example, if there is only one national standard, what



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The provincial and territorial premiers at the annual meeting of the Council of the Federation in Regina in August. Predictably, the premiers were split on the question of EI reform, and punted the ball back to Ottawa.

should it be? How long should people be required to work before they qualify for EI? The idea that only 360 hours of work is needed to qualify for EI raises problems. Such easy access is likely to encourage the use of EI rather than encourage people to pursue employment in areas that provide the best economic opportunities. Furthermore, it would be costly to provide access to EI after only 360 hours of work, which raises the question of whether this would be the most effective way to invest new funds in EI. If more money is to be spent on EI, would it be better to expand coverage, as suggested above, and improve the benefits of those who have paid into the program

for years but find themselves unemployed?

Changing the rules for EI can also impact provincial welfare programs. I experienced the inter-play between unemployment insurance (UI), as it was called in the early 1990s, and welfare when I was minister of social services in Saskatchewan. When the federal government cut UI, provincial welfare rolls increased, but the provinces responded by providing work programs for welfare recipients. These provided just enough work experience so welfare recipients could qualify for UI benefits and thus be returned to the federal payroll system. In short, a low standard for the

number of hours someone must work to qualify for EI may have unintended consequences.

EI is a complicated program. Deciding specifics, such as the number of hours that people should have to work to qualify for benefits, requires detailed analyses of the costs and long-term implications of various options. Is an election campaign an appropriate time to discuss the merits of requiring 360 hours of work rather than, say, 560 hours to qualify for EI benefits?

Changing EI so that Canadians from all parts of Canada have to work the same number of hours to qualify for benefits and can collect benefits for the same period of time is sensible

and will bring significant economic benefits. However, such a change would also lead to regional tensions. Ontario and western Canada would benefit from such a change and there would be widespread support in these regions for the new approach. But parts of Quebec and Atlantic Canada would, at least in the short term, be adversely affected.

Considering the significant regional implications of dramatically changing EI, it is likely that any federal government would try to find some compromise that would lessen the regional tensions. For example, rather than moving immediately to the ideal position of having uniform national standards for EI, the government might replace the 58 regions with three main standards, one for urban Canada, one for rural areas and another for remote regions (as recommended by the western premiers). Or to ease the regional divisions, there might be a

period of transition, a phasing in of changes or some other measures to mitigate the adverse effects.

Also, it is not clear how much the two major parties will have fundamental disagreements over EI reform. Considering the strength of the Conservatives in western Canada and Ontario, it would be surprising if they did not end up agreeing, in some measure, with the Liberals about the merits of moving to uniform national standards, which would be of greatest benefit to these regions (although they will continue to vehemently oppose the Liberal idea of reducing the length of work required to qualify for benefits to 360 hours). Similarly, the Liberals, with their base of support in Atlantic Canada, might want some compromises that would lessen the regional impacts of uniform national standards. Thus it is possible that the two

major parties will agree that changing EI to promote mobility is necessary. They might differ, however, over when, how and at what cost the changes should be made.

Should Canadians go to the polls over EI? Are the differences between the two major parties fundamental enough to warrant an election? Would Canadians enthusiastically engage in a debate about the details of EI or the long-term changes that are required to ensure it provides insurance against unemployment? Fundamental changes to EI are warranted, but perhaps former prime minister Kim Campbell's inept observation that an election is no time to discuss social programs might just apply to EI.

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