

**From Unemployment to Employment Insurance: Towards Transitional Labour Markets in Canada?**

**By**

**Axel van den Berg  
Daniel Parent  
And  
Anthony C. Masi  
McGill University**

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## Abstract

In 1996 the Canadian Federal Government undertook the most far-reaching reform in the history of its Unemployment Insurance program, replacing it with a so-called Employment Insurance program. The reform was hailed by its advocates as a major step away from the traditional Canadian reliance on 'passive' support and towards a new emphasis on *active labour market policies* closer to those characteristic of many European countries. Critics, by contrast, have denounced the reform as a cynical exercise in cost-cutting inspired by a neo-conservative policy agenda. In recent years, in response to political pressures and to research findings on the effectiveness of various components of the new EI regime, a series of minor adjustments and revisions have been made, but the essentials of the 1996 reform have remained in place. Since the implementation of the EI reform, a number of studies have been conducted, many of them commissioned by the newly formed department of *Human Resources and Skills Development Canada*, on the effects and effectiveness of the various program changes. This paper first presents an overview of the major policy and program changes that occurred as part of the UI-to-EI reform and its aftermath. It then reviews the main findings of the currently available research on the effects of the various reforms, with an emphasis on findings concerning access to benefits and labour market transitions. Finally, several issues deserving further and more in-depth research are identified.

## I. Introduction

When considering the nature and effects of Canadian (Un)Employment Insurance it is important to keep in mind some of Canada's peculiarities as compared to most other Western countries. Canada is not only a vast country, but it is also quite varied in terms of industrial structure and economic conditions. In particular, local unemployment rates vary enormously from region to region, and chronically so, with rates traditionally high in the Maritime Provinces and Québec, intermediate in British Columbia and much lower in Ontario and the Prairie Provinces. Second, and not entirely unrelated, seasonal occupations such as mining, logging, fishing and hunting are quite prominent in some regions, again, especially the Maritimes, Québec and B.C. Third, Canada has one of the most decentralized federal governmental structures in the world, with many policy domains related to labour market policy, especially education and training, firmly under provincial jurisdiction.

In 1996/1997 the Canadian federal government undertook a major reform of the Unemployment Insurance regime. To underline the seriousness of the intended change in aims and policies, the new system was dubbed the *Employment Insurance* program. Advocates of the reform have hailed it as "the most sweeping reform since the *UI Act* of 1971" (Gray 2004: 1), an unprecedented move from passive to active labour market policies, designed to reduce spells of unemployment and increase ease with which the unemployed and new entrants find jobs (e.g., Fedorovitch 2001). The newly created Canada Employment Commission calls it "the most fundamental restructuring of the Unemployment Insurance program in 25 years" (Canada Employment Insurance Commission 2004: a). Critics, on the other hand, have decried the reform as a thinly disguised cost-cutting measure intended to reduce federal government budget deficits at the expense of the unemployed by means of tightening eligibility rules and reductions of benefit levels and periods (e.g., Campeau 2001; Martel, Laplante and Bernard, forthcoming; Canadian Labour Congress 2003).

There is no question that the reform was intended to be a bit of both, quite explicitly so in fact. In order to monitor the effects and effectiveness of the reform and its several subsequent modifications, the Canada Employment Insurance Commission was created, consisting of two deputy ministers and a workers' and employers' representative, with the specific mandate of producing an annual report based on the latest in-house and independent research. The Commission's instructions are quite clear in treating cost saving as every bit as important a criterion of success as providing the temporarily unemployed with adequate earnings replacement and active support in finding (new) employment.<sup>1</sup>

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<sup>1</sup> Section 3(1) of the *Employment Insurance Act* states that the Commission "shall monitor and assess: a) how individuals, communities and the economy are adjusting to the changes made by this Act to the insurance and employment assistance programs under the *Unemployment Insurance Act*; b) whether the savings expected as a result of the changes made by this Act are being realized; and c) the effectiveness of the benefits and other assistance provided under this Act, including (i) how the benefits and assistance are utilized by employees and employers; and (ii) the effect of the benefits and assistance on the obligation of claimants to be available for and to seek employment and on the efforts of employers to maintain a stable workforce."

## II. The Employment Insurance Reform: A Brief Overview

After a number of years of unsatisfactory tinkering with the existing Unemployment Insurance system by successive governments of various stripe (see Canada Employment Insurance Commission 2004, Annex 6; Lin 1998; van den Berg and Smucker 1992; several *How Ottawa Spends* chapters\*\*\*\*), the Liberal government passed Bill C-12, the *Employment Insurance Act*, in 1996. The Act consisted of two distinct thrusts, one to implement a series of changes in the structure and eligibility rules of the unemployment benefit system and the second to introduce a new, more coherent organization of active labour market policies intended to enhance the efficiency and flexibility of the Canadian labour market and to strengthen Canadians's labour force attachment.

### 1. The ReformPart I: Changing Benefits Rules

The benefits rules changes implemented by Bill C-12 were meant, on the one hand, to tighten the rules of eligibility for unemployment insurance benefits so as to reduce what were seen to be inappropriate uses and abuses of the system as well as to reduce costs. But it also contained a number of measures, particularly with respect to part-time workers and parental leave programs, that were intended to *increase* levels of and accessibility to earnings replacement benefits. The main reforms were the following:

*Hours-based Eligibility.* Eligibility for benefits is based on the total number of hours worked rather than on the number of weeks of 15 hours worked or more. Instead of having to have worked between 12 and 20 weeks of 15 hours or more during the 52 weeks preceding the claim, claimants need to have worked, and contributed insurance premiums, between 420 and 700 hours before being able to claim benefits.<sup>2</sup> This effectively makes EI benefits accessible to part-time workers working less than 15 hours a week as well as workers with irregular but particularly intense work patterns, such as some seasonal workers. On the other hand, it increases the total minimum number of hours one has to have worked to qualify for benefits from between 180-300 hours to 420-700 hours.

*More Demanding Eligibility Requirements for New Entrants or Re-entrants.* New entrants or re-entrants, defined as those with less than 490 hours of insurable employment during the year preceding the claim, are required to work for 910 hours before being eligible for EI benefits.<sup>3</sup>

*Reduced Benefit Period.* The maximum benefit entitlement period has been reduced from 50 to 45 weeks. The maximum benefit period also varies by EI region, depending on local levels of unemployment (see fn. 2 above), so that *effective* maximum benefit periods actually vary

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<sup>2</sup> The actual number depends on what 'EI region' the claimant lives in. Canada is divided into 58 EI regions according to their current (average annual) levels of unemployment. The higher the level of unemployment relative to the national average, the lower the eligibility requirements for EI benefit claimants and the lower the so-called 'divisor' used to calculate benefits payable (which raises the level of benefits). Currently, the minimum work requirement of 420, or 12 weeks of full-time (35 hours per week) work, obtains in EI regions with unemployment rates of 12-13% or more, while the maximum of 700 hours is required in regions with rates of about 2% below the national average (which was 7.6% in 2002-2003).

<sup>3</sup> This amounts to an increase from the previous 20 weeks of full-time (35 hour) work required for new and re-entrants under the old UI Act to 26 weeks.

from 14 to 45 weeks.

*Reduction of Maximum Insurable Earnings (MIE).* The MIE is reduced to an annual income of \$39,000 (\$750 per week; from \$845/week under UI) and has remained frozen at this level ever since. As a result, given the 55% replacement ratio (see below), the maximum benefit rate payable is reduced to \$413 per week (was \$465).

*Tightened Benefit Calculation.* Benefits are calculated by dividing the earnings over the 26-week period preceding the claim by the weeks of work or the minimum ‘divisor’ ranging from 14 to 22 (depending on EI region, see footnote 2 above), whichever is greatest, multiplied by the 55% replacement ratio.<sup>4</sup> The ‘divisor’ is two weeks longer than the minimum entrance requirement, which, as noted above, varies from 12 to 20 full-time (35 hour) weeks. The use of the divisor is intended to give claimants a strong incentive to work at least 2 weeks longer than the minimum necessary before claiming benefits.

*Tightened Repayment of Benefits Rule (“Clawback”).* The earnings threshold after which recipients must pay back up to 30% of benefits received was lowered from \$63,570 to \$48,750 (1.25 times the annual MIE) for those who have received 20 weeks or less of benefits during the past 5 years. The threshold is lowered to the MIE, i.e. \$39,000, for those who have received more than 20 weeks of benefits and the maximum repayment rate varies from 50 to 100%, depending on the number of weeks of benefits received. But the more-than-20-weeks rule was abolished again in 2000, while first-time benefit claimants were exempted from the clawback rule and the maximum repayment rates were reduced somewhat.

*Intensity Rule.* In order to discourage multiple use of EI benefits as a regular income supplement, the regular benefit rate (i.e. 55% of insured earnings) is reduced by one percentage point for each 20 weeks of benefits collected in the previous five years up to a maximum reduction of five percent, potentially reducing the rate to 50% of insured earnings. However, after disappointing results with this new restriction, the rule was rescinded again in 2000.

*Family Supplement.* Claimants with dependent children and annual net family incomes of \$25,921 or less are entitled to a top-up of basic insurance benefits, raising the maximum replacement rate to 65% in 1997 and eventually to 80% in 2000. This change involves a switch from an individual-earnings to a family-income eligibility criterion as well as a significant increase in benefit level.

*Maternal and Parental Benefits Enhanced.* In 2000 Bill C-32 expanded the maternity and parental leave program. Whereas the maximum benefit period for maternal leaves for mothers of newborn and adopted children remained at 15 weeks, the maximum period for parental leave (tenable by either parent) was lengthened from 10 to 35 weeks and the entrance requirement was reduced from 700 to 600 insurable hours of work. In 2002 the total number of ‘special benefit’ weeks allowed (sickness, maternal and parental) was increased to a maximum of 65 weeks.

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<sup>4</sup> Ever since the mid-1970s, when the replacement ratio was 75%, the ratio has been gradually reduced until it reached 55% in 1994 (see Lin 1998: 47).

Table 2.1 in the Appendix shows overall expenditures on income claims from the EI program for the fiscal year 2002/2003 as well as trends since 1995/1996, the last full fiscal year before the EI Reform took effect, in numbers of claims, average weekly benefits and total amounts paid.

## ***2. The Reform Part II: 'Active' Labour Market Programs.***

'Part II' of the Reform consists of a plethora of programs and initiatives, in part funded by \$800 million of anticipated savings from the changes in eligibility rules, which is a little harder to summarize crisply. All so-called 'active EI clients', individuals who are unemployed with a current EI benefits claim, and 'former EI clients', all those who had such a claim ending during the preceding three years, are eligible to participate in these programs.<sup>5</sup> The most important ones can be summarized as follows:<sup>6</sup>

### *Employment Benefits Programs*

*Targeted Wage Subsidies* are intended to provide work experience for the unemployed by providing a wage subsidy to employers hiring insured participants whom they would not normally hire in the absence of a subsidy.

*Targeted Earnings Supplements* are meant to encourage 'EI clients,' and especially the longer-term unemployed, to accept low-wage jobs by temporarily topping-up earnings from low-wage jobs.

The *Self-Employment Program* provides financial assistance and business planning advice to EI-eligible participants to help them start their own businesses, covering personal living expenses and other expenses during the initial stages of the business.

*Job Creation Partnerships* projects fund the creation of jobs in the community and local social economy sector to permit participants to gain work experience that will lead to ongoing employment.

*Skills Development* provides financial assistance and guidance to help participants to obtain skills relevant to employment through additional schooling and apprenticeships. Apprentices receive ordinary EI benefits during their apprenticeships and may also obtain help in covering additional expenses such as travel costs.

### *Support Services*

*Employment Assistance Services* include counselling, the provision of job search skills, job finding clubs, job placement services and the provision of labour market information.

*Labour Market Partnerships* provides funding to help partners, which can be employers, employees, employee and/or employer associations, as well as communities to implement labour force adjustments in industries or sectors in distress. It primarily involves helping to plan adjustments in cases of large (impending) lay-offs such as those in the forestry industry in British Columbia and automobile manufacturing in Ontario.

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<sup>5</sup> Unemployed individuals who are neither active nor former EI clients are considered "non-insured" and are eligible only for those employment services provided by the National Employment Service, involving counselling labour market information, etc.

<sup>6</sup> The following overview relies primarily on Annex 3, Tables 3.2 and 3.3 of the *2003 Monitoring and Assessment Report* (Canada Employment Insurance Commission 2004).

The *Aboriginal Human Resources Development Strategy (AHRDS)* consists of agreements with Aboriginal organizations granting them the authority to design and deliver employment programs and services that reflect and serve the needs of Aboriginal people at the community level.

Given the jurisdictional divisions of the Canadian federal system of government, many of these measures can only be pursued with the active cooperation of provincial authorities and/or may have to be delegated to them. To this end, the federal government has concluded *Labour Market Development Agreements (LMDAs)* through which responsibilities are shared to varying degrees between federal and provincial agencies. The only province with which no such agreement exists as yet is Ontario where, consequently, the two bureaucracies continue to work and deliver programs and services independently of one another. In addition to these provincially focused programs, several programs and services have a 'Pan-Canadian' component which are partly funded through Part I and partly through Part II of the EI system. These include activities that respond to labour market issues that extend beyond provincial boundaries, such as promoting inter-provincial labour mobility, national and sectoral partnerships and operating the national labour market information and labour exchange systems.

For 2002-2003 expenditure levels for these various programs and services, see Table 3.12 in the Appendix below.

## **II. The Reform in Action: Activation or just Cost-Cutting?**

There have by now been a large number of studies conducted, both at the behest of the Canada Employment Insurance Commission (CEIC) and by independent academics, of the effects of many of the reforms implemented under the new EI system. Here we will summarize only that portion of their findings relating more or less directly to the issues of labour market flexibility as well as to access to benefits and their (re-)distributive aspects. Although relatively generous after the major reforms of the 1970s (Lin 1998), the Canadian UI system has been gradually tightened up in terms of eligibility restrictions and benefit levels over the years, in response to persistent political concerns about allegedly widespread overuse and the danger of fostering labour market rigidities through the supposed disincentives produced by an 'overly generous' benefit system. While the Canadian labour market certainly never exhibited the level of apparent rigidity experienced in some of the European countries, particularly with respect to long-term (12 months and more) unemployment, the chronically higher levels of unemployment in Canada than in the US have been routinely blamed on Canada's 'excessively' generous UI rules (e.g. Grubel 1988). The overall result of the gradual tightening up of the Canadian system have brought it closer into line with what is now often referred to as the 'Anglo-Saxon Market Model', one that is far more restrictive, punitive and less generous than the so-called 'European Social Model' in force in one way or another in most countries on the European Continent.

The contrast usually drawn between the two 'models' is one between an allegedly 'free market' approach emphasizing minimal interference with market mechanisms vs. a more interventionist approach emphasizing security and equity. The former is widely held to produce more flexible and efficient labour markets but at the cost of high levels of inequality and poverty as it forces workers to accept whatever (low-paid) work is available whereas the

latter is claimed to be more equitable but possibly at the cost of greater rigidities. However, some advocates of the European Model have long argued that a combination of generous, redistributive benefits and well-designed 'active' labour market policies aimed at reintegrating the unemployed and low-skilled into the workforce and at facilitating labour force entry for those currently outside, is capable of producing the best of both worlds: equity and security *as well as* labour market flexibility. The underlying concern of the ideas and policies being studied by the participants in the Research Network on "Managing Social Risks through Transitional Labour Markets" (TLM.NET) is precisely to find out when, where and how this is in fact the case.

As can be seen from the summary overview presented in the previous section, the Canadian EI Reform contains elements of both. On the one hand, it contains a number of new restrictions and reductions that, from a European standpoint, may appear almost punitive, but on the other it also introduces a considerably expanded emphasis on an array of active policies. But note that, even among the active policies there are some, most strikingly the *Targeted Wage Subsidies* program which explicitly seeks to encourage workers to accept low-paid jobs where available, that appear more in line with the restrictive Anglo-Saxon approach than with the European Social Model. Be this as it may, when considering the effects of the reform it is of obvious importance to examine *both* the effects on accessibility to benefits *and* the effects on labour market mobility.

### 1. *Effects on Access to Benefits*

There is no question that by OECD standards, earnings inequality in Canada is relatively high. Moreover, as in the US and several other countries that have energetically pursued policies of labour market deregulation (Great Britain, New Zealand) earnings inequality has increased in Canada since the beginning of the 1990s. But whether this is entirely, or even mostly due to more restrictive social policies, and in particular the more restrictive EI benefit regime is debatable [**expand; Smith, several**].

At first sight, the effects of the Reform might appear to be fairly dramatic. Table 1 in the Appendix compares a number of activity indicators for the EI program with figures for the UI program in the last full fiscal year preceding the reform, i.e. 1995/96. On the face of it, the Reform succeeded remarkably well in cutting the cost of the unemployment benefits program. Overall expenditures on 'regular'—i.e., excluding benefits paid to participants in 'active' programs, and 'special' benefits such as those for maternity, parenting, sickness and the fishery industry—fell by 19% between 1995/96 and 1997/98, from 9.5 to 7.7 billion dollars. Moreover, this reduction appears to have been primarily the result of a reduction in the *number of new claims*, which dropped by 18% over the same period, while average weekly benefits remained virtually unchanged. Can we conclude, then, that the new, more restrictive eligibility and benefit level rules of the EI program have succeeded in engineering a cost

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<sup>7</sup> There is some evidence that the increase in earnings inequality in Canada in recent decades is related to changes in inequality in hours of work (dated research?) (Doiron and Barrett, RESTAT, 1994, also Morissette, Myles, and Picot, Canadian Business Economics, Spring 1994), both referenced in Green, David A. and W. Craig Riddell, "Job Durations in Canada: Is Long-Term Employment Declining?", in Transitions and Structural Change in the North American Labour Market, Abbott, Michael G., Charles M. Beach, and Richard P. Chaykowski, eds., Queen's University Press, 1997. [**complete fn.**]

saving for the Canadian Federal government of some \$1.8 billion by excluding close to one fifth of formerly eligible unemployed workers from access to insurance benefits?

Things are, of course, not quite so simple. Note that the numbers of all three categories of claimants dropped considerably between the two years and that the *smallest* drop, proportionately, occurred for 'frequent claimants', precisely the group targeted most clearly by the EI reform. This suggests that some considerable part of the reduction in numbers of claimants may be due to conditions in the labour market rather than changes on the rules governing access to insurance benefits. In fact, the years in question were characterized by rapid employment growth in much of the Canadian economy. As a result, the numbers of recently laid-off workers, who are most likely to be eligible for EI benefits, declined sharply while the number of new entrants into the labour market grew as the prospects of finding work brightened, leaving a relatively larger proportion of unemployed workers not eligible because they quit voluntarily, did not have a previous job or had been unemployed for more than 12 months. Based on an analysis of detailed monthly statistics on unemployed regular EI beneficiaries, the *1998 Employment Insurance Monitoring and Assessment Report* concludes that at most one third of the reduction of the number of EI beneficiaries between 1995/96 and 1997/98 could be the result of the EI Reform, while somewhere between one third and one half of the overall expenditure reduction might be attributed to the Reform, the remainder being due to changes in labour market conditions (CEIC 1998: 59-61).

It is perhaps also worth dwelling briefly on the trend in frequent claimant numbers shown in Table 1. Recall that the "intensity rule" was introduced as part of the EI Reform specifically to discourage this category of claimants. But as can be seen from the Table, the rule apparently had little or no effect. In fact, the percentage of frequent claimants as a proportion of all regular claimants actually *increased* somewhat, from 38.8% in 1995/96 to 41.1% in 1997/98 and then declined back to the earlier level again by 1999/2000. Quite likely, this disappointing result was the reason why the intensity rule was repealed again in 2001. But note that from 2000/01 on, the proportion of frequent claimants begins to decline and even more so in the two years after that, that is, *after* the repeal of the intensity rule. The reason for this is no doubt the major leaps in the numbers of first-time and occasional claimants which occurred during this period which was characterized by a sudden economic slowdown. As Gray (2004: 2) has suggested, this may well have been the result of the buoyant labour market of 1999-2000 which may have helped many more or less marginal workers and relatively new entrants to qualify for EI benefits in the sudden subsequent downturn.

A question still remains, however, about how exactly the EI Reform could have caused the one-third of the total reduction of regular claimant numbers after its implementation attributed to it by the 1998 Report. The only other group of potential claimants, besides the aforementioned frequent claimants, for whom access to benefits became more restricted under the new system are new entrants and re-entrants into the labour force, referred to in the jargon as NEREs. Recall, however, that the Reform also *expanded* access to benefits by replacing the 15-hour week-based criterion for eligibility with one based on total hours worked. This change might be expected to have benefited NEREs in particular since a disproportionate number of them are likely to be marginal or part-time workers who might not have been able to qualify under the old weeks-based system. Consequently, it is no easy task to try and estimate the overall effect of the EI Reform on NEREs' access to benefits.

Several carefully conducted statistical analyses have tried to sort out the effects of these two seemingly opposed factors (Kapsalis 2000; Phipps and McPhail 2000). The overall conclusion seems to be that the overall net effect on NEREs' access to EI benefits has been very small. On the one hand, the tightening of eligibility rules for NEREs does seem to have had a significant effect in rendering a considerable proportion (up to 7%, see Kapsalis 2000) of them who would have been eligible for UI benefits ineligible for benefits under the EI system. Young workers in particular appear to have taken the brunt of this restriction (Audas and Murell 2000: 21-23). On the other hand, much of this reduction appears to have been neutralized by two countervailing forces. First, as expected, the switch to an hours-based system of eligibility assessment does appear to have benefited NEREs so that the net reduction of numbers of eligible NEREs as a result of the EI Reform turns out to have been quite small (Phipps and McPhail 2000). In addition, however, an ongoing study of NEREs commissioned by the CEIC (Audit and Evaluation Directorate 2004) has found that there was a significant increase in the number of hours worked by those NEREs who just barely qualified for EI benefits, which had the result, together with the switch to an hours-based system, of virtually neutralizing the effect of the tightening of the rules on the numbers of NERE claimants. It might appear, therefore, that the working population has adjusted its labour market behaviour rather effectively to the new eligibility rules in this respect. Furthermore, new and re-entrants were overwhelmingly concentrated among youth. It should be kept in mind, however, that the period covered was one of exceptional and sustained growth in employment, with the exception of the brief slowdown of 2001-2002, and that demographic trends no doubt play a major role in producing these findings as well.

Studies of the effect of the switch to hours-based eligibility tend to agree that it has had a modest effect of increasing the access to insurance benefits, by a little over 2% of all job separators (Sweetman 2000). This has especially affected seasonal workers working, or being able to work, long hours during a relatively short number of weeks (Green and Riddell 2000).

Can we conclude, then, that the EI Reform has had little or no negative effect at all on access to insurance benefits for Canadian workers who have lost their jobs? According to one of the studies commissioned by the CEIC (Kapsalis and Tourigny 2003), applying simulation techniques to data from the *Survey of Labour and Income Dynamics* (SLID), 88.1% of Canadian workers would be eligible for EI benefits if they lost their jobs, the remaining 11.9% being new or re-entrants without the sufficient number of working hours to qualify. Only *some* of these latter non-eligibles are likely to have been affected by the new, more restrictive rules on eligibility. Thus, the degree of coverage of the target labour force would seem to have remained quite high even after the Reform. At the same time, a study of access for the *unemployed* (Statistics Canada 2004) shows that 83.9% of the unemployed target population were eligible for EI benefits whereas the actual beneficiary- to-unemployed (B/U) ratio was only 45.4% in 2002-2003. In a report decrying the apparently dramatic decrease in unemployment insurance coverage in Canada since the late 1980s, the Canadian Labour Congress (CLC 2003) looks at B/U ratios only (see Chart in the Appendix below). These do indeed appear to decline quite sharply from 1989 to 1996 but then they stabilize. Whether the decline is indeed wholly or partly due to the changes in eligibility rules, as the report claims but does not show, remains a question. But it clearly is *not* primarily the result of the EI Reform of 1996-97. Nevertheless there does appear to be a major and growing discrepancy between the proportions of unemployed workers who should to be eligible for benefits and those actually claiming them. The reasons for the discrepancy are no doubt many (failure to

file for various reasons, lack of information, inclusion of non-target population such as the self-employed in the B/U ratio, voluntary quitters, those who have never worked or not at all during the preceding year, etc.) and there are therefore several possible reasons although these do not necessarily help to explain its growth over time. The issue is certainly worthy of much closer examination than is currently available in the literature.

The other changes in the benefit rules implemented by Bill C-12 are less controversial since their budgetary importance is modest and they are generally measures that increase access to benefits. We can briefly summarize their major effects here. Some 183,000 claimants (out of a total of 1.869 million) received the *Family Supplement* for families with low incomes during the most recent reporting period for which data are available (2002-2003). While the average top-up was a modest \$42 per week, this still adds up to some \$2000 worth of additional annual income. Initial studies suggest that the new system does improve the degree to which low-income families are targeted by the family income criterion, but raise questions about the possible negative effects on women's dependence on their husbands' earnings. Given the modesty of the benefits and the fact that much poverty is linked to *lack* of labour force attachment and thus ineligibility for any kind of EI benefits, the effect of the supplement on poverty levels remains very small (Cheal and Kampen 2000; Phipps, MacDonald and McPhail 2000).

Access to and up-take of maternal and parental benefits appear to be quite high. Among Canadian women with children 12 months of age or younger who had earned insurable income, some 85% received maternal and/or parental benefits in 2002. Women collected 30 weeks of benefits on average. While men have increasingly made use of parental leave benefits, their relative numbers remain small and they tend to take much shorter leaves (13.8 weeks on average; see CEIC 2004: 48-9; Marshall 2003). Calculated in a slightly different way, around 90% of mothers who left their employment to take care of new-born children reported receiving maternity and/or parental benefits both before and after the EI Reform (HRDC 2001c). The introduction of an hours-worked based eligibility rule did not have a dramatic effect on working women's access to maternity leave, because a large proportion of women with children in Canada work full-time or nearly full-time. The extension, in 2000, of the maximum leave period, on the other hand, did have an immediate and dramatic effect, pushing up the median length of maternal/parental leaves from 25 to 50 weeks within a year (Audit and Evaluation Directorate, forthcomingc; see also Perusse 2003).

Of course, the considerable savings in regular unemployment benefits expenditures could be due not only to a reduction in the number of claimants but also to a reduction in the level of average weekly benefits and/or a reduction in the average number of weeks during which those benefits are received. But since, as Table 1 shows, the average weekly benefit level actually increased gradually since 1995/96, reflecting rising insured wage levels rather than any changes in the rules to be sure, this cannot have been a major factor. But neither can the average duration account for much of the reduction in expenditure. According to one study, the effective average benefit entitlement period was reduced by at most 0.3 weeks as a result of the Reform (Sweetman 2000). Yet the actual average benefit period actually went *up* slightly, by a bout half a week, for claimants starting their benefit period in 1997/98 as compared to 1995/96 claimants (CEIC, 1998:60) and has hovered between 20 and 22 weeks ever since (Gray 2004: 3). At the same time, results of more sophisticated econometric studies are contradictory, some suggesting that EI *did* have a slightly downward effect on overall

average benefit recipiency spells (Lacroix and Van Audenrode 2000), others showing no effect (Jones 2000). Here, too, it is likely that we have the combined effects of improving labour market conditions and the counteracting tightening and loosening provisions of the EI Reform.

But such figures do not, of course, directly address the question of whether and to what extent the expenditure cuts were achieved at the cost of greater hardship for the unemployed. A better measure of this would be the degree to which the unemployed find it necessary to use up the benefits to which they are legally entitled. One indicator of this is the proportion of total entitlements used up by the average benefits recipient. Surprisingly, several studies have found that the proportion of total entitlements used up by the average regular claimant actually *declined* from 69.6% in 1995/96 to 64.8% in 1997/98, remaining at 65.8% even during the 2001 economic downturn. Similarly, if anything the proportion of claimants using up all the benefits they are entitled to has *decreased*, from 36.5% in 1995/96 to somewhere between 30 and 32% in subsequent years (CEIC 2004: 52-3).

Another way of trying to determine the amount of hardship caused by the Reform is to look at the proportion of job losers who are forced to resort to social assistance within 12 months after the loss of their jobs. Again, somewhat surprisingly, two studies suggest that this proportion *declined* from slightly over 6% in 1995-96 to less than 4% even during the recession of 2001 (see CEIC 2004: 53-4; Audit and Evaluation Directorate. Forthcoming*d*; Audit and Evaluation Directorate 2001; Grey 2002). This, too, is no doubt a case of improving labour market conditions drowning out whatever negative effects the EI Reform might have had.<sup>8</sup>

Yet another measure of potential hardship is loss of consumption power after job loss. According to another of the HRSD studies (Audit and Evaluation Directorate, forthcoming*a*), using the specially commissioned Canadian Out-of-Employment Panel, no more than 12% of those who had lost their jobs experienced a decrease in consumer spending one year after. The average drop of consumption spending for this group was nevertheless a significant 24% of monthly household income. Single-earner families and especially single parents were, for obvious reasons, most vulnerable to a drop of spending capacity due to job loss. But again, this result must be interpreted in view of the generally favourable labour market during the period under study as well as the prevalence of multiple-earner families and even the willingness to maintain spending levels *in spite of* earnings losses by using credit and other forms of debt. This, too, is an area in which much research still needs to be done.

## ***2. Effects on Labour Force Transitions***

As for the effects of the Canadian EI system on labour mobility and labour market flexibility, and in particular on the ability and willingness of Canadian workers to undertake a variety of labour market transitions, the picture is considerably more complicated. First, there are the two distinct components of the EI system to consider, the 'passive' regular and special benefits programs and the 'active' programs covered by 'Part II' of the EI Act. The primary goal of the second and *a* primary goal of the first has been, of course, to enhance labour force

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<sup>8</sup> Previous research does seem to confirm that, *ceteris paribus*, that tightening of UI eligibility rules and benefit levels tends to result in greater use of social assistance support (see, e.g., Fortin, Lacroix and Thibault, 1999).

attachment. In fact, as noted, the main purpose of the *reform* of the benefits system was “to strengthen the link between work effort and benefits” (CEIC 2004: 56). Obviously, then, the Reform did not intend to promote any or all kinds of labour market transitions but only one type, the transition from unemployment to employment. Nevertheless, the system does contain a number of ‘special’ benefits, especially for parents of young children, that do enable beneficiaries temporarily to withdraw from market-paid employment. An important question with respect to these benefits is whether they have increased or decreased the beneficiaries’ labour force attachment.

### *2.1 Effects of the New Benefits Rules*

The question of greatest practical and theoretical concern is, of course, whether the Reform has effectively helped to accelerate the rate at which the unemployed find new jobs. In theory at least, the changes made to the unemployment insurance system were meant to induce changes in job search behaviour which should lead to shorter spells of unemployment and benefit claiming (Jones 2000: 1). The most sophisticated econometric studies have tried to assess the effects of the EI Reform as a whole on the duration of unemployment spells, other things being equal, that is, controlling for a host of other factors including changes in labour market conditions, demographic composition, occupational structure, season, and so on. They have, then, gone furthest in trying to estimate the effect of the EI reform *alone* on transitions out of unemployment but do not explicitly distinguish between the effects of changes in the benefits system as opposed to the greater emphasis on ‘active’ labour market policies. Nevertheless, in view of the still relatively modest numbers involved in those ‘active’ measures (see below), the tacit assumption is that most of the effects uncovered in these large-scale statistical analyses must be due to the changes in the benefits system.

The few available econometric studies, using proportional hazard models to estimate likelihoods of exits from unemployment, agree more or less in their results (Lacroix and Vanaudenrode 2000; Jones 2000; Shen 2004). They find that the shift to the EI regime did have a statistically significant, albeit a modest, effect in shortening average unemployment spells. By one estimate, the ‘hazard’ of exiting from unemployment has increased, as a result of the Reform, by between 10 and 20% at any one time during the spell of unemployment (Jones 2000), which would have a significant, but small effect on overall average spells. Somewhat surprisingly, however, the implementation of the EI Reform seems to have affected adult (i.e. older than 25 years of age) males more than females and it appears to have had little or no effect on the labour market behaviour of young workers. This is particularly puzzling in view of the importance of the greater restrictions imposed on new entrants and re-entrants in terms of eligibility criteria by the EI Reform, which should have affected women and young workers disproportionately.

But the EI Reform was designed to affect other aspects of labour market behaviour as well which have been examined by a handful of studies many of which were commissioned by the Department of Human Resources Development Canada. The main purpose of the switch from the weeks-based (of 15 hours or more) to an hours-based calculation of benefit eligibility was to eliminate the possible distorting effect that the old system might have had on hours worked. In particular, the old UI system was thought to have led employers to split jobs so as to create more jobs of less-than-15 hours per week so as to be able to avoid having to pay

unemployment insurance premiums, and seasonal workers to spread their seasonal jobs over the maximum number of weeks of 15 or more hours. It turns out, however, that the effect on overall eligibility for benefits of this switch are quite varied and complicated, depending on overall hours and numbers of weeks worked and the level of local unemployment (see Friesen and Maki 2000: 3-5). Nevertheless, several studies of the likely effect of the switch on (the distribution of) hours worked agree that it has been more or less as predicted: the proportion of jobs of less than 15 hours per week has declined somewhat whereas the proportion of jobs with very long hours (over 40) has increased, especially in the Atlantic provinces and among seasonal workers (Green and Riddell 2000; Friesen and Maki 2000; Sweetman 2000). Moreover, the switch also seems to have benefitted many multiple job-holders who were likely to be uninsured for at least one of their part-time jobs under the old UI system. There is some evidence that suggests that multiple job-holding did in fact increase significantly (by between 5 and 6%) in response to the switch (see HRDC 2001a; Sweetman 2000: 7-8).

A particularly sensitive issue in Canada, both politically and economically, is whether and to what extent the regional variation in eligibility criteria has produced a dependency on UI/EI transfers in regions with chronically high levels of unemployment and seasonal employment, especially the Atlantic Provinces (Newfoundland, New Brunswick, Nova Scotia and Prince Edward Island). Critics have long held that the excessive ‘generosity’ of the system in these provinces has encouraged a ‘culture’ of dependency, helped artificially to sustain inefficient industries and jobs and inhibited migration out of these provinces to provinces with labour shortages (see, e.g., Kaufman et al. 2003; Audas and Murell 2000; Day and Winer 2001; May and Hollet 1995; Vincent et al. 2003). Since the regional variation in eligibility rules has remained unaffected by the EI Reform, one would not expect major changes in EI-claiming behaviour in the Atlantic provinces. The only noticeable effect may be lengthening of work weeks in seasonal employment due to the switch to hours-based eligibility rules, as already noted (see also HRDC 2001b). On the other hand, the so-called ‘intensity rule’ was explicitly meant to discourage frequent claims and *may* have had some modest discouraging effects in the Atlantic provinces (Audas and Murell 2000), but it was repealed again in 2000. On the question of the effects of EI on mobility and migration, expert opinion appears to be divided. While critics insist that the mobility-detering effects of UI were substantial and that they have not been adequately addressed by the EI Reform (Kaufman et al. 2003; May and Hollet 1995), studies of labour mobility tend to show that the effects of UI were minimal at worst (Day and Winer 2001) and that there is no compelling evidence of any direct relationship at all between the EI program and mobility (Audas and McDonald 2003). The rate of inter-community mobility appears to be quite high, particularly among EI claimants (Canadian Employment Insurance Commission 2004: 40), and, as might be expected, it appears to have been unaffected, one way or the other, by the introduction of the Reform measures (Audit and Evaluation Directorate, forthcomingb).

The introduction of the so-called ‘divisor’ to calculate benefits payable was intended to affect the labour market behaviour of potential benefits claimants in a quite specific manner: it should give them a strong incentive to work two weeks beyond what is necessary to be eligible so as to maximize the benefits they are entitled to. This new rule appears to have had exactly the intended effect: the proportion of claimants who did not work at least two weeks beyond the minimum eligibility requirement dropped by more than half, from 6% prior to the EI Reform to 2.5% at the end of 1997, where it has remained since, in spite of the ups and downs in labour market conditions since then (CEIC 2004: 56).

As mentioned, the rate of up-take of maternal and parental benefits by working parents (that is, mostly mothers) of new-born and adopted children has been quite high under both the old UI and the new EI systems. From the transitional labour market perspective the most important question is, of course, whether and to what extent these kinds of benefits have enhanced or weakened the beneficiaries' attachment to the labour force. In other words, are these benefits used primarily to support a temporary absence from paid employment, as they were intended to? One study commissioned by Human Resource Development Canada addresses this question for the period immediately before and after the Reform (HDRC 2001c). It reports that under both systems about 9% of maternal/parental benefits recipients had not (yet) returned to paid employment by the 75<sup>th</sup> week after the initial job separation. Of those returning to paid employment, around 85% returned to the same job. The study reports that "there has been no apparent impact of the switch from UI to EI on the probability of an early return to paid employment" (ibid.: 20).

These findings are perhaps not that surprising since no major changes were made to these programs until the major extension of benefit periods introduced in December 2000 by Bill C-32. An important question from the point of view of transitional labour markets is whether and how these extensions, which effectively increased the maximum number of weeks of 'special' (maternal, parental and sickness) benefits for the sake of taking care of new-born or adopted children from 40 to 65, affected the labour market behaviour of the beneficiaries. Did it loosen or strengthen their eventual attachment to the labour force? Given the recent introduction of the extensions, there are no publicly accessible studies available yet at this point, but the most recent CEIC *Monitoring and Assessment Report* refers to a study that has yet to be released which comes to the firm conclusion that the new extended benefits have, if anything, *increased* the probability of an eventual return to paid employment by beneficiaries (CEIC 2004, Annex 5: 5.13-14; Ten Cate, forthcoming). Interestingly, other studies have found that legal job protection rather than the amount of benefits obtainable are the crucial factor in determining women's decisions to take a leave while remaining attached to the labour force (Phipps, Burton and Lethbridge 2001; Ten Cate 2003).

According to some the modest increase in support for low-income families by means of the new *Family Supplement* might undermine the work incentive. What little evidence there is, however, suggests that there has been no such effect: between 1994 and 2002 the average number of weeks that recipients of the *Supplement* were on EI benefits actually *declined* by a week (Canada Employment Insurance Commission 2004: 51-2).

## 2.2 Do 'Active' Policies Really Activate?

While, over the years, successive Canadian federal governments have launched a series labour market policy reforms which were supposed to express a growing commitment to 'active' labour market policies, the rhetoric has generally been far ahead of the actual practice. Canada has been and remains among the most modest spenders on active labour market policies in relative (proportion of GDP) terms among the OECD countries (see, e.g., Martin 2000; van den Berg and Smucker 1992). However, there is no question that the EI Reform did include a substantial increase in the amount spent on measures, services and programs grouped together under Part II of the legislation. From fiscal 1995/96 to 1998/99, expenditures on so-called Employment Benefits and Support Measures (EBSMs) rose from a

little over 1.8 to 2.5 billion dollars and has staid between about 2.3 and 2.5 billion ever since (CEIC 1999: 36; CEIC 2001: 35; CEIC 2002: 28; CEIC 2004: 24-5 and Annex 2, Table 2.11).<sup>9</sup> This trend is also reflected in the fairly steep rise in the total number of EBSM interventions undertaken between 1995/96 and 1998/99 from around 440 to 650 thousand interventions.<sup>10</sup> A large part, perhaps half, of this increase is accounted for by the inclusion of ‘former EI clients’ who would not have been eligible for participation in comparable programs under the old UI system. Unlike expenditures, the number of interventions took another jump in 2001/02, reaching close to 900,000 in 2002/03. Virtually all the growth in the numbers of interventions is due to growth in so-called ‘short-term’ or employment services interventions. These consist mostly in counselling and other employment-seeking assistance services. The numbers of interventions through the so-called ‘long-term’ employment programs, which include skills development, apprenticeships, wage subsidies, and so on, have actually declined by about one fifth, from around 260,000 to around 200,000 since fiscal 1998/99 (see CEIC 99: 35; CEIC 2001: 32; CEIC 2002: 25; CEIC 2004: 23, 25, Annex 3, Table 3.6).<sup>11</sup> All other things being equal, a shift from long-term interventions to job search assistance would occur naturally in periods when employment prospects are relatively good. But the greatest shift towards relatively more short-term services actually occurred in 2001/02, in the wake of a brief recession. It is therefore hard to escape the impression that there has been a longer-term shift underway from the most to the least ‘active’ labour market programs.

One might think that such a shift was a response to disappointing results of the ‘long-term’ interventions. But this cannot be the case, for the simple reason that precious little is known so far about the relative effectiveness, let alone cost effectiveness, of any of these active labour market programs. To be sure, following explicit government guidelines the Canada Employment Insurance Commission dutifully reports in its annual *Monitoring and Assessment Report* on the numbers of clients who returned to employment after having undergone one or more interventions and on the amounts of benefits dollars thus saved. And these figures certainly *seem* quite impressive. Thus, for instance, in the most recent annual report, the Commission announces that over 220,000 EBSM clients returned to work during the 2002/03 fiscal year and that these returns saved the system over \$800 million in ‘unpaid benefits’. The Apprenticeship Program in particular contributes disproportionately to the numbers of returns to work (CEIC 2004: 27-30 and Annex 3, Tables 3.14 and 3.15).

But these results look decidedly less impressive when put in their proper context. For one thing, the number of returns to work was less than one third of the total number of ‘clients’ served that year, which was close to 640,000 (*ibid.*: 20). Second, the ‘unpaid benefits’ are calculated as the proportion of the *maximum* benefits a ‘client’ was entitled to that remained unused. But, as we have already mentioned, the *average* ‘client’ only uses up about two thirds of this maximum. Moreover, the only way of finding out which effects were due to

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<sup>9</sup>The Commission’s report for 2002/2003 (CEIC 2004) does not report totals in the same manner as the preceding reports so that an estimate had to be made by adding up the numbers reported and comparing them closely with the corresponding figures for the 2001/02 fiscal year. Also, apparently due to slight inconsistencies in including or excluding certain administrative expenditures the figures for the same years differ slightly between the different reports.

<sup>10</sup> The numbers of “clients” served is actually somewhat smaller since one client may be the subject of more than one intervention, e.g., receiving both counseling *and* training.

<sup>11</sup>The figures reported for the most recent two fiscal years are actually somewhat lower, but this is mostly due to a new counting methodology not a change in actual numbers (see CEIC 2001: 29).

program interventions and which are accounted for by other factors such as changing labour market conditions is to compare the outcome for ‘clients’ with those of a comparable group of non-clients. Third, as the Commission itself notes, the apparently favourable results of the Apprenticeship Program are largely due to the fact that apprenticeships are often linked to existing jobs for which the apprentices are being trained (CEIC 2004: 29).<sup>12</sup> The Commission is aware of these problems, of course, and rightly cautions against drawing any serious conclusions as to program effectiveness from the figures it reports (ibid.: 28).<sup>13</sup>

In view of these obvious shortcomings, the CEIC also has the mandate to commission thorough-going ‘summative evaluations’ in all (provincial) jurisdictions. A panel of private sector evaluators and independent academics has been convened to develop a methodological framework meeting the highest standards of scientific rigour to study the net impacts of EBSMs, including employment, skills gains, job quality and increased self-sufficiency. By ‘net’ impact is meant the incremental impact on ‘clients’ over and above what would have occurred without the assistance of the program in question, as measured by an appropriately defined and sampled comparison group. The methodologies used include large-scale surveys of ‘clients’ and members of comparison groups and a variety of qualitative methods including key informant interviews, focus groups, case studies, panels of experts, and so on (see CEIC 2004: 58 and Annex 5: 5.16-5.17).

In typically Canadian fashion, however, these evaluation projects have had to be negotiated in terms of distributions of responsibilities and authority with the representatives of each of the provinces before they could be fielded. As a result, at this point the CEIC is only able to report informally on very preliminary results for three jurisdictions, British Columbia, Quebec and Newfoundland and Labrador. Nevertheless, even these general and tentative results are of some interest, in particular when compared to evaluations of similar program results from other countries (see Martin 2000). For one thing, these first findings appear to be as mixed and modest as are those reported in the evaluation literature elsewhere. They also point in interesting ways in similar directions.

For British Columbia, the CEIC reports a decidedly mixed bag of preliminary results. Active clients seem to have benefitted from EBSMs in the post-program period (up to 24 months after termination of participation in the program) both in terms of hours worked and in terms of earnings. The positive employment effects were primarily for EI clients participating in the Skills Development and Self-Employment Assistance programs. The magnitudes of the effects are not reported, but the Commission’s wording suggests that they are quite modest (“indications of positive program impacts on hours worked” and “limited gains...towards the end of the post-program period” for earnings; CEIC 2004: 59). Curiously, *former* EI clients appear to have enjoyed no beneficial effects at all from the assistance they received through EBSMs except for, again presumably quite modest, gains in hours and earnings for those receiving Targeted Wage Subsidies. Perhaps more worrying still, the consequent reductions in use of EI during the post-program period are reported to be “minimal at best,” nor was there any “widespread impact on subsequent use of provincial income assistance” for former EI clients (ibid.). On the other hand, average skill levels of the jobs held after completion of

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<sup>12</sup> This does, however, confirm the importance of close linkage between training and existing jobs, a well-known finding in the labour market policy evaluation literature (see Martin 2000: 91-3, 96).

<sup>13</sup> This *does* raise to question, of course, as to why these figures are gathered and reported at all, no doubt at a considerable expense of tax-dollars.

the programs was slightly higher than of those held during the pre-program period and participants' attitudes towards future learning appears to have been positively affected as well (ibid.: 60).

Intriguingly, the evaluation findings for Quebec present in some respects a mirror image of those reported for BC. In Quebec, net impacts were almost imperceptible for active EI clients whereas they were modestly positive in terms of finding and holding employment, working hours and earnings for *former* EI clients. Furthermore, *both* types of clients *increased* their use of EI benefits subsequent to program participation, although *former* clients, but not active clients, made less use of provincial social assistance afterward. Skills Development is the only program mentioned specifically as having a positive impact, but again only for former EI clients (CEIC 2004: 60-63).

For Newfoundland and Labrador not even the preliminary estimates of net client program effects were available for the CEIC's 2003 *Monitoring and Assessment Report*. Only subjective client assessments of the importance of newly acquired skills in new-found jobs and of the helpfulness of programs in finding new employment are reported. These are generally quite favourable. But given the rather sobering findings of the net impact studies conducted in BC and Quebec, one is forced to wonder what these positive subjective assessments by former EBSM clients really signifies. Earlier CEIC *Monitoring and Assessment Reports* have reported high levels of client satisfaction in a number of jurisdictions, including BC (CEIC 2002: 28-9) where, as we saw, the objective net impact of the programs has been marginal at best.

As indicated, these reported findings are highly preliminary and may well change as they pass through the critical assessments of expert referees before being released. Any serious attempt adequately to gauge their import and reliability will have to await the release of the studies themselves. As we know from the international literature on the subject, the evaluation of the net effects of these kinds of policies is notoriously fraught with problems relating to the choice of comparison groups, potential self-selection of program participants and much more (Martin 2000). Unfortunately, these *are* virtually the only findings we have at the moment on the effectiveness of Canada's federally funded active labour market policies. While independent academics have been quick to try and assess the possibly distorting effects of various benefits schemes and rules and the federal government's periodic efforts to reform them, there does not seem to be any such enthusiasm among them for studying the actual impact of 'active' labour market policies. No doubt this says something about the general tenor of the debates about labour market policy reform in Canada, as well as about the relatively modest role that 'active' policies have traditionally played.

### **III. Conclusion**

Clearly, then, the much-heralded transformation of Canada's old unemployment insurance program into a brand-new Employment Insurance system designed to meet the new demands of a modern, knowledge-based economy was not quite as sweeping as it was made out to be. Much of the EI Reform involved tightening of benefits access rules and lowering of obtainable benefits intended as much to produce significant cutbacks in expenditures as to

influence labour market participation behaviour. Nor was the conversion to greater emphasis on 'active' labour market policies quite as spectacular and thorough-going as the rhetoric of the time suggested. Nevertheless, there was *some* shift towards more emphasis and expenditure on active labour market policies and some components of the EI Reform *were* intended to facilitate certain labour market transitions, including temporary leaves for the sake of childcare. But this hardly adds up to a conversion to labour market flexibilization along the lines of Transitional Labour Market theory or the European Social Model. Contrary to the latter two approaches, the Canadian reforms remained firmly wedded to the typically 'Anglo-Saxon' assumption that overly 'generous' unemployment benefits *necessarily* undermine labour market flexibility. At the same time, the Reform *did* increase access to and the level of certain specific benefits, in particular for new parents and poor families and some part-time workers, in the apparent belief that these benefits would *not* undermine labour market participation and flexibility. And what little evidence exists on the matter suggests that this latter assumption was correct. But overall the Canadian unemployment benefits regime remains one of the most restrictive and stingiest among the OECD countries.<sup>14</sup>

In any case, however disappointing by European standards, the EI Reform did implement some major changes in Canada's labour market policy regime and these changes present valuable opportunities to researchers to study the impacts of different policies in roughly the same labour market and institutional setting with important implications for labour market policies elsewhere. One important issue in the debate over the relative merits and shortcomings of the Anglo-Saxon as opposed to the European Models is whether there is a necessary trade-off between inequality (and hence relative poverty) and employment. The Canadian case offers opportunities to shed further light on this vexed issue. In particular, it will be of much interest to delve further into the exact causes of the successful expenditure reductions after the transition to the EI system. Did it effectively occur by excluding (poor) unemployed people whom the advocates of the European Social Model would wish to include in the social safety net? Or was it primarily achieved by redirecting resources away from uses of the benefits system that merely serve to undermine labour market flexibility?

For similar reasons, there is probably a great deal to be learnt from taking a closer look at the reasons for the somewhat puzzling long-term decline in the ratio of insurance beneficiaries to unemployed mentioned earlier. While the decline has been the subject of much political argument, we actually know very little about its exact causes. Is it the long-term result of ever stingier benefits rules or are there other factors having to do with the changing composition of the labour force and other secular trends that account for it? And whichever it is, is there a case to be made for remedial action?

Another important issue that can be usefully illuminated by further study of the Canadian case is the relationship between the 'passive' benefits regime and the effectiveness of 'active' measures. Since active labour market policies have been pursued and studied most energetically in countries with generally quite generous welfare states, first and foremost the Scandinavian countries, most studies of the impact of active labour policies also deal primarily with policies operating within a rather generous social security environment. It is, therefore, of particular interest to examine the effectiveness of active labour market policies in the allegedly much harsher Canadian environment. Does this environment give potential

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<sup>14</sup> This does not deter the OECD, however, from continuing to recommend reducing the 'generosity' of its unemployment benefits in order to reduce its higher-than-average unemployment rate (OECD 2004????).

participants in the active programs a stronger incentive to seek them out and to participate more energetically, as advocates of the ‘Anglo-Saxon’ philosophy would argue? Or does it, on the contrary, merely produce more demoralization on the part of the weakest in the labour market and consequent resignation and social exclusion, as the protagonists of the European Model claim? Careful study of the changing character of the clientele of the various EBSMs and their fates before and after the EI Reform ought to throw some useful new light on these questions.

One important question that tends to arise in discussions of unemployment insurance reform in Europe does not appear to have any counterpart in the Canadian case: the degree to which older workers (and their employers!) should be allowed to use the unemployment insurance system as a way to subsidize early retirement from jobs and industries that are in relative decline. This difference is not hard to explain *prima facie*: given the strictly limited periods for which unemployed workers can receive unemployment insurance benefits at all in Canada, particularly in low-unemployment regions, it is not easy to use the benefit system to help bridge the period to full retirement for workers 55 years and up, as some of the European systems have done. But this does not make the difference any less interesting and worthy of further examination. After all, Canada has had its share of traditional, mature manufacturing industries employing disproportionate numbers of middle-aged men that have been in relative decline over the past decades. The interesting question is: has there not been the same kind of pressure for special arrangements for these workers through the UI/EI system and if not, why not? Certainly, a close look at the treatment and fate of workers in this age group in the UI and later the EI system could provide analysts and policy makers with important clues concerning the possible ways of dealing with this increasingly pressing issue.

Many more questions regarding various components of the Canadian system and the EI Reform are in need of more careful analysis. Certainly the overall effects of the (changes in) benefits rules are still far from fully understood. More glaringly, until the first actual ‘summative evaluation’ studies commissioned by the CEIC are released, there is very little of value that we can say about the effectiveness of the new package of *Employment Benefit and Support Measures*. But given the almost unique intermediate position that Canada occupies in many respects between the European Social Model on one side and the supposedly most extreme version of the ‘Anglo-Saxon Model’ to its south, the results of such more detailed studies are likely to have important implications for the issues that animate the ongoing debates between their respective proponents.

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**Appendix: Tables and Chart**

**Table 1. Post-Reform EI Program Activity Compared to the last full year of UI**

<b>Fiscal year (ending 31 March):</b>	<b>1995/1996</b>	<b>1997/1998</b>	<b>1998/1999</b>	<b>1999/2000</b>	<b>2000/2001</b>	<b>2001/2002</b>	<b>2002/2003</b>
<b>Number of new claims</b>	1818000	1498000	1488000	1361000	1372000	1480000	1428000
<b>Frequent claimants</b>	706,000	616,000	585,000	526,000	500000	500000	492000
<b>Occasional claimants</b>	623,000	475,000	470,000	431,000	442,000	475,000	465,000
<b>First time claimants</b>	490,000	407,000	433,000	405,000	430,000	505,000	471,000
<b>Total amount of benefits ('000 dollars)</b>	9527000	7,717,000	7,753,700	7,026,100	6,834,100	8,008,000	8,206,400
<b>Average weekly benefits (dollars)</b>	276	277	282	283	297	305	309

EI benefits and expenditures associated with Employment Benefit and Support Measures (EBSMs) are not included. Frequent claimants in the year of observation are defined as those having filed separate EI claims in three of the past five years, while occasional claimants are defined as those having filed separate EI claims in one or two of the past five years, exclusive of first-time claimants.

Source: Gray 2004. Annual EI Monitoring and Assessment Reports.

## Total Income Benefits

	New Claims <sup>1</sup>				Average Weekly Benefit				Amount Paid <sup>2</sup>							
	2002/ 2003 (000's)	Percentage Change				2002/ 2003 (\$)	Percentage Change				2002/ 2003 (\$M)	Percentage Change				
		2001/02 2002/03	2000/01 2001/02	1999/00 2000/01	1995/96 1997/98		2001/02 2002/03	2000/01 2001/02	1999/00 2000/01	1995/96 1997/98		2001/02 2002/03	2000/01 2001/02	1999/00 2000/01	1995/96 1997/98	
<b>Province/Territory</b>																
Newfoundland and Labrador	96	6.2	4.4	1.8	-5.9	298	1.2	2.6	5.8	-3.0	719.4	6.9	10.7	2.4	-6.3	
Prince Edward Island	25	-3.0	7.4	4.4	-2.6	292	4.0	3.2	5.6	-3.5	167.1	5.4	6.7	4.1	-6.6	
Nova Scotia	90	1.3	2.1	2.9	-11.8	287	0.6	3.3	3.5	-1.2	582.0	7.2	10.2	4.0	-16.7	
New Brunswick	92	-3.2	2.1	0.3	-8.6	289	2.1	2.2	5.7	-3.3	641.2	2.2	15.4	2.0	-15.1	
Quebec	581	-3.5	8.0	2.1	-11.1	299	1.9	2.7	4.3	0.5	3,529.3	2.0	19.6	-0.4	-16.3	
Ontario	523	-5.9	16.5	7.8	-19.3	322	1.5	1.6	4.0	0.4	3,592.2	9.2	39.3	1.7	-15.9	
Manitoba	57	-3.8	8.9	0.2	-15.2	292	2.9	1.4	2.2	1.1	345.2	8.1	20.9	-1.7	-16.8	
Saskatchewan	45	0.7	3.8	-1.7	-17.7	300	2.2	1.7	3.1	3.2	283.5	12.0	10.0	1.5	-19.4	
Alberta	140	4.8	11.2	-6.5	-21.4	325	2.0	3.9	3.9	1.7	932.6	22.9	21.3	-12.2	-32.1	
British Columbia	213	-7.2	11.5	-0.5	10.0	317	0.2	3.2	3.2	0.0	1,484.8	5.6	28.4	-7.1	-11.5	
Nunavut	1	-18.3	12.9	-5.7	N/A	334	1.5	-2.8	1.2	N/A	9.9	-1.8	23.2	-11.3	N/A	
Northwest Territories	3	14.0	2.3	-11.5	-14.6	368	-0.2	8.0	0.6	2.2	26.4	45.4	3.7	-8.7	-13.7	
Yukon	3	29.1	-6.0	-8.4	3.3	350	1.1	1.2	-0.5	3.8	23.6	22.8	-5.0	-6.1	0.8	
<b>Sex</b>																
Men	1,018	-3.6	10.3	4.6	-13.9	337	1.0	2.3	3.9	-0.8	6,542.3	1.6	19.0	-0.9	-17.8	
Women	851	-2.7	9.7	-0.1	-13.9	273	2.4	3.1	3.8	1.3	5,794.9	13.7	30.7	-1.2	-13.6	
<b>Age</b>																
Under 25	239	-5.7	7.8	2.5	-20.9	255	1.8	3.8	5.1	2.0	1,271.4	2.8	26.4	-0.4	-22.8	
25 to 44	1,057	-4.3	9.6	0.4	-15.2	318	1.5	2.7	3.8	-0.5	7,670.1	8.0	26.7	-2.8	-17.5	
45 to 54	375	-1.9	11.4	6.8	-6.3	315	1.2	2.1	4.6	-1.1	2,208.8	4.9	18.0	2.6	-9.3	
55 and over	198	3.9	12.9	5.7	-8.1	305	1.5	1.5	4.3	-0.6	1,187.0	8.5	16.2	2.5	-11.6	
<b>EI History<sup>3</sup></b>																
First-time Claimants	771	-5.4	19.5	7.3	-10.0	298	1.3	4.1	3.4	1.8	5,642.1	13.7	39.4	0.0	-11.0	
Occasional Claimants	560	-2.6	7.6	3.3	-20.2	300	1.4	2.7	4.8	0.9	3,352.1	3.0	21.6	-0.4	-21.4	
Frequent Claimants	538	-0.7	0.5	-4.0	-11.7	332	1.7	1.8	5.1	-2.6	3,343.1	0.8	8.0	-2.6	-16.3	
<b>NATIONAL</b>	<b>1,869</b>	<b>-3.2</b>	<b>10.0</b>	<b>2.4</b>	<b>-13.9</b>	<b>308</b>	<b>1.5</b>	<b>2.6</b>	<b>4.1</b>	<b>0.0</b>	<b>12,337.2</b>	<b>6.9</b>	<b>23.9</b>	<b>-1.0</b>	<b>-16.1</b>	

Source: EI Administrative Data

N/A = not applicable

1. Includes claims on which at least \$1 of EI benefits was paid.
2. Amount paid represents benefit payments under regular, fishing, special (sickness, maternity, parental), employment (sec. 25 of EI Act) and work sharing benefits. Payments under Part II of the EI Act are not included.
3. First-time claimants are defined as individuals who did not have a claim in the five years prior to their current claim. Occasional claimants are defined as individuals who have had fewer than three active claims in the five years prior to their current claim. Frequent claimants are defined as individuals who have had three or more active claims in the five years prior to their current claim.

## EBSM Part II – Final Expenditures

In (\$000's)/By Intervention – 2002/2003

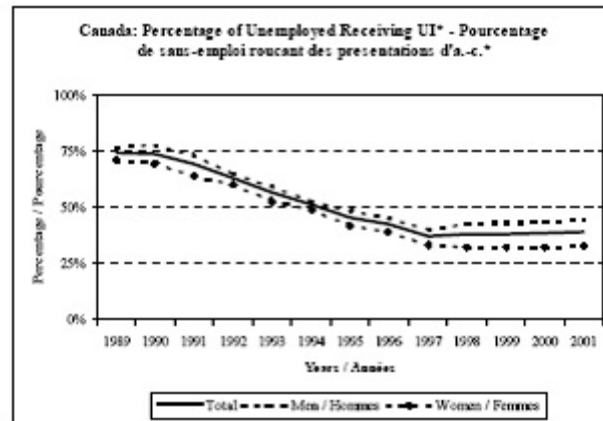
	N.L.	P.E.I.	N.S.	N.B.	Que. <sup>1</sup>	Ont.	Man.	Sask.	Alta.	B.C.	N.W.T.	Y.T.	Nun.	NHQ	Canada
<b>Employment Programs*</b>															
Targeted Wage Subsidies	4,041	2,280	2,607	8,830	48,758	19,821	2,096	2,718	1,808	14,760	454	34	188	-	108,395
Self-Employment	3,809	980	4,572	3,358	28,570	50,837	2,437	508	5,305	32,602	423	567	4	-	133,972
Job Creation Partnerships	17,239	1,925	7,968	-	-	31,956	3,959	-	6,615	8,212	-	-	-	-	77,874
Skills Development	78,250	15,354	35,057	62,341	326,176	195,325	25,564	26,728	63,264	113,099	1,368	1,666	1,476	-	945,668
<b>Total Employment Programs</b>	<b>103,339</b>	<b>20,539</b>	<b>50,204</b>	<b>74,529</b>	<b>403,504</b>	<b>297,939</b>	<b>34,056</b>	<b>29,954</b>	<b>76,992</b>	<b>168,673</b>	<b>2,245</b>	<b>2,267</b>	<b>1,668</b>	<b>-</b>	<b>1,265,909</b>
<b>Employment Services*</b>															
Employment Assistance	9,970	2,179	18,740	13,013	98,607	190,313	6,908	2,229	32,271	108,843	667	1,155	-	256	485,151
Supplément de retour au travail (Quebec only)	-	-	-	-	4,188	-	-	-	-	-	-	-	-	-	4,188
<b>Total Employment Services</b>	<b>9,970</b>	<b>2,179</b>	<b>18,740</b>	<b>13,013</b>	<b>102,795</b>	<b>190,313</b>	<b>6,908</b>	<b>2,229</b>	<b>32,271</b>	<b>108,843</b>	<b>667</b>	<b>1,155</b>	<b>-</b>	<b>256</b>	<b>489,339</b>
<b>Other*</b>															
Labour Market Partnerships	14,507	1,371	9,503	1,511	91,017	25,956	7,122	6,269	2,841	5,030	710	81	-	-	165,918
Research & Innovation	-	-	-	2,182	-	-	872	479	-	-	-	-	-	-	3,533
<b>Total Other</b>	<b>14,507</b>	<b>1,371</b>	<b>9,503</b>	<b>3,693</b>	<b>91,017</b>	<b>25,956</b>	<b>7,994</b>	<b>6,748</b>	<b>2,841</b>	<b>5,030</b>	<b>710</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>169,451</b>
<b>TOTAL Part II – Regular</b>	<b>127,816</b>	<b>24,089</b>	<b>78,447</b>	<b>91,235</b>	<b>597,316</b>	<b>514,208</b>	<b>48,958</b>	<b>38,931</b>	<b>112,104</b>	<b>282,546</b>	<b>3,622</b>	<b>3,503</b>	<b>1,668</b>	<b>256</b>	<b>1,924,699</b>
Overcontribution <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	30	-	661	-	691
Pan-Canadian (see details in Annex 3.13)	2,561	532	2,252	2,152	12,058	19,486	13,696	11,636	13,120	15,038	3,062	1,432	2,247	97,676	196,948
Adjustment <sup>3</sup>	(1,072)	(1,340)	(390)	(54)	(310)	(3,640)	(103)	(166)	(374)	(1,580)	(522)	(13)	(344)	(1,028)	(10,936)
<b>Total including Pan-Canadian</b>	<b>129,305</b>	<b>23,281</b>	<b>80,309</b>	<b>93,333</b>	<b>609,064</b>	<b>530,054</b>	<b>62,551</b>	<b>50,401</b>	<b>124,850</b>	<b>296,004</b>	<b>6,192</b>	<b>4,922</b>	<b>4,232</b>	<b>96,904</b>	<b>2,111,402</b>

<b>Administrative costs related to LMDAs<sup>4</sup></b>					<b>8,890</b>	<b>58,456</b>		<b>5,983</b>	<b>6,021</b>	<b>9,472</b>		<b>1,450</b>		<b>985</b>	<b>91,257</b>
<b>(Transfer regions only)</b>															

Source: Corporate Management System and Provincial/Territorial Audited Statements

1. An expenditure of \$19.632M for Labour Market Partnerships is under review.
2. Overcontribution will be recovered during fiscal year 2003-2004.
3. Adjustment to reflect overpayments established and refunds of previous years' expenditures.
4. Administration costs include \$86.185M (Salary & Non-Salary) to administer LMDAs, \$0.198M (agreement to develop provincial capacity required for LMDA implementation) and \$4.874M for rent.

\* Includes expenditures (\$5.755M) for Aboriginal groups in Nova Scotia and Ontario.



Source: Canadian Labour Congress, 2003: 4.