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Canada's Shrunken Safety Net: Employment Insurance in the Great Recession*

An additional forty-one thousand Canadians were out of work this March, bringing total unemployment close to one and a half million. This frightening number will almost certainly keep climbing in the next several months.

Bailouts and building projects will help, but the essential program for most unemployed Canadians remains Employment Insurance, the name that unemployment insurance was given in 1996. Unemployment Insurance was introduced in 1940 in the wake of the Great Depression and helped get us through many difficult times since, including most recently the recessions of 1982 and 1990. Is the program up to the challenge of the Great Recession of 2009?

All employees must pay Employment Insurance premiums, yet only four in ten of the unemployed now qualify for regular benefits. In the recession of 1982, the program helped 76 percent of the unemployed. During the 1990 recession, fully 83 percent of the unemployed received benefits. Coverage today is only about half of what it was in the recession of 1990.

The lack of coverage hits women especially hard: Only 39 percent of unemployed women received unemployment insurance benefits in 2008, compared to 46 percent of jobless men.

It gets worse: These national averages mask an astonishingly low rate of coverage in Ontario and Western Canada. 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. The gaps in coverage are just as great if we compare cities in Ontario and the West to those in the East; for example, just 24 percent of the unemployed in Toronto got benefits in 2008 compared to 50 percent in St. John's.

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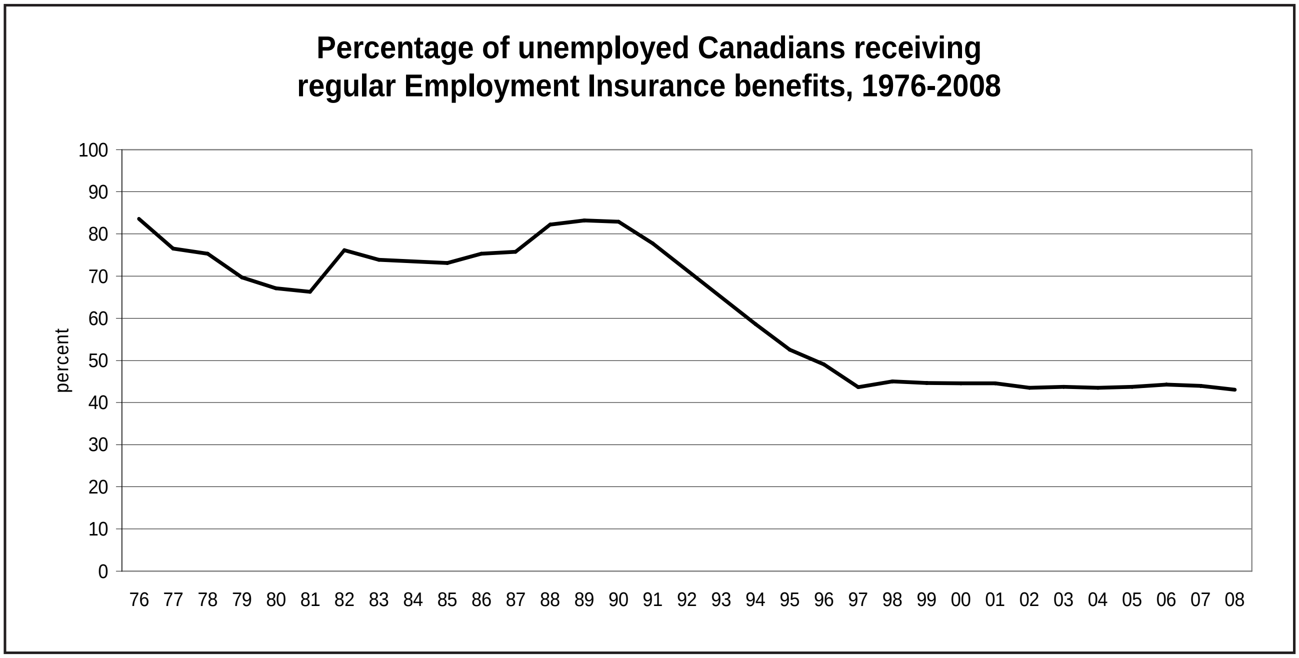

The decimation of Employment Insurance has its roots in the 1990s, when Ottawa imposed belt-tightening changes. Employees had to work longer to qualify for benefits, payments were lowered and the maximum duration of benefits was reduced. Coverage shrank because many more of the unemployed could not get enough hours of work to qualify. Especially hard hit was the growing population with non-standard jobs – the self-employed (who are not part of unemployment insurance), multiple job-holders, contract workers and part-time workers – that now make up about one-third of the labour force.

The division of Canada into 58 'unemployment regions' also shares the blame for the spotty coverage across the country. Entrance requirements range from a low of 420 hours for regions with unemployment rates over 13 percent to a high of 700 hours for regions with unemployment rates less than 6 percent. The maximum duration of benefits ranges from 50 weeks to only 19 weeks.

Combining regional variation in both work requirements and length of benefits multiplies the effects of each, making for a double whammy. In a high-unemployment region, a worker laid off with 420 hours of employment can end up with the maximum 50 weeks of benefits. A worker in a low-unemployment area also laid off with the same work record gets zero weeks of benefit. But even if the worker in the low-unemployment region had 700 hours work to qualify for Employment Insurance, she would be entitled to only 19 weeks of benefits. She ends up with a fraction of the benefits paid in the high-unemployment region, even though she has worked far longer and paid much more in premiums.

The regional rules can lead to the absurd situation where two people working side-by-side for the same employer for the same number of hours are laid off – and one gets Employment Insurance while the other does not. The lucky winner of the Employment Insurance lottery happens to live across a regional boundary with a higher jobless rate.

Employment Insurance rules based on regional unemployment rates do not reflect the real-life circumstances confronting the unemployed. The local unemployment rate is only one factor affecting how hard it is to find a new job, and likely not the most important factor. Job prospects are determined by skills, flexibility in relocating, educational and work experience, and how these and other characteristics fit with the local, regional and national labour market. Some types of jobs will be plentiful even in a high-unemployment region: Other types of jobs will be scarce even in a low-unemployment region.

The rules determining eligibility for Employment Insurance have gotten harder since the last recession. The amount paid to those who do manage to qualify has fallen as well.

The maximum weekly Employment Insurance benefit today is $447. In 1990, Canada's maximum Employment Insurance weekly benefit was $570 in inflation-adjusted 2009 dollars, so the real value of weekly benefits has shrunk by $123 – or more than 20 percent since the last recession. But in reality, many beneficiaries of Employment Insurance get much less than the maximum. In 2006-07 (the most recent year for which data are available), the average weekly benefit was $360 for men and only $298 for women – substantially below the then $423 maximum payment.

Women are especially hurt by Employment Insurance's formula for calculating weekly benefits. The calculation includes weeks not worked or worked only part time before a claim, so a few weeks with low earnings can dramatically lower average earnings over the 26-week period. This formula discriminates against workers – typically women – with unstable earnings patterns because they work on call, in casual or temporary work. In weeks leading up to layoff, workers often have fewer hours and thus lower earnings [Townson and Hayes 2007: 13-14]. Ironically, many workers would be better off getting laid off instead of working part time prior to a layoff.

In a recession, Employment Insurance should also play the role of economic stabilizer. It should draw down accumulated savings from premiums collected during the flush years to pump money into the economy during the lean years, thereby helping thousands of businesses to stay afloat and their workers from needing Employment Insurance in the first place.

In 2005, Ottawa changed the financing rules for Employment Insurance. A new law set premiums at the beginning of each year at an amount just sufficient so that the program would pay for itself in the coming year. But the premium was not to vary by more than 15 cents on every $100 of insurable earnings in any single year.

This new premium rate-setting rule has a perverse consequence: Premiums go up in bad times and down in good times. Premium increases are contractionary and economically very bad news during a recession. Premium increases in 2009 and 2010 would have removed about $4.5 billion from the economy and cancelled out much of the government's own stimulus efforts.

Fortunately, the 2005 law also permitted the government to override its own premium rate-setting mechanism. In its recent Budget, Ottawa did what it must and froze premium rates until 2011. But 2011 remains unrealistic. There is little foreseeable possibility that the economy will be able to absorb premium increases two years from now.

This situation leaves a vacuum in public finances. The 2005 legislated rate-setting mechanism is still on the books, but has proven to be unworkable and will remain so into the foreseeable future. Until there is a viable rate-setting policy, we remain in the world of Ottawa making *ad hoc* decisions every year about premium levels, inevitably politicizing the rate decision.

Employment Insurance needs immediate fixes to get unemployed Canadians through the Great Recession. The 2009 Budget extended the maximum duration of regular Employment Insurance payments by five weeks, up to a maximum of 50 weeks. But this change is temporary, lasting only two years, and does nothing about the program's Achilles heel – its inadequate coverage of the unemployed. Nor did the Budget even begin to restore Employment Insurance benefits toward their early 1990s level.

Employment Insurance can be made stronger through several immediate reforms. Its earnings-replacement capacity should be increased from the current 55 percent of insurable earnings to 70 percent, raising maximum weekly benefits to $570 – their level in the previous recession. There should be one uniform set of rules for work requirements and length of benefits for all Canadians wherever they live and work. The amount of benefit should be calculated on the best 12 weeks of earnings of the previous 26, so as to allow flexibility to take part-time jobs.

Employment Insurance needs to be returned to social insurance principles, with the connection restored between premiums paid in and benefits taken out restored, both at the individual level and at the macro-level of the economy as a whole. Premiums should be set higher in good economic times and lower when the going gets rough.

These are badly needed and practicable improvements, but they still will leave many of the unemployed without coverage. In the longer term, Canada's whole support system for the unemployed – welfare as well as Employment Insurance – needs to be re-examined through a joint review by the federal and provincial/territorial governments. Just as we did during the 1930s, the Great Recession of 2009 should be an opportunity to reconstruct our social programs so that we come out of this crisis with a stronger social safety net, better adapted to the realities of a twenty-first century economy.

Here is a bold new idea: Ottawa should create a new program to complement a strengthened Employment Insurance. The new scheme would pay temporary and time-limited income-tested benefits to the unemployed workers with low or modest incomes who cannot qualify for Employment Insurance. The new program would prevent tens of thousands of the unemployed from falling onto provincial/territorial welfare rolls.

We need decisive action now to address the still-gathering economic storm, but we also need bold ideas for reforms to be implemented when we recover. The current system is not working: neither are the thousands of unemployed Canadians who pay Employment Insurance premiums but are excluded from the shrunken safety net.

Michael Mendelson, Ken Battle and Sherri Torjman

Reference

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Caledon Institute of Social Policy

401-1390 Prince of Wales Drive
Ottawa, ON K2C 3N6
CANADA

Phone: (613) 729-3340
Fax: (613) 729-3896
E-mail: caledon@caledoninst.org
Website: *www.caledoninst.org*