Intelligence MEMOS

From: Mike Veall

To: Bill Morneau, Minister of Finance

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Re: **FREEZING EI PREMIUMS**

The federal government has, in your words, “no plan to raise taxes.” This should extend to Employment Insurance (EI) premium increases as well.

When the Canada Emergency Response Benefit (CERB) and the Canada Emergency Wage Subsidy (CEWS) are gone, EI will again be the main federal government income support program for workers. And as CERB delayed but did not reduce pre-CERB EI eligibility, pending EI obligations are very large.

The EI plan is fully funded by premiums and is required to break even over seven years. The EI account was in good shape entering the COVID-19 era, but that won’t last long with current employment rates. Its shortfall will be worse if any CERB payments will be charged to it, as seems possible under the recent amendments to the *Employment Insurance Act* in Bill C-13 that created CERB. And under current rules, an EI account deficit automatically triggers premium increases.

The law now limits the increase in January 2021 to five cents for employees, from $1.58 to $1.63 per $100 in earnings, and a seven-cent increase on employers, from about $2.21 to about $2.28. With no freeze, that increase can be projected to click in every year for the foreseeable future. It is the wrong signal to send when the focus should be on the creation of permanent, full-time jobs.

The most recent evidence from Canada suggests that employer payroll tax increases are passed on by employers to employees as reduced wages with little effect on employment. (The authors actually exclude “social contributions” such as EI premiums from the employer payroll tax effects they study, but it seems very likely that EI employer premium effects would be similar.)

Their estimates imply that during 2001 to 2011 an increase in EI premiums was almost entirely borne by the employee, with the employee share paid directly and the employer share passed through. An EI premium increase would essentially be the same as the tax increases that you have indicated that your government is not planning, and would disproportionately affect the incomes of low and middle earners. Their marginal tax rates, including direct and passed-through payroll taxes, already can be as high as those for more affluent workers who pay no EI premiums on much of their earnings because of the program’s cap, $54,200 this year.

However, in the current unprecedented situation, with negative or very low inflation, employers may not be able to pass through an EI premium increase by just delaying wage increases, which could require wage cuts, which might in turn have negative morale and productivity effects. Firms may therefore choose not to pass through. However, that makes labour more expensive.

While from different institutional contexts, the results from one recent paper for Sweden and another for the US suggest higher premiums could lead to less employment. EI premium increases, actual or anticipated, may be job killing.

One solution would be to increase premiums (without increasing benefits) for high-income workers, but not for low to middle-income workers or firms. A better alternative would be to transfer general revenue to the EI account, the opposite of what happened during the 1996 to 2010 period when $57 billion was transferred the other way.

The government will already be in effect borrowing money to keep EI afloat. Borrow a small percentage more to freeze EI rates. Send the signal that the priority is job creation, not just income support.

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