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***Backgrounder***

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## Has EI Reform Unraveled?

*Canada's EI Regime  
in the 2000s*

David M. Gray

### **The Backgrounder in Brief**

*Employment insurance reforms in the mid-1990s were intended to reinforce the program's role in insuring against unpredictable job loss, rather than supplementing regular income. Have more recent changes undone those hard-won reforms? For seasonal workers in high-entitlement regions, the answer seems to be yes; further backsliding in the program should be avoided.*

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When Ottawa made sweeping reforms to employment insurance (EI) in the mid-1990s, it was seeking, in broad terms, to elevate the principle of insurance within the system. The far-reaching changes in the *Employment Insurance Act* of 1996 were aimed at such goals as ensuring that workers develop significant attachments to the labour force before collecting EI benefits, and discouraging use of EI as a regular income supplement as opposed to insurance against unpredictable job loss (see Gray 2004).

A decade later, however, there is public concern that recent changes to the EI system might constitute backsliding relative to those prior, hard-won reforms. Poschmann and Robson (2006) state that, “Recent new payments to workers who routinely work less than a full year are undermining a decade-old effort to remake EI as an insurance backstop against unexpected and temporary unemployment.” Indeed, the government’s own EI Monitoring and Assessment Report asserts that while “we can conclude that the 1996 reform led to significant savings amounting to billions of dollars ... certain elements of the reform have been undone” (Canada Employment Insurance Commission 2005, 93).

Has EI reform unraveled? If so, to what extent and with what implications? To examine these questions, and formulate policy recommendations based on the findings, this *Backgrounder* focuses on changes to regular EI benefits since 2000,<sup>1</sup> with analysis restricted to the passive benefits that are called regular income benefits.<sup>2</sup> Some of the modifications to these regular income benefits have been implemented in the form of “pilot projects,” a mechanism designed to activate new policy measures that was laid out in the *EI Act*,<sup>3</sup> while others were delivered in 2001 through Bill C-2.

Do these post-2000 changes fly in the face of the important reforms of the mid-1990s? The 1996 *Employment Insurance Act* (Bill C-12) is considered to be the most sweeping overhaul since the 1971 *UI Act*. As well, there were two other important pieces of relevant legislation during the period. Bill C-113, passed in 1993, reduced the replacement ratio (the percentage of insurable earnings that are replaced by benefits) from 60 percent to 57 percent and eliminated benefits for those who leave their jobs voluntarily. Bill C-17, passed in the subsequent year, significantly shortened the length of benefit periods, and reduced the replacement ratio to 55 percent. To what extent has backsliding on reforms undercut their intent?

In what follows I explain the elements of EI reform that have endured and their impact on outcomes in the EI regime. I then summarize the EI regular benefit rules that have changed since 2000 and discuss their overall thrust, which, I argue, raises concern about their long-term impact on seasonal unemployment patterns.

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1 The *EI Act* explicitly stipulated that the EI commission of Human Resources Development Canada (HRDC) — since renamed Human Resources and Social Development Canada (HRSDC) — monitor the use patterns of the EI regime. EI reform was viewed as a somewhat experimental process to be subjected to continual and thorough evaluations. There was an understanding that certain elements of the act could be modified or appealed (Canada Employment Insurance Commission 1999).

2 Among “income benefits,” I do not treat the changes applied to “special benefits,” such as maternity, parental, sickness, or fishing benefits.

3 The precise definition of the function of the pilot project is to “test potential improvement to provisions of the *EI Act* before considering a permanent change” (*EI Monitoring and Assessment Report* [EIMAR] 2005, 87).

Finally, I draw conclusions and make policy recommendations for future reform initiatives.

The primary conclusions of this study are:

- Overall, the reform measures in Bills C-12, C-113 and C-17 have succeeded in delivering substantial cost savings and have reduced certain inefficiencies; the incidence of seasonal use has declined in both absolute and relative terms since the mid-1990s.<sup>4</sup> Given the current favourable labour market conditions, the number of affected claimants remains low relative to the labour force, and therefore on a quantitative level one cannot assert that EI reform has entirely unraveled.
- Certain elements of these bills, however, have been either explicitly or implicitly rescinded.
- On the qualitative level, most of the modifications to the EI regime since 2000 have had an economically meaningful impact on financial incentives, by raising the generosity of EI benefits paid to seasonal workers. Other factors held constant, these changes can be expected to encourage frequent and seasonal use and to discourage structural adjustment, which contravenes one stated objective of EI reform; namely to reduce the degree of dependence on the EI regime of seasonal and frequent users.
- The modifications to the EI regime have the effect of facilitating bouts of short-term labour market attachment at the expense of long-term, year-round labour market attachment.

### *Elements of EI Reform that have Remained Intact*

Among numerous program changes in the past decade, no statutory changes have occurred with respect to the following provisions: the hours-based system for qualification, the reduced maximum duration of benefits, the reduction in the maximum insurable earnings ceiling, and first-dollar coverage (Appendix A carries a summary of the major provisions of the *Employment Insurance Act* of 1996, along with the current status of each element).

As well, the nominal freeze of the ceiling on maximum insurable earnings has lasted over a decade during which the CPI (Consumer Price Index) has increased by 25 percent, thus eroding the benefits for those workers whose annual insurable earnings surpass \$39,000. This doubtlessly reduced expenditures, although that constraint was binding on only about 25 percent of claimants for regular benefits. Furthermore, because premiums are only levied on annual earnings up to this ceiling, all contributors earning more than this amount benefited.<sup>5</sup>

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4 A series of rigorous and scientific policy evaluation studies commissioned by Human Resources Development Canada (HRDC) and surveyed in Gray (2004) indicate that Bill C-12 succeeded in achieving some of its intended goals, such as a reduction in the incidence of frequent use, lowered fiscal expenditures, somewhat shorter benefit durations, and somewhat longer working periods prior to entry.

5 The source for all of the figures listed from this point forward is the series of four *EI Monitoring and Assessment Reports* published by the Canada Employment Insurance Commission.

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To determine the effect of EI reform, one should also look beyond the statutory changes and consider the impact on outcomes. Overall usage rates appear to be much lower than they were just before the implementation of reform. In fiscal year (FY) 1995/1996 there were 1,725,322 new claims for regular benefits, just over 700,000 claims by frequent claimants, and 486,461 claims filed by first-time claimants. By comparison, in FY 2004/2005 there were 1,394,000 claims for regular benefits, 406,000 frequent claimants, and 445,000 first time claimants. Over the period between 1995 and 2004, Audas, Gray, McDonald (2006) find a significant decline in the number of frequent users relative to the labour force and relative to the number of the unemployed, as well as a decline in the incidence of EI receipt among successive cohorts of younger workers.

The figures noted in the above paragraph reflect unadjusted trends. It is quite a scientific challenge to assess empirically the overall impact of EI reform on take-up rates and program-use patterns compared to the counterfactual scenario of the absence of reform. One has to take account of several confounding influences, such as labour market conditions, shifts in the demographic composition of the labour force, and shifts in the composition of employment. The latter factor, which involves a trend towards a higher incidence of self-employment and “non-standard employment,” is particularly problematic to analyze, yet it is critical in determining eligibility for benefits. An internal HRSDC study assesses the savings from Bill C-12 at approximately \$ 1.2 billion in FY 2001/2002, which represented 10.4 percent of total EI Part I expenditures (all income benefits including special benefits) for that year.<sup>6</sup> While the evidence provided in those studies indicates that reform did have some impact in reducing EI program outlays, further research using sophisticated econometric techniques is warranted in order to update and validate them.

### *Summary of the Changes to Regular Benefit Regime since 2000*

A range of EI program changes have taken effect since 2000 (see Box 1; further details appear in the Appendices).

*The “boundary change phase-in” measure:* The EI regulations require that the administrative boundaries be reviewed at least every 5 years, and new EI boundaries were introduced across Canada on July, 9, 2000. They are critical in determining both the length of the entrance requirement and the length of the benefit entitlement period: the higher the unemployment rate within a region, the shorter the former and the longer the latter. The goal of the process is generally to adjust the boundaries according to changing labour market conditions, such that those conditions are fairly uniform within an administrative region.

In at least two regions, these boundary changes caused some seasonal workers to lose some of their benefit entitlement. While almost all of them still qualified for

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6 Another study in the same spirit by McDonald and McCracken (2006) estimates that the largest amount of savings of program expenditure stem from Bill C-113 noted above — specifically \$3.1 billion (1993 dollars) on an annual basis. The estimated savings resulting from Bill C-17 (1994) and Bill C-12 (The *EI Act* of 1996) are \$2.5 billion and \$ 1.4 billion respectively (annual figures).

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**Box 1:** *Summary of the Changes to Regular Benefit Regime since 2000*


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This chronological list of changes to the regular benefit regime since 2000 excludes changes to special benefits, such as the “Enhanced Parental Benefits” (Bill C-32 in 2000), “Access to Special Benefits” (Bill C-49 in 2002), and “Compassionate Care Benefits” (Bill C-28 in 2003).

- September 2000 — Following the updating of the EI administrative regions, transitional measures for two of the total of 58 regions were implemented in order to raise the benefit entitlement for pockets of seasonal workers. I label this change the “boundary change phase-in” measure.<sup>a</sup>
- May 2001 — Bill C-2, officially titled “Amendments to the *EI Act*,” was passed by Parliament. It dealt with two benefit repayment provisions. The intensity rule, which was gradually being phased in between 1997 and 2000, was totally repealed. That bill also significantly weakened the “clawback” mechanism, as first-time users and recipients of special benefits were exempted from it, and the ceiling that applied to the maximum amount of benefit that could be clawed back was reduced.<sup>b</sup>
- November 2001 — The “small weeks initiative,” described in the text and in Gray (2006), was extended nationwide.<sup>c</sup>
- September 2003 — The threshold for what constitutes a “small week” was raised from \$150 to \$225.
- May 2004 — A pilot project that I label the “gapper initiative” was implemented shortly before a federal election call. It extends the maximum benefit entitlement period for five weeks for all claimants in all administrative regions for which the unemployment rate is over 10 percent, with the constraint that the maximum duration is still 45 weeks. In addition, the transitional boundary program mentioned above was extended one more year.<sup>d</sup>
- February 2005 — These modifications, labeled the “the EI Enhancements,” involved three separate “pilot projects” estimated to cost an additional \$300 million annually and to affect 220,000 workers. They were implemented in all regions where the unemployment rate exceeded 10 percent.
  - The entrance requirement for new labour-force entrants and re-entrants to the labour force (NEREs) was lowered by two weeks (70 hours).
  - The “best 14 weeks” provision allows claimants to select their highest weeks of earnings for the purposes of calculating the weekly benefit amount.
  - The threshold for allowable earnings (earnings that are exempt from any clawback) while working while on claim was raised. In addition, the gapper initiative was extended for one year, as was the transitional boundaries measure, which when originally drafted was supposed to end in the fall of 2004.<sup>e</sup>
- May 2006 — The gapper initiative of May 2004 was extended for another 18 months.
- October 2006 — The transitional measures for boundary changes of 2000 (the “boundary change phase-in” measures were extended until October 2008 or until the regional boundary review that is currently underway is completed.

<sup>a</sup> Media release dated September 13, 2000. The source page for all of the media release by the Ministry is: [www.hrsdc.gc.ca/en/cs/comm/hrsd/news/2006/index06.shtml](http://www.hrsdc.gc.ca/en/cs/comm/hrsd/news/2006/index06.shtml)

<sup>b</sup> Media release, May 10, 2001.

<sup>c</sup> Media release, November 16, 2001.

<sup>d</sup> Media release, May 11, 2004.

<sup>e</sup> Media release, February 23, 2005.

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EI benefits, they now faced shorter benefit periods, which in some cases caused them to exhaust their benefits before the start of the next working season. These exhaustees became known in EI jargon as “gappers” in New Brunswick and as “victims of the black hole” in Quebec. The gap or black hole refers to a period, typically lasting for about one month, during which they receive neither labor market earnings nor EI benefits. Gappers are estimated to number approximately 25,000 nationwide and comprise about 1 percent of all EI claimants. To mitigate the negative impact of the boundary change on them, HRSDC phased in the reductions in the EI entitlement provisions over a four-year period, after which all workers would finally face the less generous entitlements; the date for total transition has been postponed three times.

Then-labour-minister Claudette Bradshaw provided the following justification: “These changes are necessary to help people who were unable to adjust when the EI boundaries changed. While the lower rate of unemployment is good news for most workers in the area, many employees, particularly seasonal workers, need time to adjust.”<sup>7</sup> It appears that the implied meaning of adjustment is to lengthen the working season rather than find full-year employment. While the measure is explicitly designed for seasonal workers, all claimants in those regions could benefit.

*Bill C-2:* This 2001 bill eliminated the intensity rule, under which benefit rates were reduced based on the frequency of previous claims (see Appendix A). The reason for its elimination: “The Intensity Rule was put in place to discourage repeated use of EI by reducing the benefit rate of frequent EI claimants. This rule has proven to be ineffective and has had the unintended effect of being punitive.” The government does not in this statement repudiate the goal of reducing the incidence of frequent use. Instead, it implicitly asserts another guiding principle for EI policy, namely to raise the incomes of seasonal workers in areas characterized by high unemployment. “Although there has been some improvement and diversification in regions of low economic activity, there are many workers, especially those relying on seasonal employment, who have limited opportunities for work.”

C-2 also significantly weakened the clawback provision (see Box 1 and Appendix A), intended to discourage repeat use of EI by high-income earners. The experience-rating element embedded within it was repealed, but the provision was not totally eliminated. Most seasonal workers, with the exception of some fishermen and fisherwomen, were never affected by the clawback rule because their annual incomes were too low.

The stated objectives of Bill C-12, as discussed in Gray (2004), mentioned reinforcement of insurance principles a number of times. However, with the repeal of the intensity rule and the blunting of the clawback mechanism, there is currently no link between an individual’s contributions to the regime and the benefits expected over a multiple-claim time horizon. A worker’s EI claims history is thus irrelevant for future claims.

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<sup>7</sup> Media release, September 13, 2000.

*Extension of the “small weeks initiative” to all of Canada:* As explained in Gray (2006), the small weeks initiative targets the earnings base upon which the weekly benefit amount is calculated. Originally implemented as a pilot project in high-unemployment regions between 1997 and 2000, it allows the claimant to exclude small weeks (defined as those with earnings under \$150) from his/her insurable earnings base. The small week is also omitted in the determination of the “divisor,” provided that it is not required to qualify for benefits.<sup>8</sup> The claimant receives a higher benefit if the earnings of the excluded small week are below those of the average week, which presumably is almost always the case. It is a widely used provision; in FY 2004/2005 approximately 14.3 percent of all claims for regular benefits were involved, and a substantial number of them were in low-unemployment regions. It definitely meets the government’s stated objective of encouraging workers to accept more work offers in the short term, and internal program evaluations indicate that it raises their total incomes.

*Raising the threshold for the small week:* This measure increased the upper limit on how much can be earned during a small week (see Box 1). It was followed by a major increase in the take-up rate for the small weeks provision. For the six-month period after implementation, the number of claims involving this provision rose by 46.7 percent relative to the corresponding period a year earlier.

*The “gapper” initiative:* The length of the benefit entitlement period was extended by five weeks, subject to an unchanged maximum of 45 weeks. Approximately 115,000 workers were potentially eligible, but the targeted group (the gappers) numbered less than 30,000. The government was quite explicit in its announcement that this was targeted to seasonal workers: “A pilot project offering seasonal workers the possibility of receiving up to five more weeks of benefits *to encourage them to find more work* (emphasis added). The pilot will test whether increased weeks of EI benefits that are linked to increased work will help address the annual income gap faced by workers in regions with unemployment rates of 10 percent or more ...”<sup>9</sup> Conditional on qualification, longer working periods do entitle the claimants for longer benefit periods, but because this particular initiative consists of an across-the-board increase in entitlement, it has no bearing on the incentive to find more work.

*The Three “EI enhancements”:* The “best 14 weeks” provision essentially supplants the small weeks initiative in those regions where the former applies (i.e. high-entitlement regions), but there is a difference. Instead of excluding claimants’ lowest weeks of earnings from their insurable earnings base, it amounts to including solely their highest weeks of earnings, which has the potential to raise benefits substantially. It is analogous to basing a defined retirement pension benefit level on only the highest years of earnings of one’s career. It will certainly encourage claimants to work longer hours during those selected weeks, as well as to accept weeks of work with below average earnings. This provision contravenes, however, a basic insurance principle that was validated in the documentation of

8 The weekly benefit amount is based on total insurable earnings over a 26-week qualifying period, divided by the divisor, which is equal to the greater of a) the number of weeks worked; or b) the minimal entry requirements plus two weeks.

9 Media release, May 11, 2004.



Bill C-12; namely that insurance benefits should reflect the “normal flow of earnings.” Instead of being based on average weekly earnings over a qualifying period that could last up to 26 weeks, as specified in Bill C-12, the weekly benefit is now based only on above-average earnings.

There was a small change in the entry requirements for new entrants and re-entrants (NEREs) to the labour force. When this initiative was first announced, beneficiaries were supposed to participate in an employment benefit and support measure (also called EI Part II measures), such as a training program. The stated rationale for this modification is the following: “A pilot project that increases access to employment programs could improve employability and provide individuals with skills that employers are seeking.”<sup>10</sup> It was supposed to facilitate participation of NEREs in EI Part II programs, but in December 2005, that requirement was dropped, thus allowing NEREs to qualify for passive EI benefits with 840 insurable hours of employment, although they are still encouraged to participate in an EI Part II intervention.

The third EI enhancement consisted of an increase in the threshold for allowable earnings that will not be clawed back. Like the small weeks initiative, the allowable earnings provision for working while on claim activity is complex and arcane to non-users. It has the same goal, which is to encourage EI recipients to accept available employment without a reduction in their benefits. In FY 2004/2005 over half of all EI claimants, and almost two-thirds of frequent claimants, had recourse to this provision. Some increase in the allowable earnings threshold could be justified as an adjustment for wage inflation.<sup>11</sup>

### *Common Theme of the Modifications*

The impacts of these modifications on the EI account, on the EI incidence, and on EI use patterns are currently unknown. HRSDC is required by the Treasury Board to evaluate the impact of all of these changes, and it is currently engaged in encompassing, rigorous, scientific research to do so. Although some of these projects have been completed, none of them has been released to the public domain, and at any rate, it is too early to assess empirically the full impact of the most recent changes. An accurate quantitative assessment of the degree to which EI reform has been reversed is therefore not currently attainable. I therefore eschew any evaluation of the magnitude of the repercussions of these changes to the EI system, and instead focus on the direction of their effects.

The government’s perspective is that some of these modifications promote workforce attachment. The 2005 issue of the EI Monitoring and Assessment Report

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10 EIMAR 2005, 88.

11 Gray (2006) provides a detailed description of this provision. As with the gapper initiative, the communiqué announcing these “EI enhancement” measures admonishes all interested parties to develop permanent solutions, but they remain unspecified. “There is a need to build community capacity and stimulate local economies to provide sustainable employment opportunities. To this end, the government is working closely with regional development agencies and employers to explore new ways to address the issues of seasonal employment over the longer term.” (Media release, Feb. 23, 2005). This presumably implies measures to encourage lengthening the working season.

cites the “divisor rule,” the “allowable earnings provision,” the “small weeks initiative” and the “best 14 weeks” rule — all under the rubric of “promoting labour force attachment.” While all of these measures give seasonal claimants strong incentives to prolong their working seasons, this is only true within the confines of a one-year time horizon corresponding to one cycle for a seasonal worker. Over a multi-year time horizon, these measures do not reduce the incentive for frequent use of the EI regime, because they all share the common theme of raising the generosity of the EI regime for seasonal workers. Given the institutional apparatus of the EI regime, there are five parameters that can be adjusted in order to *raise* EI’s generosity, and all five of them have been modified at least slightly to that effect. These parameters are:

- The replacement ratio can be raised, which is a result of the repeal of the intensity rule for some frequent users of EI.
- The earnings base for the calculation of benefits can be raised, and both the “small weeks initiative” and the “best 14 weeks” measures are designed expressly for that purpose.
- The maximum duration of benefit entitlement can be raised, which was the essence of the gapper initiative.
- The minimum entry requirement period can be shortened, which was one element of the “boundary change phase-in” measure.
- The divisor used to calculate the benefit amount can be lowered, thus raising the benefit level, which occurred as a by-product of the best 14 weeks rule.<sup>12</sup>

The central thrust of all of these legislated and regulatory changes applied to the EI regime has been to accommodate sporadic, fragmented, interrupted, seasonal work patterns by raising the total incomes of such claimants. As a perhaps unintended consequence, the rate of return on seasonal work relative to other alternative labour market patterns, such as total withdrawal or full-year employment (or perhaps quasi-full-year employment), has been raised somewhat. Over a time frame involving several years, this blunts the incentive to move to full-year work, despite the fact that such transition is widely believed to be a desirable policy goal.

In addition to the above heuristic analysis of the content of these changes, a thorough review of the accompanying documentation and official statements that has been released into the public domain by HRSDC since the passage of Bill C-12 reveals no mention of the initial reform goals of i) trying to reduce dependency on the EI regime and ii) reducing the incidence of repeat use. This, despite the fact that those goals were evoked in the *EI Act*. Instead, as an objective, these documents strongly emphasize alleviating some of the financial strain experienced by such workers.

Although the quantitative magnitude of the impact of these changes has likely been rather minor thus far, there is another reason to believe that they could have an economically significant impact in the future. In their study of Canada’s UI

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12 Due to space constraints, I did not describe the details of the “divisor rule” and its interaction with the “best 14 weeks” rule.

program between 1971 and 1992, Lemieux and Macleod (2000) indicate that the effects on UI receipt stemming from the tremendous increase in the generosity of UI benefits that was implemented in 1971 took many years to play out. Potential claimants tend to adjust very gradually through a variety of behavioural channels to major changes in program parameters. Following a rise in generosity, many of them will not access the EI system until a major recession occurs, but may subsequently exhibit a higher incidence rate.

I have argued that since the passage of Bill C-12, the government's primary preoccupation for reforms to the EI regime has been to address the issues facing seasonal workers. Some of the modifications were designed to strengthen their degree of labour market attachment within the confines of a one-year employment cycle. I assert in Gray (2006) that efficiency in seasonal labour markets has been improved in the short run, and that the incomes of recipients have been raised. These modifications, however, might well have a negative effect on long-term labour market attachment, as defined by full-year employment activity.

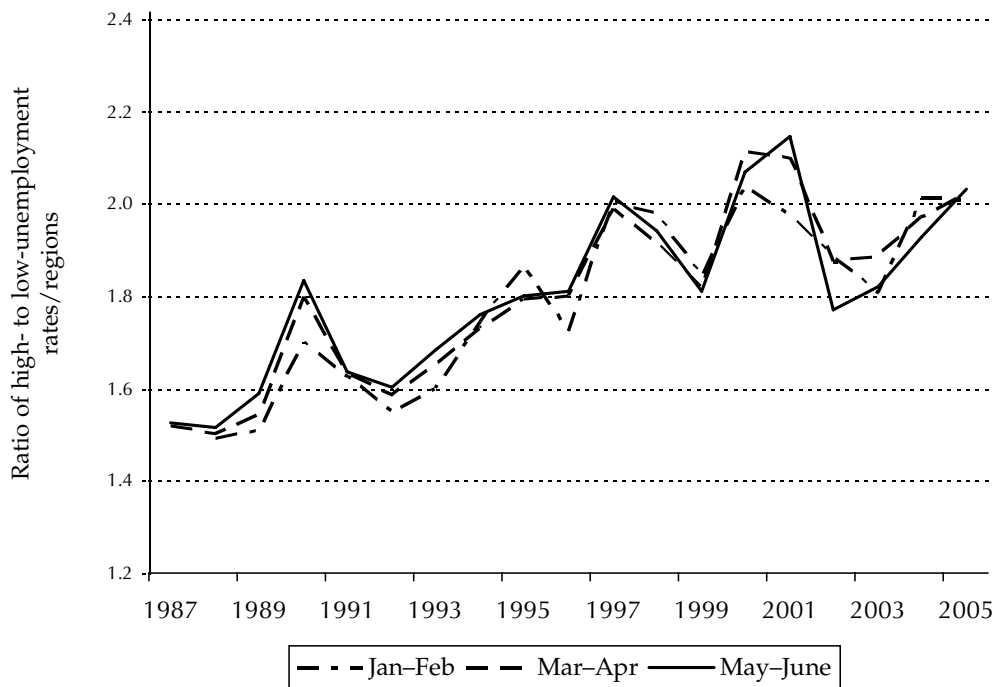
There has been little that has been done in the way of policy objectives to reduce dependency on the EI regime since the passage of Bill C-12. Although — as mentioned above — the incidence of repeat use declined between 1997 and 2003 according to several measures. Guillemette (2006) suggests that the latter phenomenon has been insufficient to make a significant dent in persistently high unemployment rates concentrated in geographical regions where EI benefits facilitate frequent use.

Some descriptive evidence linking generous EI benefits to high structural unemployment rates might be seen in Figure 1. The series that are plotted are calculated over the interval 1987-2006 as the ratio of the average unemployment rate in economic regions east of Ontario to the average unemployment rate elsewhere in Canada.<sup>13</sup> This ratio thus controls for global labour market conditions. As the unemployment series are not seasonally adjusted, I plot a different series for three part-seasons such that the values for the same season can be compared across the years. All three series display strong upward trends with similar turning points. The discrepancy between unemployment rates in traditionally high unemployment areas and their counterparts in low unemployment areas has widened since the late 1980s, particularly during the recovery phase since 1995. In contrast, some degree of convergence of regional unemployment rates is the hallmark of efficient and flexible labour markets. Although one cannot and should not attribute the unemployment gap revealed by these findings solely to the UI/EI system, it is apparent that unemployment rates in high-entitlement regions have remained persistently high, and that labour markets in these areas have lost ground compared to those in the rest of Canada.

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13 The data, drawn from CANSIM, are organized by Statistics Canada's economic regions. They reflect three-month moving averages of non-seasonally adjusted unemployment rates. The high-unemployment regions include all regions east of Ontario except for the Montreal and Hull-Gatineau areas. The low-unemployment areas include all other regions except for Montreal and Hull-Gatineau.

**Figure 1:** *Ratio of Unemployment in High-Unemployment Areas to Unemployment in Low-Unemployment Areas*



Source: Statistics Canada CANSIM. Table 282-0054 with calculations by Ben Tomlin, C.D. Howe Institute.

## Policy Recommendations

To promote the objective of facilitating the transition to full-year employment, I recommend the following policy directions for future reform initiatives.

- One recommendation, most recently stated in the latest version of the OECD's Economic Survey of Canada (2006), as well as in Orr (2006), and Guillemette (2006), suggests "...tightening the relevant eligibility criteria to limit access for seasonal and temporary workers." This could be achieved by shortening benefit entitlement periods and lengthening qualifying contribution periods for repeat users under age 35, who presumably have greater occupational and geographic mobility. The rules that determine weeks of benefit entitlement based on weeks of work could also be formulated on a sliding scale in order to avoid all-or-nothing "cliff" effects. The government could channel some of the realized savings into financial inducements for geographic mobility, which is in the same spirit as the set of active labour market policies, such as skills training, contained in EI Part II.
- If the government judges that EI benefits for seasonal workers should be maintained or boosted, it should develop less convoluted, more transparent, and more efficient ways of doing so. An annual lump-sum payment to older seasonal workers deemed to have low mobility would

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not distort employment patterns and would be less costly to administer than the current lattice of provisions for workers with non-standard employment patterns. It would obviate the need for arcane and complex program rules, such as the “small weeks” and the “best 14 weeks” initiatives.

- If the government believes that EI benefit periods should be lengthened for certain workers that it deems as needy, it should consider approaches that target the aid more narrowly than the current practice of directing it to all EI claimants situated in all high-unemployment areas. For instance, while there are fewer than 30,000 gappers, the maximum benefit entitlement was raised for perhaps 100,000 claimants.
- The current practice is to implement pilot projects in all high-entitlement, high-unemployment regions (with unemployment rates exceeding 10 percent), and solely in those areas. Given this program design, it is not possible to subject these pilot projects to scientific evaluation. They should be implemented in a randomly selected subset of EI administrative areas that include both high-entitlement and low-entitlement regions. The trial sample would thus be much more representative of the overall Canadian labour market, which includes a wide range of local labour market conditions.

On a broader level, the 2004 Throne Speech mentioned a “commitment to review the EI program to ensure it remains well suited to the needs of Canada’s workforce.” This review should have a broadened focus beyond the needs of seasonal workers. It should consider the needs of highly attached workers who are permanently laid off by plant closures and are likely to face high adjustment costs. As I have argued here, almost all of the modifications that have been made to the EI regime since the passage of Bill C-12 have targeted seasonal workers and other frequent users of the EI regime. These measures serve primarily as a palliative as opposed to facilitating an adjustment away from part-year, recurrent employment patterns.

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**Appendix A: Summary of the Provisions of the EI Act of 1996 and Their Current Status**


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Provision	UI regime before 1996	EI regime after 1996	Rationale	Subsequent modifications
<i>Entry requirements for new entrants and re-entrants to the labour force (NEREs): defined as those who have minimal or no labour market attachment over the past two years.</i>	Required 20 weeks of prior insurable earnings to qualify, the equivalent of 700 hours. <sup>a</sup>	Required 26 weeks of prior insurable earnings to qualify, the equivalent of 910 hours.	“Discourage a cycle of reliance”: ensures workers, especially young people, develop a significant attachment to the labour force before collecting EI benefits, and “returns insurance principles to the system: have to make reasonable contribution to system before collecting benefits.”	Entry requirement lowered to 840 hours in Feb. 2005 in pilot project areas.
<i>EI Benefit Calculation (the “divisor rule” and the lengthening of the rate calculation period): The weekly benefit amount (WBA) is based on the total insurable earnings over the 26-week qualifying period; WBA is divided by the “divisor,” which is equal to the greater of a) the number of weeks that were actually worked, or b) the minimal entry requirements plus 2 weeks.</i>	WBA for a claimant that barely met the minimal entry requirement calculated as the total insurable earnings over the qualification period divided by the minimal entry requirements.	The denominator of the WBA is now augmented by 2; the “divisor” ranges from 14 to 22 weeks depending on the local unemployment rate.	“Create a strong incentive to work more than the minimum amount of time to qualify for benefits” and “ensures a better relationship between level of benefits and normal earnings.”	The divisor rule not directly changed; the 26-week qualifying period was superceded by “best 14 weeks” rule in pilot project areas in Feb. 2005.
<i>Hours-based system for qualification (“first-hour” and “first-dollar” coverage).</i>	Workers weekly earnings were not eligible for UI coverage unless they exceeded \$150, with 12 to 20 weeks of work required to establish a claim depending on the local unemployment rate.	Eligibility attached to hours worked rather than weeks worked; 420 to 700 insurable hours (depending on the local unemployment rate) set as the minimal threshold.	“Remove inequities and anomalies of weeks based system,” and to implement a “better measure of time worked” so that all hours count.	No modifications.
<i>Experience Rating (“Intensity Rule”): a special type of experience rating procedure that applied directly to recipients rather than to firms.</i>	Did not apply.	Reduces the benefit rate (normally 55%) by 1 percentage point for each group of 20 weeks of EI benefits collected in the past 5 years, up to a maximum of 5 percentage points.	“Discourage use of EI as a regular income supplement rather than insurance for times of unpredictable job loss,” and to “create a better balance between contributions made and benefits received.”	Rescinded in 2000 with Bill C-2.

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*cont'd*


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**Appendix A:** (cont'd) Summary of the Provisions of the EI Act of 1996 and Their Current Status

Provision	UI regime before 1996	EI regime after 1996	Rationale	Subsequent modifications
<i>Graduated Benefit Repayment Provisions</i> (Clawback): sliding scale for repayment entails some experience rating.	UI benefits received by higher income users subject to some minor "clawback."	EI benefits are repaid at a rate of 30% above an earnings threshold, to a maximum amount that is 30% of the benefits paid. The maximum amount benefits to be repaid varied between 50% to 100% according to the extent of the EI claims history for relatively heavy users. <sup>b</sup>	Render the system "fairer and more accurately reflect insurance principles," and "discourage repeat use of EI by those with high levels of annual income."	Experience rating portion rescinded in 2000 with Bill C-2, the threshold at which it applies is \$48,750 for all claimants, and the maximum amount of benefits that can be clawed back is 30%.
<i>Reduced maximum benefit duration:</i> maximum length of a claim reduced.	50 weeks.	45 weeks.	"The majority of claimants find work within the first 40 weeks of receiving benefits" and "only affects longer attachment workers in higher unemployment regions."	No change.
<i>Reduction in maximum insurable earnings</i> (MIE): to \$39,000 annually and frozen at that level until the average annual earnings in the industrial sector surpasses that level.	Maximum weekly benefit was \$448.	Maximum weekly benefit is \$413.	The MIE had been based on a formula such that it escalated faster than average wages. It exceeded the average industrial wage.	No change.
<i>First dollar coverage.</i>	Only earnings obtained during insurable weeks of earnings (over \$150) were covered.	All earnings are insurable; there are no weekly minimums or maximums for determining earnings.	"Creates a more equitable and balanced system — all work is insurable."	No change.

Notes: <sup>a</sup>Hours are converted to full-time work-weeks at a rate of 35 hours per week. Under the UI regime, any week having 15 or more hours was insurable, so it was possible to qualify for benefits with as few as 180 hours worked.

<sup>b</sup>For those with fewer than 20 weeks of benefits collected in the past five years, the earnings threshold was lowered from an annual level of \$63,750 to \$48,750. For those with more than 20 weeks of benefits collected in the past five years, the earnings threshold was lowered from an annual level of \$63,750 to \$39,800.

Source: *EI Monitoring and Assessment Report 2003*, annex 7.1.

**Appendix B:** *Institutional Details*

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*The Boundary Change Phase-in Measure:* The two affected regions were Madawaska-Charlotte in Western New Brunswick and Bas-St-Laurent-Cote Nord in Quebec. In both instances, a new district disjoint from those two was created that was characterized by a very high local unemployment rate (Eastern NB and Iles de la Madelein). As such, claimants in the latter regions benefited from the most generous eligibility provisions available in the EI regime. The newly formed regions of Madawaska-Charlotte and Bas-St-Laurent-Cote Nord, however, were not maximum-entitlement regions because the local unemployment rates prevailing in each did not warrant it. As might be expected, the redrawing of the boundaries caused certain pockets of workers to face less generous eligibility conditions than was previously the case, as they suddenly found themselves situated on the wrong side of the railroad tracks. There are approximately 15,000 claimants located in these regions, but not all of them needed the extra benefit entitlement. Instead of requiring 560 insurable hours of employment in order to receive 20 weeks of benefits, claimants in these areas needed only 420 hours in order to qualify for 28 weeks of benefits. The formulas employed to calculate the benefit amounts were based on higher unemployment rates than those that actually prevailed.

*The Gapper Initiative:* This policy measure was quite simple, unlike the “small weeks initiative:” the length of the benefit entitlement period was extended by five weeks. Approximately 115,000 workers were potentially eligible, but the targeted group (the gappers) numbered less than 30,000. In announcing this initiative, the government was quite explicit that this was targeted to seasonal workers (the title of the media release was “Minister Volpe announces new measures to help seasonal workers”). Joe Volpe, the Minister of HRSDC at the time, claimed: “Seasonal industries are key to a number of regions across the country, particularly in rural and remote regions.” He gave ample credit for this initiative to the Prime Minister’s Task Force on seasonal work, an organ of the Liberal Party of Canada, which advised the government ministers on initiatives designed to help Canadians working in seasonal industries.<sup>a</sup> The government did make a vague reference to complementary policy measures to assist seasonal workers. “EI is part of the solution. Longer-term solutions require coordinated action by governments, industry, and communities” (Media release, May 11, 2004). The Audit and Evaluation Division of HRSDC is currently evaluating this initiative.

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<sup>a</sup> At the time that this initiative was drafted, the report had not been finalized (Liberal Task Force Report [2004]). The task force was comprised of senators and parliamentarians, many but not all of whom represent high-entitlement areas. Although the task force recommended major increase in the generosity of EI benefits for seasonal workers, they also covered other aspects of the issue, including job training and better cross-province recognition of skills and certifications. Note that this report does not reflect official HRSDC policy.

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