

Canada

From Unemployment Insurance to Employment Insurance: the disengagement of the state

Mouna Viprey*

There has been a steady rise in employment in Canada over the last fourteen years, with over 3.8 million more people in work during this period. In 2008, the average annual unemployment rate fell to 6.1%, marking a thirty-year low.

Table 1 Unemployment rate

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2008
Total	7.5	7.5	7.6	7.1	6.6	6.2	6.1
Men	7.9	7.9	8.0	7.4	6.8	6.5	6.6
Women	7.0	7.1	7.2	6.8	6.4	5.9	5.7

Source: Statistics Canada. Labour Force Survey

According to surveys of the working population by Statistics Canada, a total of 82,600 jobs had been lost by February 2009 - mostly full time jobs -, which propelled the unemployment rate to 7.7%. In June 2009 the unemployment rate continued to rise, reaching 8.6%. Statistics Canada affirmed in a press release that 'this drop in employment exceeds any monthly decline during the previous economic downturns of the 1980s and 1990s'. There are now 1,592,000 people out of work in Canada. The total number of unemployed has risen by 440,000 since October 2008, representing an increase of 38.3%. Young people between the ages of 15 and 24 have been most affected by this rise in unemployment, with 15.9% now jobless, the highest rate in 11 years.

Fewer than half of all unemployed workers receive benefit due to the laws, regulations and impediments set out in the Employment Insurance Act. In Canada, the reasons for losing a job can affect access to unemployment benefit.

* Researcher at the Ires (Institut de Recherches Economiques et Sociales), Marne-la-Vallée, France.

Unemployment Insurance (UI) represents one of the largest income security programmes in Canada. In 1994 the scheme paid out almost C\$16 billion to some 3.1 million unemployed workers. That same year, 93% of Canadian workers were paying premiums and as such were eligible for unemployment benefit on certain conditions. Likewise, up until 1989, 90% of all unemployed workers were eligible to receive UI benefit, whereas nowadays only 42% receive pay-outs.

Since the Unemployment Insurance Act was introduced nationally in 1940, there has been a change in the logic of state intervention, namely financial disengagement on the part of the federal government. Over two periods of disengagement (1976-1980 and 1990-1997) the favoured approach has in fact been to adopt a number of restrictive measures each year aimed at reinforcing labour market mechanisms while pulling away from the aim of income security for the unemployed.

The establishment of Unemployment Insurance

In Canada, as in other highly industrialised countries, unemployment has long been seen as an individual responsibility. Up until the Depression of the 1930s, the idea of establishing a social security system was by no means unanimously accepted. For many years Ottawa and the provinces left it entirely up to the municipalities to provide unemployment benefit¹. It was not until August 1940 that an Unemployment Insurance Act was adopted nationally.

In 1941, under this new Act, 42% of the working population was eligible to claim unemployment benefit, although some occupational groups - including farmers, fishermen, teachers and civil servants - were excluded. The fund established under the UI Act was financed by equal contributions from employees, employers and the state. Furthermore, the government contributed a supplementary sum equivalent to 20% of total employee and employer contributions, and covered the costs of implementing the scheme. The UI Act stipulates that the fund must be used exclusively to pay out benefits.

1. In 1918, in an unprecedented move, the federal government passed a law on the creation of a national network of public employment offices. Meanwhile, trade unions were beginning to call for the establishment of an unemployment insurance scheme.

However, over the years the UI scheme moved away from its initial principles and began to be used more as a mechanism for social redistribution. This shift in the aim of the scheme was effected by way of two main reforms. First came the reform of 1955 which, although it did not change the substance of the scheme, expanded it to include seasonal fishermen and agricultural workers, meaning that 75% of the labour force was now covered. Following the Act of 1971, the second reform placed the role of unemployment insurance into a global social and economic context. The situation in the different regions was henceforth taken into account in order to determine eligibility and calculate the duration of benefits. Claimants in regions with high rates of unemployment enjoyed more advantageous conditions than those in other regions. For instance, the eastern provinces benefited more from the scheme than they had contributed to it, while other provinces contributed more than they received in benefits.

96% of the labour force was now covered by the scheme. Special benefits were introduced, notably sickness and maternity, although only those who had worked for more than 20 weeks were eligible. The changes brought about by these two reforms, together with an upsurge in inflation and an appreciable increase in unemployment, led to a sharp rise in the cost of the scheme. Between 1970 and 1975, UI costs increased fivefold, from C\$730 million to C\$3.3 billion².

The federal government adopted a series of restrictive measures between 1976 and 1980³, namely a reduction of the benefit rate, an extension of the period of disqualification, a reduction in the duration of benefit, the establishment of partial benefit repayment provisions for high earners and restricted eligibility for new workers. Because of this, during the 1980s successive governments were forced to limit the changes made to the UI scheme⁴, for fear of the political backlash that severe cuts to unemployment benefit would trigger.

-
2. The Canada Employment and Immigration Commission. Annual reports, 1970-71 to 1975-76.
 3. In 1975, Bill C-69 abolished the benefit rate set at 75% of net earnings for claimants with dependants. In 1977, Bill C-27 introduced 'variable entrance' requirements. It was at this time that the government began to use money from the fund for purposes other than the payment of unemployment benefits, going against what had been set out when the UI Act was introduced. In 1978, Bill C-14 tightened entrance requirements, meaning that from then on claimants had to work more weeks to be eligible. The benefit rate was lowered to 60%.
 4. At this time, the employers were calling for a major overhaul of the UI scheme, as the cost of unemployment benefits was skyrocketing and the scheme itself was contributing to the unemployment crisis by creating a culture of 'dependency'.

Disengagement of the state in terms of unemployment insurance

As in the majority of developed nations, the recession of the early 1990s caused the public sector deficit to worsen and sparked major reforms in respect of UI. In 1990, the government decided via Bill C-21 to withdraw from financing the UI fund with a view to making the scheme autonomous. Prior to this, financing of the fund had always been split three ways between employees, employers and the state⁵.

This government withdrawal, together with the increase in benefit claims brought about by the recession of the early 1990s, led to a deficit of several billion dollars in the UI fund. This deficit was used to justify a drastic reduction in benefits and to increase obligatory employer and employee contributions. At the elections of October 1993, the Liberal Party of Canada (left of centre) was voted into office by promising job creation and economic growth. It was open about the fact that the stabilisation of public finances was essential in order to create jobs. The public deficit then stood at 8.7% of GDP. Legislative and budgetary measures aimed at reducing the cost of the welfare state and the burden of public debt were swiftly put into place.

For the first time, the plan was not to make marginal cuts to federal financial commitments, but rather to completely overhaul the system. All sectors of the welfare state were affected, but the most important measures were the restructuring of the federal UI scheme, the elimination of the Canada Assistance Plan and the creation of Canada Health and Social Transfer.

Employment Insurance: fewer unemployed workers eligible for benefit

Between 1990 and 1995, the federal government adopted a set of restrictive measures, without directly calling regional transfers into

5. In 1989, the government's contribution represented 21% of total contributions and amounted to ca. C\$ 2.4 billion. However, by the end of 1990, the federal government had put an end to its financial contribution to the scheme. As a result, the money that the government would have disbursed under the tripartite funding protocol was thereafter covered by the employers and employees.

question. During this period, the government tightened entrance requirements and imposed harsher penalties on claimants who left their job without valid reason, as well as on those who refused a job or were dismissed for misconduct. It also reduced the benefit rate for new claimants and the duration of benefits.

In 1990, the government significantly cut the benefit period and expanded disqualification periods for voluntarily leaving a job and for 'dismissal for misconduct'. In April 1993, the introduction of Bill C-113 meant that those known to have voluntarily left their jobs for no good reason or to have been dismissed for 'misconduct' were no longer eligible to receive benefit. Bill C-17, introduced in 1994, reduced the duration of benefit by between 9 and 16 weeks, depending on the region, and lowered the replacement rate from 57% to 55% of earnings.

The UI reform of May 1996 (Bill C-12) was radical from both an institutional and a quantitative point of view. The term 'Unemployment Insurance' was replaced by 'Employment Insurance' (EI), and the new scheme divided benefits into two clear-cut categories: income benefit (unemployment compensation) and employment benefit aimed at getting jobseekers back into the labour market. Employment benefit was henceforth implemented and managed by the provincial governments. The main aim was no longer to ensure social support for unemployed workers, but rather to facilitate their transition into the labour market.

Thus the longstanding role of Unemployment Insurance in the Canadian political system was revisited. The aim of the reform was to significantly reduce redistribution between the provinces, with the duration of benefits and contributory periods being adjusted depending on the structural rate of unemployment in each province. This major change was met with resistance from the provincial governments⁶.

For the first time, the decision to use measures such as the 'denominator' and the 'base period' reduced the benefit rates calculated. This measure

6. Under the EI scheme, Canada is divided into economic regions so that people living in areas with similar unemployment rates are subject to similar EI regulations in terms of eligibility and duration of benefits. The EI regulations stipulate that EI regional boundaries must be checked every five years to ensure that they reflect the current labour market conditions and the geographical representation of the communities of Canada. The 58 current EI economic regions were established on 9 July 2000 and their boundaries were confirmed in 2008. The next assessment will take place in 2013.

hit hardest the most vulnerable groups on the labour market, namely those who worked intermittently, that is to say workers in insecure employment, part-time workers, seasonal workers, etc. In fact, the new Employment Insurance no longer took into consideration the number of previous jobs held or the number of weeks worked, but rather the number of hours worked during a given period. The number of hours required to qualify for benefit was more than doubled. Those with low job security now found it difficult to qualify for benefit due to the fact that the minimum number of hours had been increased. The number of recipients rapidly decreased from 80% to around 40% of contributors.

One of the changes that had the greatest impact on the lives of unemployed workers has been the method of calculating benefits, known as the 'intensity rule'. Before this change was made, unemployed workers received a percentage of their weekly pay, but afterwards they received between 50% and 55% of their average earned income over the previous 26 weeks. The federal government gradually reduced the amount of benefit paid out to eligible claimants. It also reduced the maximum duration of benefit, which between 1971 and 1994 decreased from 51 weeks to 14 weeks. The total amount of benefits paid to the unemployed as replacement income was also reduced considerably.

In 1998, a report published by Human Resources and Skills Development Canada revealed that only 42% of Canadian unemployed workers were now receiving EI benefit, compared to over 80% who received UI benefit prior to 1990. Furthermore, only 26.1% of young unemployed workers were eligible to claim unemployment benefit.

Hence the new scheme did not aim to improve benefits by ensuring an income between jobs; instead it stepped up the pursuit of aims other than that of providing income security for the unemployed. The scheme placed more emphasis on funding re-employment measures (training, work sharing, job creation and self-employment assistance). Spending in this area rose from 3.6% of all benefits in 1971 to 12.3% in 1995.

The aim of Employment Insurance, albeit unofficially, was to cut spending, that is to say to reduce the entitlements of working people in order to free up surpluses from social security premiums and allocate them to the reduction of the federal deficit and debt. The Labour Force Development Strategy for Canada was introduced, which made provisions to use Unemployment Insurance in order to increase

workforce attachment. With the halving of the number of EI claimants, the fund started to produce a surplus. This surplus has continued to accumulate since 1996, reaching C\$50 billion in 2005.

Since 1996, while coverage of the unemployment risk by the EI scheme has continued to shrink in terms of both duration and 'generosity', the fund's surplus has been used to reduce the government's budget deficit. As such, the initial aim of the Unemployment Insurance Act has been distorted, insofar as contributions to the unemployment fund have now in part been 'expropriated' by the government.

Due to the changes to unemployment benefits, many unemployed workers have had to turn to the provincial programmes for last-resort financial assistance⁷, which assume that recipients have spent a large part of their savings before being able to claim assistance. Meanwhile, the federal government has not held back from transferring the social cost of unemployment to the provincial budgets. It has also abolished the Canada Assistance Plan (CAP), through which most of the provincial assistance programmes had until then been financed. The CAP was replaced by the Canadian Health and Social Transfer (CHST) fund, the result being that the federal government completely disengaged from the funding of programmes⁸. The creation of the CHST was accompanied by a C\$7 billion reduction in federal funding. These changes forced the provinces to reform their own social assistance systems⁹, while having to

7. Up until the Depression of the 1930s, people in need of assistance were usually told to go to charity organisations run by the parish or municipality. At the beginning of the 20th century the federal and provincial authorities began to play a part in income support, and in the 1940s and 1950s certain groups, including unemployed workers, received benefits from financial assistance programmes. In the mid 1960s, however, negotiations between the federal government and the provincial governments led to the adoption of the Canada Assistance Plan (CAP). During the 1970s, the federal government implemented several programmes aimed at providing short-term employment to unemployed workers during the period of rapid labour force growth that prevailed at the time, in order to support 'socially useful work'. Nevertheless, in the 1980s, due to the growing number of Canadians capable of work who were receiving welfare benefits, the federal government and the provincial governments introduced new methods of administering social assistance.
8. The 1996 and 1997 cuts equalled around 90% of the 1995 transfers for the former CAP. Transfers as a whole fell by 23.6% over those two years, putting federal expenditure on a par with its average level in the 1960s, that is to say a fall of more than 50% compared to the 1960s and 1970s.
9. The CHST has not maintained the terms for the financing of income security introduced by the CAP, which included the right to an adequate income; the right to assistance in case of need and without being forced into work or training programmes; and the right to appeal against the social services' decisions.

deal with a growing number of recipients, shrinking budgets and increased responsibility. In April 2004, the CHST was replaced by two new funds: Canada Health Transfer and Canada Social Transfer.

Reactions to the Employment Insurance Act

The Unemployment Insurance fund, financed by contributions from the entire working population, did not meet the needs of all unemployed workers because some contributors were not eligible to receive benefit, which sparked fierce objections from trade union organisations. Thus the leaders of the main trade unions, CSN¹⁰, CSQ¹¹ and FTQ¹², as well as the spokesperson for the organisation for the unemployed *Le Conseil National des Chômeurs et Chômeuses*, called on the political parties to take a stand with regard to their demands for:

- greatly increased access to Employment Insurance;
- a significantly higher benefit rate;
- a longer benefit period;
- abolition of the waiting period;
- creation of an ‘autonomous fund’ aimed at preventing surpluses from the Employment Insurance fund being used for purposes other than those set out by the Law, to the detriment of the protection that the scheme should provide to its contributors.

According to Claudette Carbonneau, President of the Confederation of National Labour Unions (CSN), nobody can hold up a lack of funds as a reason for opposing these changes which would, to a large extent, allow EI to fulfil its original function, namely to protect workers by ensuring them economic security between jobs. She added that, with a cumulative surplus of C\$57 billion (at 31 March 2008) diverted to other uses, any such opposition would border on indecency.

10. Confederation of National Labour Unions

11. Quebec House of Labour

12. Quebec Federation of Labour

The Canadian Council of Chief Executives, for its part, advocates a comprehensive reform of the EI scheme. The scheme should, in its opinion, be managed by an independent body and contributions should be paid into a segregated account, which in turn would be used to pay out benefits. Premiums should be set at a level designed to break even over the course of a business cycle. Furthermore, the employers want the scheme to focus principally on protecting Canadian workers against the specific risk of temporary job loss (lay-offs).

A more flexible Employment Insurance scheme?

Since the EI reform of 1996, the inefficiency of a system which discriminates against various categories of unemployed workers has been vehemently criticised. As a result, measures have been taken. In June 2000, Bill C-32 relaxed the eligibility criteria governing special benefits, reducing the number of hours required from 700 to 600, and increased the duration of parental benefits. Bill C-2 of May 2001 eliminated the intensity rule and re-established the benefit rate at 55% of earnings.

Furthermore, in June 2004, some 'pilot projects'¹³ were introduced which increase the duration of benefits for unemployed workers in regions with an unemployment rate of 10% or over. In September 2008, the government announced the continuation of three EI pilot projects in order to further assess their effects, the aim being to 'help Canadians participate in the labour market, which is performing well overall. The actions we are taking demonstrate our record of measured improvements to the EI program to be more responsive to changing economic conditions,' according to Minister Solberg, who added that 'the continuation of these pilots will allow the government to fully assess the effectiveness of these approaches'.

Due to the economic crisis and the effect it has had on the unemployment rate, in March 2009, within the framework of its Economic Action Plan, the Canadian government increased the maximum duration of benefit entitlement for claimants by five weeks. This change means that all

13. The aim of the EI pilot projects is to assess, over a given period, new approaches to assisting the unemployed. The EI pilot project on employment while in receipt of benefit will test whether an increased earnings threshold will provide a greater incentive for beneficiaries to accept all available work while receiving EI benefits.

regions will be able to benefit from the current pilot project whereby EI benefits are payable for an additional five-week period, which until now had only been available in those regions with the highest rates of unemployment. This change, which came into effect on 1 March 2009, will apply to all active claims for regular benefit until 11 September 2010. The estimated cost of the national five-week extension to EI benefits is C\$1.15 billion.

Table 2 Recipients claiming ordinary Employment Insurance benefits

April 2008	April 2009	% Change
523,760	816,250	55.8

Source: Canada Statistics

Table 3 Employment Insurance benefits: coverage and eligibility for the unemployed

	2008	
	Number	% of unemployed workers
Unemployed ¹	1,094,600	100.0
Contributors	767,100	70.1
Non-contributors	327,500	29.9
Potentially eligible ²	571,800	52.2
Not potentially eligible ³	522,800	47.8
Eligible as a proportion of EI contributors who had a job separation that met the program criteria ⁴	469,700	82.2

1. Average number of unemployed individuals for the months of March, June, October and December.
2. Individuals who contributed to EI and had a valid job separation.
3. Unemployed workers are 'not potentially eligible' mainly if they have not been in paid employment for the 12 months preceding unemployment. This group represents just over a quarter of all unemployed workers, that is to say 25.5%. Others, 17.9% of the unemployed, left their employment for reasons judged by the EI programme to be invalid.
4. Individuals who contributed to EI and had a valid job separation and enough hours of work to meet the EI programme requirements. The number of insurable hours required to be eligible for regular benefits varies from one region to the next. Depending on the unemployment rate of the region, the requirement can be between 420 and 700 hours. The higher the unemployment rate, the fewer the hours required for eligibility.

Source: Canada Statistics (<http://www.statcan.gc.ca/daily-quotidien/090723/t090723a1-fra.htm>)

The Canada Employment Insurance Financing Board: a step forward?

On 25 June 2009, the Minister of Human Resources and Skills Development, Diane Finley, announced the appointment of directors to the Canada Employment Insurance Financing Board (CEIFB). The role of the CEIFB is to oversee the governance and management of the EI account. Officially speaking, this Board, which is a Crown corporation that acts independently of the government, must implement an improved EI premium rate-setting mechanism in order to ensure that Employment Insurance revenues and expenditures break even over time. It is also in charge of administering a separate EI bank account, where any excess premiums from a given year will be held and invested until they are needed to cover the cost of the Employment Insurance scheme. And it must maintain a \$2 billion cash reserve as a contingency fund in order to encourage relative premium rate stability.

This new Board must ensure that there is a balance between the premiums paid and the cost of the scheme. In the words of Finance Minister Jim Flaherty, 'with this reform, Canadian workers and communities can be confident that EI will be managed on a truly break-even basis'.

The announcement of the creation of this Board has been well received in business circles. The *Conseil du Patronat* (Quebec employers' association) has applauded this measure, commenting that the fact that premiums will be used exclusively for this programme was very good news. According to the vice-president of the Canadian Federation of Independent Businesses (CFIB), small businesses have for years yearned for a solution to the scandal of employment insurance and this change should herald improvements to the current system.

Trade union representatives, however, have been a lot more critical. They believe that the federal government should have relaxed the rules and raised the level of EI benefits before putting the scheme on 'autopilot', especially after years of budget cuts. Furthermore, some unions, such as the Quebec Federation of Labour (FTQ) have cast doubt on the autonomy of the new CEIFB because the government retains all regulatory powers. In fact, the Bill explicitly prohibits the Board from intervening to alter the level of benefits or introduce any new programmes. These powers still fall within the competence of the minister.

According to Mr. H. Desgagné, coordinator of the Quebec network for the unemployed *Mouvement Autonome et Solidaire des Sans-Emploi (Masse)*¹⁴, contrary to the claims made by the trade unions in particular, the creation of an EI financing board lays down firm rules irrespective of the cumulative surplus. In fact, he says, no measures have been taken to increase protection of the scheme and, furthermore, the cumulative surplus of the EI account is not taken into account.

Pierre Céré, of the *Coalition des Sans-Chemise*, a network which brings together groups for the unemployed and trade unions, has said that he thinks the reserve fund will disappear, commenting that when the United States sneezes, Canada usually catches a cold, and that the economic recession means fewer people are paying premiums; with more people unemployed, the C\$2 billion reserve fund is insufficient.

Successive governments have therefore opted to use EI premiums for purposes other than unemployment benefit. Now, the government has said that it wants to put an end to this situation, but without necessarily reconsidering the main loopholes of the current system with regard to the replacement rate or even the number of EI recipients. The role of the CEIFB will be to maintain EI protection at its current level, that is to say a third of what it was in 1990, but on a more general level the new legislation represents the final step in the disengagement of the state from its dealings with the unemployed.

Nevertheless, given the economic crisis and the rise in the rate of unemployment, many people are urging the government to improve EI benefits and increase the number of beneficiaries in order to stimulate the economy. As the president of the Canadian Labour Congress has said, 'we know the unemployed spend every dollar that they receive directl into the local community. Improving EI is the best and easiest way to kick start the economy'.

14. Masse groups together fourteen organisations for the unemployed in Quebec.

References

- Bernier N. (1980) Thèse en science politique, *Le processus de désengagement de l'Etat providence : étude de la « nouvelle politique » de la sécurité du revenu au Canada*, Faculté des arts et des sciences, Université de Montréal.
- Campeau G. (2001) *De l'assurance-chômage à l'assurance-emploi, histoire du régime canadien et de son détournement*, Montréal, Editions Boréal.
- Dufour P. (2002) "L'Etat post-providence : de nouvelles politiques sociales", *Revue canadienne de science politique*, No 35.
- Grubel H., Maki D., and Sax S. (1975) "Real and insurance-induced unemployment in Canada", *Canadian Journal of Economics*, No 2.
- Guest D. (1995) *Histoire de la sécurité sociale au Canada*, Montréal, Editions Boréal.
- Robinson I. (1995) "Democratic critiques of the institutions and process of neoliberal international economic integration: an assessment", *Cahiers de recherche sociologique*, No 24.
- Théret B. (1997) *Du fédéralisme et de la protection sociale en Amérique et en particulier au Canada*, Paris, IRIS, Commissariat général du Plan.
- Théret B. (2001) "La solidarité sociale dans le pacte fédéral canadien. Histoire d'une crise et de son dénouement", *Critique internationale*, No 11.