

Understanding Employment Insurance Claim Patterns

**Final Report of the
Earnings Supplement Project**

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SRDC

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Preface

This report brings to an end the Earnings Supplement Project (ESP), a long-term, multi-phase project that was designed to study the reliance,¹ especially the frequent reliance, on Employment Insurance (EI) benefits.

In 1994 Human Resources and Skills Development Canada (HRSDC)² funded ESP to determine whether a financial incentive could hasten the return to work of individuals who were receiving EI benefits.³ A demonstration project was designed, implemented, and evaluated by the Social Research and Demonstration Corporation (SRDC) to test the effects of one form of temporary earnings supplementation on the re-employment of two groups of unemployed individuals — displaced workers, who were experiencing a permanent job loss after a significant period of employment, and frequent EI claimants, who had established a pattern of receiving benefits at least part of each year.

ESP's demonstration project showed that an offer to temporarily replace 75 per cent of any earnings losses experienced by non-frequent EI beneficiaries who returned to full-time work within a specified period of time produced a small and short-lived impact on the speed with which displaced workers returned to work but resulted in increased cost to government. However, a similar offer to frequent EI claimants had no impact. In fact, it was difficult to recruit participants to take part in the demonstration, and focus groups conducted with potential participants indicated that such an offer was seen as having little relevance to their employment situations.

When the *Employment Insurance Act* was passed in 1995, provision was made for the establishment of a number of employment benefits and support measures to help insured participants obtain employment. One of those benefits was the inclusion of incentives such as temporary earnings supplements. However, since that time, no temporary earnings supplements programs have been set up under the *Employment Insurance Act*, presumably, at least in part, due to ESP's disappointing findings.

As a follow-up to the demonstration project, SRDC commissioned a special survey to collect information that might aid in understanding the circumstances and possible program needs of those who relied on the EI program on a frequent basis. The Survey on the Repeat Use of Employment Insurance (SRUEI) was conducted by Statistics Canada in 1998. It was a nationally representative survey of individuals who had received regular EI benefits in 1996, with over-sampling of those who had received benefits more frequently between 1992 and

¹In this report, terms such as "EI reliance" and "reliance on EI benefits" are used simply to describe patterns of EI benefit receipt where individuals receive, on one or more occasions over time, the EI benefits to which they are entitled.

²In December 2003 the Department of Human Resources and Development Canada (HRDC) was divided into two new entities: the Department of Social Development Canada (SDC) and the Department of Human Resources and Skills Development Canada (HRSDC). The EI program is administered by HRSDC and thus, for consistency purposes, the term HRSDC is used throughout the present report.

³When ESP started, EI benefits were called Unemployment Insurance (UI) benefits. In June 1996 the program name was changed from Unemployment Insurance to Employment Insurance. For consistency, "Employment Insurance" or "EI" is used throughout the present report to identify both the pre- and post-1996 reform periods.

1996. A descriptive analysis of the responses to SRUEI and a set of five essays based on the survey data and written by Canadian academics were subsequently published by SRDC.

The final phase of ESP comprised a program of research on patterns of work and reliance on EI that brought together a wider range of data, including the linkage of surveys and administrative databases. The objective of this research was to better understand the barriers that certain workers face in trying to obtain secure year-round employment as a basis for formulating appropriate policy responses. A series of working papers based on this research has been published by SRDC over the past two years. In this final report, the key findings of those papers are brought together and an attempt is made to distil some of the key lessons that can guide the future development of EI.

Employment Insurance is a key element of the social safety net in Canada. In the 2001–2002 fiscal year, Canadians filed 1.9 million new claims for EI benefits and the EI program paid out \$11.5 billion in income benefits. Since the inception of unemployment insurance in 1940, the program has been subjected to many reforms, both large and small. We hope that the research conducted under the Earnings Supplement Project can make some modest contribution to the next round of EI program changes.

John Greenwood
Executive Director

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Executive Summary

As demonstrated in the past few years, the Employment Insurance (EI) program remains an important policy instrument for the federal government to use to respond to the changing economic realities of the Canadian labour market. For instance, employed Canadians can now gain access to up to six weeks of compassionate care benefits if they need to leave work to provide support to a gravely ill family member. Delivered as a special benefit under the EI program, these benefits are designed to recognize the responsibilities that workers may have to their families and to provide them with financial assistance when those responsibilities require them to be absent from work. As such, they represent a further measure by the government to support working Canadians with family responsibilities, and follow in the wake of amendments to the maternity and paternity benefit measures in 2001 that eased eligibility requirements and extended the length of time new parents could receive benefits.

Extending EI coverage to other types of work interruptions raises an important question: who is the EI program intended to serve? In the 1940s the original framers of the program envisioned a program that would provide benefits to workers in the form of an insurance-based program. Both workers and their employers would pay unemployment insurance premiums while the workers were employed, and then workers would receive benefits if they found themselves unemployed. Throughout the years successive governments have altered the focus and the scope of the program, fuelling a never-ending debate over the merits of returning the program to its original insurance principles. While delivering special benefits represents a move away from the original vision of the program, it is aimed at better reflecting the realities of many working Canadians who must balance their work with their family responsibilities.

This report, co-authored by Shawn de Raaf, Anne Motte, and Carole Vincent of SRDC, highlights recent research that explores the factors that contribute to workers' reliance on EI.⁴ While this research shows that many workers have long-lasting annual patterns of work and EI receipt, an important lesson learned is that policies that focus narrowly on addressing workers' frequent reliance on EI are misdirected. Instead, policies should more broadly address the barriers to employment faced by workers who have inadequate skills or education, whether they rely on EI or not. In fact, while some workers who face these barriers are able to find employment that enables them to qualify for benefits, research indicates that there may be many more workers who face these same barriers but are unable to qualify for benefits. With an increasing number of Canadians employed in non-standard and more precarious forms of employment, whether or not EI is adequately addressing the needs of working Canadians is therefore a timely question.

⁴In this report terms such as "EI reliance" and "reliance on EI benefits" are used simply to describe patterns of EI benefit receipt where individuals receive, on one or more occasions over time, the EI benefits to which they are entitled.

THE EARNINGS SUPPLEMENT PROJECT

The publication of this new report brings closure to the Earnings Supplement Project (ESP). In 1994 the federal department of Human Resources and Skills Development Canada (HRSDC)⁵ funded ESP, a demonstration project designed to test whether the offer of a temporary earnings supplement would increase re-employment among two groups of unemployed workers: frequent EI claimants and displaced workers. The poor response to the supplement offer among ESP participants — particularly frequent claimants — led to the design of the Survey on Repeat Use of Employment Insurance (SRUEI), a survey with a national scope that aimed to capture information that would lead to a better understanding of the unique circumstances and needs of frequent claimants.

Two earlier Social Research and Demonstration Corporation (SRDC) reports that analyze findings from the SRUEI provide important insights into the diverse circumstances of claimants who frequently claim EI benefits. In particular, they show that frequent claimants, like occasional claimants, can be found in all regions of Canada, all industries, and in a wide range of occupations. However, they are comparatively older, less educated, and a disproportionate number of them are men. When workers' relationships with their employers are examined, many frequent claimants are found to have long-standing relationships with the firms that laid them off, and expect to be recalled again by the same employer. This relationship, often referred to as an "implicit contract," sheds some light on frequent claimants' disinterest in the ESP offer; since these workers have high expectations of being recalled in the future, they would have lower motivation to seek a new job, especially if it paid less.

Another important finding is that while frequent claimants may be as willing as occasional claimants to accept a wage cut when searching for a new job, the fact that frequent claimants have, on average, higher past wages could mean that they would be less likely to find available jobs that they would be willing to take. This finding provides an additional explanation for the lack of take-up of the ESP offer by frequent claimants. The earnings supplement that was offered may not have adequately accounted for frequent claimants' "reservation wage" — the lowest wage that they are willing to accept.

The series of in-depth analytical studies on the SRUEI also provides a unique perspective on frequent claimants' range of experiences with the EI program. One study provided a further disaggregation of claimants into nine different types, depending on their claim patterns and characteristics. This typology allows researchers to move beyond simple dichotomies, such as frequent versus occasional or seasonal versus non-seasonal, to give a picture of the heterogeneity among frequent claimants. While many frequent claimants are found to have a seasonal pattern of claiming EI benefits, a sizable proportion regularly claim EI benefits in a non-seasonal fashion. This suggests that many claimants are in precarious employment, which provides them enough work to qualify for benefits but no guarantee of another job when their benefits run out. The heterogeneous nature of frequent claimants may explain the relative ineffectiveness of policies aimed at reducing frequent reliance. Whether they are based on incentives, such as the ESP offer, or disincentives, such as EI rules that penalize claimants according to their past claim patterns, these approaches fail to address the

⁵In December 2003 the former Human Resources Development Canada (HRDC) was divided into two separate departments: the Department of Social Development Canada (SDC) and the Department of Human Resources and Skills Development Canada (HRSDC). SRDC continues to work with HRSDC on ESP and other initiatives.

individual barriers to employment faced by unemployed workers who have come to rely on EI year after year.

More recently the final phase of ESP expanded the scope of its EI research to further explore claimants' patterns of work and EI receipt. This research produced a series of working papers that analyze the circumstances and barriers faced by workers who are at risk of becoming unemployed, and who consequently must rely on EI benefits. The research was aimed at addressing three broad research questions: Who are the workers who do not have secure, year-round employment and must depend on benefits? What barriers to employment do they face? What can be done to better address their needs? This final ESP report summarizes the findings from the working papers in order to elicit key policy lessons that can guide the future development of EI. Placed within the context of a discussion of the principles underlying the present-day EI program, this research leads the authors to identify policy options that are worth exploring further in order to make EI more responsive to the realities of today's labour market, while at the same time addressing potential disincentives and inequities in the current system.

LESSONS LEARNED ABOUT EI

The report contains a series of lessons learned from research on work and EI reliance. Exploiting datasets such as Statistics Canada's longitudinal Survey of Labour and Income Dynamics (SLID), workers' long-term work and EI claim patterns are examined to understand better their relationship with the program and its impact on their labour market decisions. These data sets also permit researchers to examine the impact of EI on other household members, a perspective that is often lacking in previous research. Despite the fact that EI does not take into account claimants' household circumstances when determining their eligibility and the length of EI entitlement, EI can play an important role in mitigating the shock that the unemployment of one household member has on other household members.

One of the principal lessons learned about EI is that workers have complex relationships with the program that involve both their employment opportunities and the labour market adjustments they make to comply with EI's myriad rules and provisions. For instance, one study examines a common criticism of EI — that the relative generosity of benefits in high unemployment regions inhibits workers from moving to other regions where employment conditions are better. In *Employment Insurance and Geographic Mobility: Evidence From the SLID*, Rick Audas and Ted McDonald (2003) find, however, that there is no strong evidence that EI inhibits mobility, even when it is examined at the intraprovincial level — a perspective that had yet to be examined in the literature on EI and geographic mobility. This study shows that the relationship between EI and the decision to migrate is complex and depends on individuals' degree of attachment to the labour market, since only those who work few weeks per year were found to be more likely to move following the tightening of the EI program in the mid-1990s.

Another way that EI can influence worker behaviour is through the complexity of its rules, and therefore, claimants who know the program the best will be in the best position to benefit from its rules. For example, when claimants' behaviours are examined within the context of one of EI's more complicated provisions, one that permits claimants to accept

available work while continuing to receive benefits, claimants with the most experience with EI are found to make the greatest use of this provision in ways that could facilitate their claiming benefits again in the future.

In *The Impact of the Allowable Earnings Provision on EI Dependency*, David Gray and Shawn de Raaf (2002) analyze the relationship between the use of this provision, referred to as the “allowable earnings provision,” and individual claim patterns. They demonstrate that claimants’ experience with EI can lead to marked differences in the ways that this provision is used. They also find that working while on claim has a mixed impact on short-term and long-term EI claim patterns. While working on claim may lead to shorter periods of time in receipt of benefits, it may also increase the probability of claiming again. Therefore, this research addresses the possibility that the allowable earnings provision may be encouraging participation in non-standard employment (augmented by intermittent periods of EI receipt), and discouraging the search for stable full-year employment that the provision’s designers had originally intended.

Another hotly debated issue with respect to EI’s impact on labour market attachment is the coverage of seasonal workers — workers who experience annual periods of unemployment at the same time every year. Given that seasonal claims represent a large share of all frequent EI claims, it is surprising that very little research to date has examined the extent to which seasonal work leads to EI receipt. In *Seasonal Employment and Reliance on Employment Insurance: Evidence From the SLID*, Shawn de Raaf, Costa Kapsalis, and Carole Vincent (2003) attempt to fill this gap by identifying a sample of seasonal workers according to their employment patterns over a five-year period and then examining the extent to which their seasonal job losses lead to EI benefit receipt.

The authors find that while over half of all seasonal job losses lead to an EI claim, only one third of seasonal workers receive benefits after each of their seasonal job losses. When compared with all seasonal workers, those who frequently claim benefits face the highest barriers to finding secure employment; they are older, less educated, and living in regions with higher unemployment rates. However, the authors’ findings caution the reader from concluding that those seasonal workers who do not rely on EI are necessarily doing better in the labour market. These workers, who have the highest likelihood of not having accumulated sufficient hours to qualify for benefits in the first place, are also the most likely to be working multiple jobs at the time of their seasonal job loss and to be re-employed part time instead of full time.

If frequent claimants cannot be understood simply as being seasonal workers or as workers living in high unemployment regions, what are the factors that lead to individuals maintaining a pattern of frequent reliance over time? In *Dynamics of Reliance on EI Benefits: Evidence From the SLID*, Shawn de Raaf, Anne Motte, and Carole Vincent (2003) attempt to address this issue, and find that stereotypical determinants of frequent EI reliance do not hold true when claim patterns are examined over time. While such commonly identified factors as gender and region of residence are important determinants of initially becoming a frequent claimant, only workers’ education and occupation and the conditions of the local labour market increase the probability that they will maintain their frequent claim pattern over time. In addition, this research indicates that exposure to the EI program and workers’ own unobserved tastes and preferences play an important role in explaining long-term EI claim patterns. By moving beyond simple determinants of frequent EI reliance, this research points

to the more fundamental barriers faced by workers who are unable to move into full-year employment.

Much of the research on EI to date has focused on the individual claimant, but workers' patterns of EI receipt may reflect, to some extent, the demand side of the labour market. Lately a growing body of research indicates that firms are an important piece in the EI frequent claimant puzzle. Over the past decade many economists have supported the view that the absence of a link between the amount of EI premiums and firms' actual layoff patterns, or the lack of "experience rating," means that the EI program gives no disincentive to firms to lay off workers temporarily during business slowdowns. In *Who Benefits from Unemployment Insurance in Canada: Regions, Industries or Individual Firms?*, Miles Corak and Wen-Hao Chen (2003) show that a considerable number of firms were predictably and persistently receiving subsidies through the EI program over the 1986 to 1996 period, in that their employees' receipt of EI was higher than the premiums paid into the program. They find that a firm's own practices or characteristics are twice as important as the industry or geographic location of the firm in explaining whether it is subsidized by EI. This finding points to the need to investigate further the practices and characteristics that differentiate firms according to their employees' reliance on EI.

Another area of research worth further exploration is the impact of EI on household labour market decisions. Policies in Canada are placing greater emphasis on workers' needs to balance work and family life, exemplified by the expansion of EI special benefits in recent years to provide better coverage and more generous benefits to workers with family responsibilities. While not specifically designed to address workers' family responsibilities, EI regular benefits may represent an even more important form of support to families. Regular benefits can help offset the shock to the family's finances when a member loses his or her job.

In *Employment Insurance and Family Response to Unemployment: Canadian Evidence from the SLID*, Rick Audas and Ted McDonald (2004) provide a first look at the role regular EI benefits play in spousal labour supply decisions when the main income earner experiences a job loss. While in general the main income earner's eligibility for EI is found to have little impact on the spouse's decision to seek employment or to work more, it does appear to have a significant impact when children are present in the household or when the job loss occurs for reasons that are by nature non-seasonal, and therefore are most likely unpredictable. This finding suggests that EI may be reducing the need for a spouse to seek employment after a family member's job loss, thereby giving families greater flexibility in balancing their work and family responsibilities. However, further research is warranted before conclusive policy lessons can be drawn.

PRIORITIES FOR FUTURE RESEARCH AND POSSIBLE INTERVENTIONS

This research provides the important insight that frequent reliance on EI should not be viewed simply as workers becoming familiar with the program and learning how to benefit from its rules and provisions. Instead, a recurring theme from each of the working papers is that frequent reliance is symptomatic of workers' inability to gain year-round employment due to their lack of skills, education, or job opportunities in the region in which they live.

By expanding the scope to all workers at risk of job loss, the research also shows that workers who do not rely on EI are not necessarily doing better in the labour market, emphasizing the need to avoid focusing only on the unemployed who are able to qualify for benefits.

This research also provides an opportunity to examine the EI program itself in order to understand its shortcomings and identify areas for future research. The current program is designed to achieve a number of different goals — providing temporary income support to workers who lose their jobs, facilitating training opportunities for workers who need to upgrade their skills to increase their employability, and supporting workers with family responsibilities. However, the evolution of the program over time has also led to a system that may not fully reflect the realities of the present-day labour market, warranting a revisiting of EI's eligibility and entitlement rules. In particular, the present system may not adequately account for the circumstances of workers who are not eligible for benefits. This study points out that EI's hours-based system for determining eligibility and entitlement does not compensate every hour worked in the same way across and within EI regions. Consequently, it potentially excludes the growing number of Canadians who are working in non-standard employment by choice or by circumstances such as having family responsibilities or work-limiting disabilities. As well, it gives an advantage to workers who have greater flexibility to work more hours per week: those who are unable to maintain as intensive a working schedule receive lower benefit payments for the same number of hours worked during the qualification period. This leads the authors to conclude that further research is needed to explore alternatives to labour market attachment as the key determinant for EI eligibility criteria.

The study concludes that more research is needed on how to make the EI program more responsive to the realities of today's labour market, while at the same time addressing potential disincentives and inequities in the current system. On the workers' side, this could include research on the disincentives within the EI program itself to seeking standard employment. More importantly, there needs to be more research on the barriers faced by many workers who cannot secure employment due to inadequate skills or education, regardless of whether they rely on EI or not. On this front, more emphasis could be placed on employment-oriented training programs and basic adult education, including literacy. The research findings also suggest that policies should not neglect the role that employers play in their employees' EI reliance. Further research is needed on the practices that should be encouraged on the part of firms to help reduce the need for their employees to establish claims for EI benefits.

Introduction

Changes in our economy, in our families, in our workplaces, in our communities, and in the financial standing of our country are too dramatic to allow us to tinker at the edges of social policy and program. The fact is that Canada's social security system needs to be fixed. (HRDC, 1994, pp. 8–9)

Ten years ago, following years of debate and numerous reports advocating unemployment insurance reform, the federal government stated that one of Canada's most important instruments of social policy was deserving of a major overhaul. This overhaul took the form of the Employment Insurance (EI) program introduced in 1996 to bring the program up-to-pace with changes in the economy.⁶ Along with a requirement to reduce program costs, program designers endeavoured “to ensure that the system was responsive to the realities of today's labour market and to remove disincentives and inequities in the system” (HRDC, 1998b, p. i). This resulted in a program that had tighter eligibility criteria, a reduced benefit generosity, and an expanded array of active re-employment measures that would give workers the support and skills required to return to full-time employment.

The 1996 reform represented the culmination of a series of modifications in the mid-1990s that reduced the generosity of the program. For instance, workers who quit their job without a just cause became disentitled from the program in 1993, representing an important shift in philosophy as eligibility for claiming regular benefits was now restricted to having lost a job for involuntary reasons. The amount of weekly benefits claimants could receive was reduced twice, with the earnings replacement rate dropping from 60 to 57 per cent in 1993 and then to 55 per cent in 1994. Also in 1994, the minimum number of weeks of work required to be eligible for benefits was increased and the benefit duration period was reduced. Recognizing that these changes could expose low-income claimants with dependent children to particularly severe financial difficulties, modifications were introduced in 1994 to set a separate and higher statutory replacement rate of 60 per cent for these individuals.

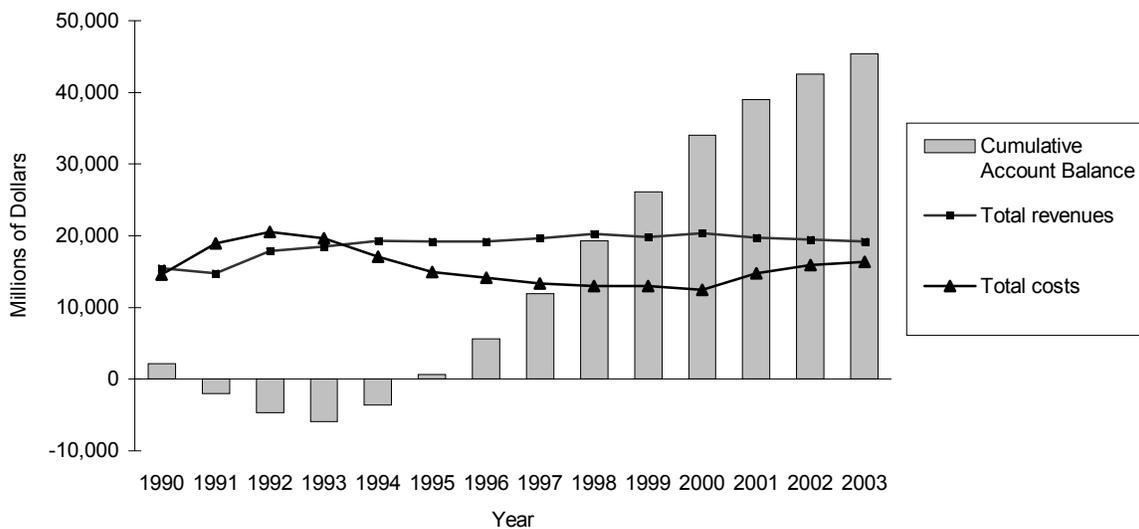
One of the most significant aspects of the 1996 reform was that it codified the tightened eligibility and entitlement rules into a so-called hours-based system, which determined minimum eligibility and number of weeks of entitlement according to the number of hours rather than weeks worked during claimants' qualifying period. This change ensured that the hours worked by those who normally worked less than 15 hours per week became insurable hours of work under the new EI. However, qualification became more difficult for claimants who normally did not work full time but whose weeks of part-time work counted under the old Unemployment Insurance (UI) program. The new program also retained the special provisions for low-income claimants with dependent children introduced in 1994, albeit in a different form. Low-income claimants with dependants face the same replacement rate as all other claimants but receive weekly income supplements, which *de facto* increases their

⁶In June 1996 the program name was changed from Unemployment Insurance to Employment Insurance. For consistency, “Employment Insurance” or “EI” is used throughout the present report to identify both the pre- and post-1996 reform periods.

replacement rate. In addition, eligibility for this provision became based on family income instead of individual income.

The tightening of eligibility and entitlement criteria over the past decade has not only allowed the EI program to balance its books, but has also led to a substantial surplus in the fund. From 1991 to 2000 (10 years that span the pre- and post-1996 EI reform), the program moved from a situation in which total benefits paid were greater than revenues (from employers' and employees' contributions) to a situation where revenues well exceeded expenditures, as shown in Figure 1. With an EI surplus that currently stands at over \$40 billion, government officials have been under increasing pressure to review the program's rate-setting regime and to re-examine access issues for groups of workers who do not have coverage under the program's current eligibility rules.

Figure 1: Revenues, Costs, and Cumulative Account Balance of the EI Program (1990–2003)



Source: HRDC (1998a) and HRDC (2003b).

Note: Data for 2003 is estimated.

The EI program continues to evolve and change. In 2001 changes that had previously been made to reduce the benefits paid to workers who made frequent recourse to the program were reversed by the government. Another significant change was the enrichment of parental benefits and the loosening of eligibility requirements for maternity, parental, and sickness benefits. More recently, the coverage of the program was extended to include a six-week leave benefit for persons who need to take time off work to care for a gravely ill family member. Finally, for the 10th consecutive year, the government reduced premium rates for 2004 and announced a new premium rate-setting regime for subsequent years, with the goals of providing “a more transparent and sustainable process” for establishing contributions and aligning program revenues with program costs (Department of Finance, 2003, p. 183).

The motivation for many of these recent amendments came from an aspect of the EI reform that was lost among its higher profile elements: the inclusion of an ambitious and

wide-ranging series of evaluative frameworks and tools. One of the key evaluation tools is the annual EI Monitoring and Assessment (M&A) report, which was initially legislated to document the impact of the EI reforms on claimant behaviour and program expenditures for the five years following the reforms but has now been extended to continue to 2006. Initiated in 1997, this series of reports not only analyzes various provisions of the program, but it has now begun to highlight relevant research that is informing program administrators about the efficacy of various provisions of the program. Another important research element was the series of in-depth evaluation studies sponsored by Human Resources and Skills Development Canada (HRSDC) in the late 1990s, which provided important lessons in the ongoing refinement of the program.⁷ The subject matter of these studies was wide-ranging, from the impact of EI's switch to an hours-based system to the implementation of income supplements for lower-income families.

The funding of the Social Research and Demonstration Corporation's Earnings Supplement Project (ESP) by HRSDC is another important development in EI's evaluation framework. This project began as a demonstration project to test the effectiveness of a financial incentive in encouraging re-employment among unemployed workers. Between March 1995 and June 1996 ESP enrolled over 11,000 claimants from nine local offices across Canada in a randomized trial. Half of the claimants who volunteered for this project were randomly assigned to the program group and offered the financial incentive, and half were assigned to the control group and thus not offered the incentive.

ESP participants applying for regular benefits could receive an earnings supplement if, within a specific period of time, they took a new full-time job that paid less than the job from which they had been laid off. ESP would then make up 75 per cent of the earnings loss for up to two years. The earnings supplement was offered to two separate groups of claimants. The first was a group of 8,144 "displaced workers" (claimants who had been working continuously for at least three years before becoming unemployed and who did not expect to be recalled to the job they had lost). The second group consisted of 3,414 "frequent claimants" (claimants who were applying for benefits for at least their fourth consecutive year). The displaced workers were given 26 weeks to find new full-time jobs while frequent claimants were given only 12 weeks to find new jobs.

The offer of the earnings supplement was found to have a small and short-lived impact on the re-employment of displaced workers. Those in the program group were four per cent more likely to be re-employed during the first six months after random assignment compared with those in the control group, but all differences in the employment of program and control group members had disappeared by the 11th month. The results for frequent claimants were even more disappointing: fewer than half of eligible frequent claimants were willing to volunteer for the project, and only five per cent of those who volunteered and were assigned to the program group received a supplement payment.⁸

To obtain information on the characteristics of frequent claimants and to help better understand their needs and motivations, a second phase of ESP research was undertaken. In

⁷In December 2003 the Department of Human Resources and Development Canada (HRDC) was divided into two new entities: the Department of Social Development Canada (SDC) and the Department of Human Resources and Skills Development Canada (HRSDC). The EI program is administered by HRSDC and thus, for consistency purposes, the term HRSDC is used throughout the present report.

⁸More information on the ESP demonstration project can be found in Bloom, Fink, Lui-Gur, Bancroft, and Tattrie (1997), Tattrie (1999), and Bloom, Schwartz, Lui-Gurr, and Lee (1999).

1998 Statistics Canada was commissioned to conduct the Survey on the Repeat Use of Employment Insurance (SRUEI). The SRUEI surveyed a nationally representative sample of 1996 claimants regarding their personal characteristics and circumstances, their attitudes towards the EI program, and their labour market experiences in the year following their claim.

The data collected in that survey provided evidence that frequent claimants differ from occasional claimants in many respects.⁹ For instance, data showed that while occasional claimants were almost equally distributed between men (52 per cent) and women (48 per cent), 63 per cent of frequent claimants were men. Frequent and occasional claimants did not differ much in terms of age but they differed significantly in their educational attainment. Almost 42 per cent of frequent claimants had less than a high school education compared with 24 per cent of occasional claimants. In this respect, there are important differences between men and women: almost 50 per cent of male frequent claimants had not completed high school compared with 31 per cent of female frequent claimants. Also, both male and female frequent claimants were less likely than occasional claimants to have participated in some form of post-secondary education.

Frequent and occasional claimants also differed according to the extent that they lived in urban or rural settings: 78 per cent of occasional claimants lived in urban areas while this proportion dropped to 58 per cent for frequent claimants.¹⁰ Quebec had the highest share of all frequent claimants in Canada, with a percentage of 38 per cent, followed by the Atlantic region (22 per cent), and Ontario (21 per cent). Frequent claimants were also concentrated in specific industries. In the case of men, the most striking observation is that while only 15 per cent of male occasional claimants were employed by the construction industry, this proportion rises to 35 per cent for frequent claimants. Primary industries — including agriculture, fishing and forestry — are other industries with a high incidence of frequent reliance on EI among males.¹¹ Female claimants — whether they are frequent or occasional claimants — were concentrated in community services, which include education, health, and social services. Other industries with high incidence of EI reliance by women included retail sales and tourism. Finally, male frequent claimants generally had higher wage rates and higher annual earnings than male occasional claimants. However, wage rates and earnings of female claimants were about the same for both frequent and occasional claimants.

Analyses based on the SRUEI have helped dispel some myths about frequent claimants. Frequent claimants are not working only in the primary industries in Atlantic Canada: many of them are also working in Central Canada, particularly in the construction industries in Quebec and Ontario. While many frequent claimants are workers with lower levels of education, and are often too old to make important changes in their employment situations, many of them are also young adults who have not completed high school and are working in low-skilled jobs. In 1996 a significant proportion (19 per cent of males and 12 per cent of females) of EI claimants under the age of 25 were already frequent claimants, even though

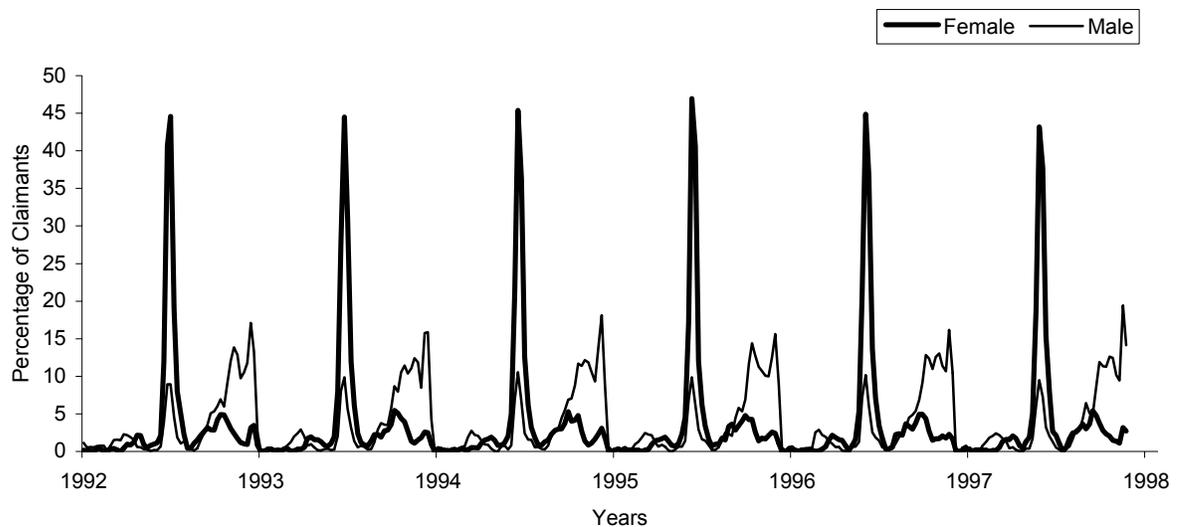
⁹All figures from the SRUEI presented in this section are taken from Schwartz, Bancroft, Gyarmati, and Nicholson (2001), and Schwartz and Aydemir (Eds.), (2001). The patterns described are for individuals aged 25 and older (unless specified otherwise), and are consistent with those obtained in previous studies including Corak (1993b) and Wesa (1995).

¹⁰“Urban area” refers to population concentration of at least 1,000 persons and population densities of at least 400 persons per square kilometre.

¹¹In this report, terms such as “EI reliance” and “reliance on EI benefits” are used simply to describe patterns of EI benefit receipt where individuals receive, on one or more occasions over time, the EI benefits to which they are entitled.

many of them did not have more than three years of experience in the labour market. Frequent claimants are often viewed as being male, working a few months of the year in legally paid employment, and working in the underground economy during the rest of the year. However, many of them are women working from September through June, and then taking time off during the summer to care for their children while they are not in school. As shown in Figure 2, the pattern of reliance on EI differs quite dramatically between men and women. Among claimants who received benefits within the same eight-week window every year over the period between 1992 and 1997, women received benefits in large part during the summer months while the receipt of benefits among men is distributed more evenly throughout the year.

Figure 2: Timing of the Initiation of a Claim for Regular Benefits by Gender (1992–1998)



Source: Gray and Sweetman (2001).

Research based on the SRUEI highlights the fact that the conventional typology with only two types of claimants — frequent and occasional — is an oversimplification. In reality, there are a variety of different interactions between claimants’ work history and reliance on EI; the high degree of heterogeneity among frequent claimants makes the task of analyzing which policy options would best meet the needs of these workers quite complex. More recent research summarized in the present report shows that there is an even higher degree of heterogeneity in the circumstances of workers who often experience periods of unemployment and may or may not rely on EI. While, on paper, EI is the same program for everyone, it can in fact be a different program for different workers depending on their experience with the program, their work patterns, and their own characteristics. A major implication of this research is that policies that focus narrowly on addressing workers’ frequent reliance on EI would be misdirected. Perhaps more importantly, this research raises crucial issues regarding the principles that govern eligibility and entitlement to EI benefits. This better understanding of workers’ relationships with EI allows us to identify priorities for further research that will help shape an EI program that would best reflect the current realities of Canadian men and women, their families, and the firms that employ them.

Six Lessons Learned About EI

In recent years, as a third and final phase of ESP, the Social Research and Demonstration Corporation (SRDC) has sponsored a number of studies to examine Employment Insurance (EI) reliance based on the best data available and a range of methodological approaches. Using a variety of data sources that include, most notably, the Survey of Labour and Income Dynamics (SLID) — a survey that fully captures workers' labour market experiences over several years and therefore moves beyond their reliance on EI — these studies show that there are many reasons why some workers who face barriers to secure, year-round employment will rely on benefits, but others will not. While some workers do not rely on EI because they are able to find other employment rapidly, others do not because their typical employment pattern does not qualify them to receive benefits. As demonstrated in the following six lessons, workers' and firms' relationships with the EI program are complex, resulting from employment opportunities as well as the labour market adjustments they make to comply with EI's myriad rules and provisions.

Lesson 1: Those who claim EI the most also know how to benefit the most from its rules.

EI rules have become so complex that it is often those who gain the most experience with the program who know how best to benefit from its rules. EI eligibility and entitlement provisions are based on a variety of requirements that examine a claimant's work history over periods of time that range from six months to two years, depending on the provision in question. And once a claim is established, there are a number of provisions that can affect the amount of benefits the claimant can actually receive, as well as the claimant's eligibility for a future claim, should the need arise again. As a result, claimants are often required to navigate through a myriad of rules to determine their eligibility and entitlement and consider what impact any work they choose to accept — while either on or off claim — will have on their paid benefits. While the program's complexity developed over time to account for the variety of individual circumstances that the unemployed experience in the Canadian labour market, it has also led to a system that puts those who rely on it the most at greatest advantage in understanding its rules.

When claimants' knowledge of the EI program is investigated, it appears that their growing experience with the program leads to a better awareness of the system. In a series of questions designed to capture claimants' understanding and attitudes towards the program, the Survey on the Repeat Use of Employment Insurance (SRUEI) asked claimants about their familiarity with the program as it existed before and after the 1996 reform.

As shown in Table 1, frequent claimants (those who established at least three claims over the 1992 to 1996 period) consistently indicated greater familiarity with the program. When asked "how familiar were you with the unemployment insurance (UI) system that existed before the recent changes?" 80 per cent of frequent claimants answered that they were very or somewhat familiar with the system as it was before the reform, compared with approximately 57 per cent of occasional claimants. While on average all claimants were less likely to state that they understood the new system rather than the old one, over half of

frequent claimants said they were very or somewhat familiar with the new EI program compared with only about 40 per cent of occasional claimants.¹²

Table 1: Claimants' Familiarity With the EI Program

	Males (%)		Females (%)	
	Frequent	Occasional	Frequent	Occasional
Familiar with system before EI reform?	81	57	80	57
Familiar with new EI rules?	54	39	55	42

Source: Schwartz et al. (2001).

Claimants' awareness of how EI rules work can have a great deal of impact on the way that certain provisions influence their behaviour. In *The Impact of the Allowable Earnings Provision on EI Dependency*, David Gray and Shawn de Raaf (2002) demonstrate that claimants' experience with EI can lead to a marked difference in the way they make use of one of its more complicated provisions, the allowable earnings provision.

The allowable earnings provision — often referred to as the “working while on claim” provision — encourages claimants to pursue part-time and temporary work opportunities while maintaining an active claim. Under the terms of this provision, claimants are permitted to accept available work while in receipt of benefits provided they are still available and looking for full-time work. The provision permits claimants to report earnings up to a certain threshold (25 per cent of their weekly benefit or \$50) without seeing any reduction in their weekly benefits. After this point, weekly benefits are clawed back at a rate of 100 per cent until no benefits for that week remain. Claimants with earnings during a week that exceed 125 per cent of their EI entitlement receive no benefits during that week but can receive the full amount of benefits at the end of their entitlement period if they are still unemployed, thereby extending the duration of their claim. Claimants who do not return to full-time employment can thus avoid a penalty to their benefits either by receiving earnings below 25 per cent *or* above 125 per cent of their weekly benefit amount. Any earnings amounts between these two thresholds will result in a week of partial benefits, and the claimant will not be able to claim any clawed-back benefits at a later time. As a consequence, claimants with the experience to understand how the rules work and greater flexibility in the kind of work they can find while on claim may be in a better position to maximize the amount of entitlement they actually receive.

Previous research has shown that this provision encourages claimants to move off a particular claim more quickly. For instance, Roy (2001) relied on EI administrative data to examine claimants who declared earnings in at least one week of their claim and found that their work led to a decrease in the length of their current claim. Research has also shown that the provision can influence the kind of work claimants are willing to accept. McCall (1996) provides evidence that the allowable earnings provision in the unemployment insurance system in the United States increases the probability of accepting part-time employment as opposed to full-time employment, *given that a claim is in progress*.

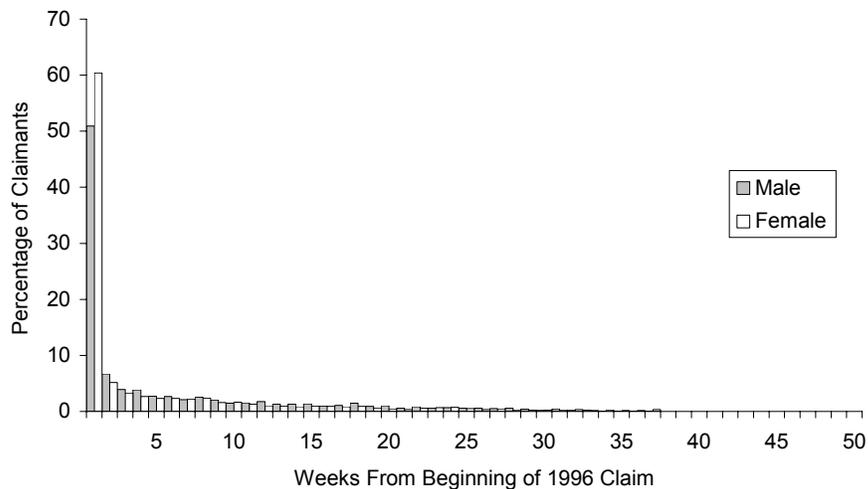
¹²For more details on EI claimants' behaviours and attitudes, see Schwartz et al. (2001).

Gray and de Raaf (2002) move beyond the existing research by examining the impact of working while on claim on both short-term and long-term EI reliance. Using data from the SRUEI linked with EI administrative records, they identify the extent to which claimants pursue employment opportunities while maintaining an active claim and measure the impact their work has on the length of a particular claim and on the number of claims they establish over time.

The target population of the SRUEI is all workers who initiated a claim for regular EI benefits and received at least \$1 in benefits in 1996. The sample is representative of claimants across Canada and is stratified by the number of years of EI receipt between 1992 and 1996 so that claimants with different degree of reliance on EI are adequately represented in the sample. Data from the SRUEI are combined with respondents' EI administrative records, providing continuous data on their EI program activity from 1992 to 1998 (i.e. both before and after their 1996 claim). The administrative data contains weekly indicators of whether or not a claim was active, whether or not benefits were paid, the type of benefits received, and whether or not any earnings were reported. Although the actual amount of earnings is not reported, it is possible to observe on a weekly basis all transitions into and out of EI reliance as well as all weeks during which earnings are declared.

Gray and de Raaf (2002) find that the use of the allowable earnings provision is widespread and that the provision appears to be an effective incentive in encouraging claimants to retain a link to the labour market. They find that approximately three quarters of all 1996 claimants made use of the provision at some point during their claim. As well, most claimants who do report earnings while on claim do so immediately following the start of their claim, as shown in Figure 3.

Figure 3: Timing of the Initiation of Work Relative to the Beginning of the 1996 Claim for Regular Benefits



Source: Gray and de Raaf (2002).

The figure shows, on a weekly basis, the percentage of claimants who *first* report earnings among all claimants who reported earnings in at least one week during their claim.

According to the figure, over half of all claimants, whether male or female, first report earnings in the first week of their claim, immediately following their mandatory two-week waiting period.

However, while most claimants make use of the provision, Gray and de Raaf do find considerable evidence that those who rely on EI the most frequently either have work patterns that best suit the parameters of the provision or know best how to tailor their work patterns around these parameters. They find that those who are the most likely to report earnings tend to be those with the highest frequency of past EI receipt. They also tend to have more weeks with an active claim, although they have neither a significantly higher amount of benefits received nor a significantly greater number of weeks in which benefits are received.

The adverse incentives that the provision gives to different types of claimants supports the contention in the 2001 EI Monitoring and Assessment (M&A) report that the design of the provision may in fact be “flawed.” The report finds that claimants appear to be less willing to accept work unless they can completely offset their benefits in a particular week, especially among frequent claimants.¹³ In fact, frequent claimants are the least likely to experience a week of partial benefits where benefits are reduced but not completely clawed back due to reported earnings. Of all weeks with reported earnings, only 18 per cent of frequent claimants’ weeks resulted in partial benefits, compared with 31 per cent for occasional claimants and 41 per cent for first-time claimants.

To investigate this issue further, the authors examine the provision’s impact on EI reliance, both in the short and long term, and find that the provision has a mixed impact. To examine short-term effects, they estimate the impact that past use of the provision has on the duration of claimants’ current claims. The authors calculate the annual average number of weeks in which each claimant reports earnings from working while on claim in 1992 to 1995 and estimate its impact on the number of weeks with an active claim in 1996. Overall, working while on claim reduces the amount of time an individual has an active claim open, although the magnitude of this impact is fairly small. For instance, a claimant who works six weeks per year while on claim, for a total of 24 weeks over the 1992 to 1995 period, receives approximately one less week of benefits during his or her 1996 claim.

While claimants who work while on claim tend to spend fewer consecutive weeks on claim, they also tend to exhibit a higher long-term reliance on EI. To examine long-term effects, the authors estimate the impact that use of the provision has on the probability that claimants will claim again in the future. In one analysis, the authors look at the number of weeks of reported earnings made by a claimant in 1996 and estimate its effect on the probability that the claimant will claim benefits in 1997 and 1998. A summary of the results is presented in Table 2, showing the number of weeks with reported earnings in 1996 and the corresponding probabilities that the claimant will receive benefits again in the following two years.

The table illustrates that with an increase in the number of weeks with reported earnings in 1996, claimants are more likely to rely on EI in the next two years. While claimants who work one week during their 1996 claim are less likely to claim again than claimants with no

¹³The Monitoring and Assessment reports define frequent claimants as those claimants who have three or more regular and/or fishing claims in the five years preceding their current claim.

weeks of work, those who work 20 or more weeks while on claim are nearly 25 percentage points more likely to make a claim in the following two years.

Table 2: Impact of Working While on Claim on Future Benefit Receipt, Marginal Effects (1996–1998)

Intensity of Work While in Receipt of Benefits in 1996	Relative Probabilities of EI Receipt in 1997 or 1998	
	Men	Women
0 weeks	1.00	1.00
1 week	0.86***	1.08
2 to 10 weeks	1.06*	1.13***
11 to 20 weeks	1.19***	1.12**
More than 20 weeks	1.24***	1.23***

Source: Gray and de Raaf (2002).

Notes: Figures reported in this table are *relative* probabilities, calculated as the ratio of the probability that a claimant in a given category will receive benefits in 1997 or 1998 to the probability that a claimant who did not work while on claim (0 weeks category) will receive benefits in 1997 or 1998. In the benchmark case of a claimant who did not work while on claim, this relative probability is thus equal to 1.00. One asterisk (*) indicates statistical significance at the 10 per cent level, two asterisks (**) at the 5 per cent level, and three asterisks (***) at the 1 per cent level.

Gray and de Raaf’s (2002) findings support the idea that the impact of the allowable earnings provision may be very much related to a claimant’s experience with the EI program. For many claimants, it may be encouraging them to pursue work opportunities that can help them find full-time employment, thereby shortening the amount of the time they spend on claim. However, for those claimants who rely on EI on a regular basis, the full-time employment they may be pursuing may in fact be short-term, allowing them to suspend their benefits in case their employment runs out and they are required to reactivate their claim at a later time. For these workers, the allowable earnings provision may be having the adverse affect of encouraging them to rely on unstable “non-standard” work that they can mix with short, intermittent periods of EI receipt, suggesting that it may in fact discourage claimants who regularly rely on benefits from pursuing opportunities that will lead to stable, full-year employment and hence, reduced future reliance on EI benefits.

Lesson 2: Employers may play a role in their employees’ EI claim patterns.

There is substantial empirical evidence suggesting that the design of the EI program affects not only workers’ behaviour, but also the behaviour of the firms who hire them. As part of a series of evaluations of the EI program, a number of studies have shown how changes to EI rules influenced claimants’ work schedules.¹⁴ For instance, evidence suggests that the shift to an hours-based system influenced the length of time workers remained employed, particularly for individuals in seasonal industries and in cases where workers were laid off, as opposed to those who quit their jobs. Since lay-offs can involve more coordination between firms and their employees, this result may reflect both workers' and firms’ adjustments to changes in EI entrance requirements.

Findings from the SRUEI also provide supporting evidence for the implicit contracts view of work and unemployment patterns, whereby firms lay off workers temporarily as an

¹⁴For instance, see Friesen and Maki (2000) and Green and Riddell (2000).

adjustment to demand fluctuations and workers accept this arrangement with the understanding that they will be hired again by the same employer. Data from the SRUEI show that a large proportion of workers who made frequent recourse to EI exhibit a pattern of stable long-term working relationships with particular employers or particular occupations. Almost all frequent claimants who received benefits in 1996 worked in the following year, and of those who found themselves unemployed again in 1997, 60 per cent expected to return to the same job. By comparison, only about 25 per cent of occasional claimants were in this situation in 1997.¹⁵

Over the past decade, many economists have supported the view that the absence of a link between EI premiums and layoff patterns of firms, or the absence of “experience rating,” is responsible for a significant proportion of short-term unemployment.¹⁶ Many of the consequences of EI rules attributable to individual behaviour in fact reflect the demand side of the market, stressing the need for greater awareness of the roles of both supply and demand to accurately understand the effects that EI may have on the labour market.¹⁷

In *Who Benefits From Unemployment Insurance in Canada: Regions, Industries, or Individual Firms?*, Miles Corak and Wen-Hao Chen (2003) show not only that the program redistributed significant monies between industries and provinces over the 1986 to 1996 period, but also that a considerable number of firms were predictably and persistently receiving subsidies through the program. Their analysis shows that the major flow of funds is from the service industries toward the primary sector and construction and from Ontario towards Quebec and the Atlantic provinces. These cross-subsidization patterns have often been interpreted as the result of regional labour market differences or some regions’ disproportionate share of seasonal employment. However, Corak and Chen’s analysis suggests that these patterns are substantially due to firm-specific factors and that geography and industry are not as important in determining cross-subsidization once across-firm variations are considered.

In their study, Corak and Chen (2003) document the extent of cross-subsidization within the EI program using data drawn together from a series of administrative files associated with the Canadian tax system, the EI program, and a longitudinal catalogue of enterprises developed by Statistics Canada. They compare, at both the industry and firm levels, the number of claims made by a firm’s employees, the amount of benefits they collected, the average duration of their claims, and the amount of contributions (or premiums) made to the program by both the employers and employees.

They provide an innovative examination of cross-subsidization within the EI program by calculating relative benefit-to-tax (RBT) ratios, defined as the benefit-to-tax ratio (B_i/T_i) of each industry (or firm) divided by the benefit-to-tax ratio for all industries (or all firms)

¹⁵These findings from the SRUEI are consistent with those of Corak (1995), who shows that during the period of 1979 to 1989 a large proportion (40 per cent) of extensive repeaters (five or more claims during the 12-year period) supported their repeated claims by working for the same employer.

¹⁶See Nakamura (1995), Nakamura (1996), Nakamura, Cragg, and Sayers (1994), and Nakamura, Wong, and Diewert (2000).

¹⁷In recent years the exploration of newly available administrative data in a number of countries has led to a growing realization that a careful study of the interaction between employer and employee characteristics is needed to fully understand labour market outcomes. For instance, Baldwin (1995), Haltiwanger et al. (1999), and Abowd, Kramarz, and Margolis (1999) show the importance of analyzing both the demand and supply side sides of the market and underscored the need for a broader perspective on the relationship between unemployment insurance programs and labour market transitions.

(B/T). An RBT ratio greater than one indicates that the industry (or the firm) is a net beneficiary of EI and thus receives a subsidy, while a value less than one indicates a net contribution to the program. In other words, the RBT ratio indicates the amount of EI benefits received for every dollar of contributions, thus reflecting patterns of cross-subsidization between industries or firms. By standardizing each industry (or firm) benefit-to-tax ratio by the national benefit-to-tax ratio, RBT ratios represent the excess of benefits over taxes for each industry (or firm) that would prevail if the overall program were in balance, thus removing the impact of the business cycle.

As shown in Table 3, the longitudinal patterns of RBT ratios at the industry level reveal that industries are concentrated at two extremes: industries are either never net beneficiaries of the program (“never subsidized”) or always net beneficiaries of (“always subsidized”) over the 11 years under study. Nearly 39 per cent of industries were never net beneficiaries of EI over the 11-year period and these “never-subsidized” industries account for 45 per cent of all jobs. In contrast, more than 30 per cent of industries were net beneficiaries in every year during the 1986 to 1996 period, accounting for 32 per cent of all employment.

However, the distribution of firms is considerably less concentrated than that of industries. At one extreme, less than one quarter (22 per cent) of the firms were never net beneficiaries of EI, while at the other extreme, a very small fraction of firms (6.25 per cent) were net beneficiaries every year during this 11-year period. These “always subsidized” firms accounted for only 6.6 per cent of all jobs.

Table 3: Distribution of Industries and Firms by Number of Years With RBT Ratios Greater Than One (1986–1996)

Year	Distribution of Industries (%)		Distribution of Firms (%)	
	Proportion of All Industries	Proportion of All Jobs	Proportion of All Firms	Proportion of All Jobs
0	38.6	45.0	22.1	48.1
1	5.3	1.9	13.4	10.4
2	3.9	3.5	11.6	6.7
3	2.6	3.2	10.0	5.2
4	3.9	4.1	8.2	4.6
5	2.2	1.6	6.7	4.0
6	3.1	2.7	5.5	3.1
7	2.2	1.7	4.6	3.0
8	3.9	1.6	4.0	2.9
9	0.9	1.4	3.7	2.5
10	3.1	1.1	4.0	2.9
11	30.3	32.3	6.3	6.6
Total	100.0	100.0	100.0	100.0

Source: Corak and Chen (2003).

Note: Industry figures are based on all 228 Standard Industrial Classification (SIC) three-digit industries. Figures on firms are based on the 318,217 firms that were in operation for all 11 years from 1986 to 1996.

Table 4 provides information on selected characteristics of the always-subsidized and never-subsidized firms, in comparison with all firms that operated in all 11 years. When compared with the distribution of all jobs, a disproportionate share of jobs among always-

subsidized firms is in medium-size firms (those with between 20 and 499 employees). Among never-subsidized firms, the distribution of claims according to the reason for job separation leading to claiming benefits is quite similar to that of the distribution of claims in all firms. However, among always-subsidized firms, claims that are associated with a temporary job separation represent a disproportionate share of claims. This result supports those of Corak (1993a, b), Gray and Sweetman (2001), and Lemieux and MacLeod (1995, 2000), which suggest that many workers who repeatedly rely on benefits have a long-standing relationship with one employer.

Since firms across Canada (regardless of their cross-subsidization status) are mainly located in Quebec and Ontario, these two provinces contain a significant portion of both always-subsidized and never-subsidized firms, reflecting the absolute size of their share of all employers. However, the distribution between the two provinces within each category is quite different: 38 per cent of always-subsidized firms are located in Quebec and 15 per cent are located in Ontario, and these percentages are reversed among never-subsidized firms. In a similar fashion, the service industries capture the highest share of all firms; while they represent more than their share among never-subsidized firms, they are second to construction industries among always-subsidized firms. Firms in construction industries represent nearly three times their total share among always-subsidized firms. Firms in trade industries, which are the second most common industry type, represent less than their share among both never-subsidized and always-subsidized firms. These results suggest that significant cross-subsidization occurs within industries, or in other words, at the firm level.

Table 4: Distribution of Firms by Cross-Subsidization Status and Selected Characteristics, Annual Averages (1986–1996)

Characteristics	Always-Subsidized Firms	Never-Subsidized Firms	All Firms
Firm size		(% of jobs)	
Fewer than 19 employees	11.3	3.2	11.0
20 to 99 employees	27.4	5.0	16.8
100 to 499 employees	28.4	12.7	18.4
500+ employees	32.9	79.7	53.8
Reason for layoff leading to a claim		(% of claims)	
Temporary job separation	71.5	43.2	47.8
Permanent job separation	21.1	40.4	37.0
Unknown reason for job separation	7.4	16.4	15.2
Province		(% of firms)	
Ontario	15.0	38.5	33.1
Quebec	37.8	14.7	23.5
British Columbia	–	–	13.2
Alberta	–	14.6	–
New Brunswick	9.7	–	–

(continued)

Table 4: Distribution of Firms by Cross-Subsidization Status and Selected Characteristics, Annual Averages (1986–1996) (Cont'd)

Characteristics	Always-Subsidized Firms	Never-Subsidized Firms	All Firms
Industry		(% of firms)	
Services	23.8	41.4	36.5
Trade	10.7	19.1	23.2
Construction	30.7	–	10.8
Finance	–	14.1	–

Source: Corak and Chen (2003).

Notes: Figures are based on the 318,217 firms that were in operation for all 11 years from 1986 to 1996. Figures by industry and province indicate only the percentages for the three top categories.

To explore this issue, Corak and Chen follow the approach of Anderson and Meyer (1993) and propose the following model to estimate what fraction of the variance in RBT ratios is due to industry-specific factors, firm-specific factors, or other factors.

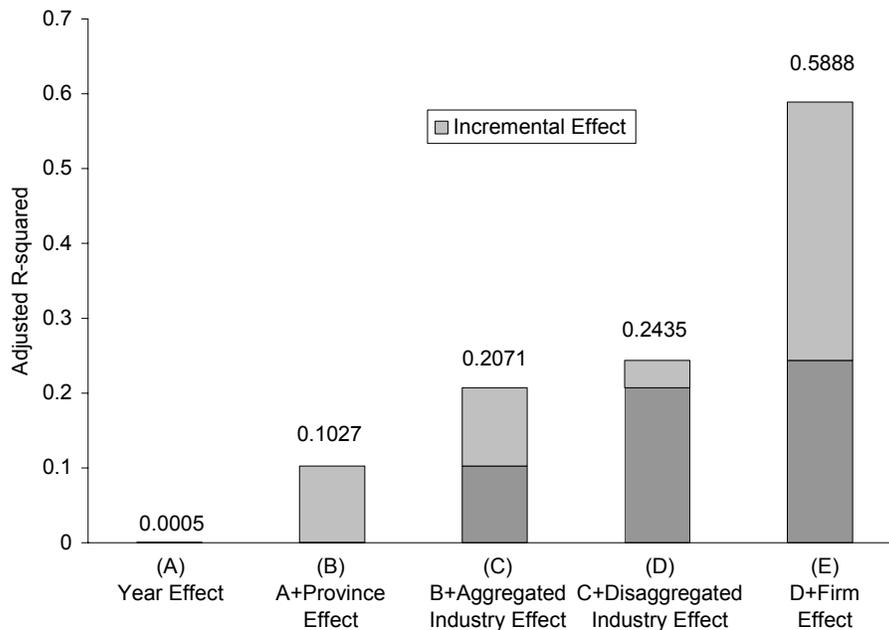
$$RBT_{jpt} = \alpha_t + \beta_p + \delta_i + \gamma_j + \varepsilon_{jpt}$$

They assume that the RBT ratio for the firm j in province p and in year t is a function of a number of fixed effects: α_t captures changes from year to year, β_p and δ_i are province and industry effects respectively, γ_j captures differences between firms, and ε_{jpt} serves as an error term. Using a least squares procedure, they estimate a series of models by successively adding each group of fixed effects, with the change in the adjusted R-squared from the most restrictive to the least restrictive versions of the model providing a measure of the relative contribution of province, industry, firm, and other factors to the total variance in RBT ratios.¹⁸ The results are illustrated in Figure 4.

The first bar on the horizontal axis indicates the contribution of year indicators to the variance of RBT ratios and shows very small year effects. As mentioned above, the impact of the business cycle or any other year effect is likely removed by the fact that RBTs are standardized by the national ratio. It can be seen from the next bar that the provincial effect increases the adjusted R-squared by about 10 percentage points showing important cross-subsidies between provinces. Adding the aggregated industry indicator further increases the adjusted R-squared another 10 percentage points, and an additional 3.6 percentage points when the more disaggregated industry categories are used. However, the most significant gain in adjusted R-squared is found when firm indicators are introduced. As shown in the graph, including firm indicators results in a large increase in the adjusted R-squared: it adds 35 percentage points to the explained variance, leaving approximately 41 per cent of total variance unexplained.

¹⁸The adjusted R-squared is an indicator of the reliability of the relationship that is being estimated. In this analysis, the data cover firms located in the 10 provinces. Self-employed firms, those located in one of the territories, and those with an unknown industry are excluded from the sample. Note that the subscript for the dependent variable is jpt , because each firm may have more than one plant located in different provinces in a given year.

Figure 4: Contributing Factors to the Total Variance in RBT Ratios (1986–1996)



Source: Corak and Chen (2003).

While previous studies have shown substantial cross-subsidization of EI funds across industries and across provinces, Corak and Chen’s study moves beyond aggregate analyses and shows that a firm’s own practices or characteristics are twice as important than its industry or geographic location in explaining whether or not it is a net beneficiary of or net contributor to the program.

Lesson 3: EI claim patterns should be examined in the context of household decisions.

In recent years, the issue of reconciling the competing demands of work and family life has become increasingly important for Canadian public policy. Research is showing that individuals are devoting more time to work and less time to their family, and they are feeling more stressed about their work.¹⁹ A number of changes that occurred in the relationship between Canadian families and the labour market can explain this increased difficulty in achieving work–family balance. For instance, dual-earner families represented 76 per cent of two-parent families with at least one child under 18 in year 2000, compared with 57 per cent in 1980, meaning that fewer families have a stay-at-home parent to take care of family responsibilities (Statistics Canada, 2003).

The recent amendments to the EI program are one attempt by the government to assist working parents who need to take time off work to manage their family responsibilities. In December 2000 the *EI Act* was amended to enhance special benefits, easing access to maternity and parental benefits by changing the eligibility requirement from 700 to 600 hours. At the same time, parental benefits were extended to allow for a 35-week benefit period, raising the total paid leave parents could take from six months to one year. Following

¹⁹For a detailed source of data on work-family balance, see Johnson, Lero, and Rooney (2001).

this trend, in January 2004 the special benefits package was enhanced again to include a compassionate care leave for workers who need to take time off work to care for a gravely ill relative. These modifications reflect that special benefits “are paid to Canadians to help them face employment risks related to birth, parenting and illness, and to help them balance work-family responsibilities” (HRDC, 2003a, p. 20).

Regular EI benefits also play an important role in helping families manage the loss of income when a family member becomes unemployed. However, since regular benefits are intended for individuals who lose their jobs for involuntary reasons, excluding breaks in employment that occur for reasons related to family responsibilities, these benefits are not recognized for the way they influence how families reconcile work and family life. However, since they provide financial support in situations of income loss, regular EI benefits can help mitigate the disruption in the household circumstances while the individual searches for new employment, thereby avoiding a situation where other family members would have to increase their hours of work to make up for the loss in family income.

Although periods of unemployment affect not just the unemployed workers but their families as well, the household is rarely the unit of analysis in studies related to unemployment and EI benefits. Analyzing unemployment with the family as the unit of analysis gives a different picture of the extent to which individuals are affected by the loss of a job. In a study revisiting the classic definition of the unemployment rate, Sussman (2000) shows that while the average unemployment rate — as typically measured — was 7.6 per cent in 1999, the family unemployment rate — the proportion of families with at least one member in the labour force and who have at least one member unemployed — was actually 12.9 per cent. In other words, while 1 in 13 individuals were unemployed, 1 in 8 families were affected by unemployment.

A growing body of literature is developing on how households adjust to such shocks when a household member loses his or her job; however very few studies have examined how access to income support during unemployment impacts on these adjustments. Households will adjust to the loss in income in different ways depending, for instance, on the level of income replacement available and the length of the period of unemployment. Browning and Crossley (2001) investigate how households modify total consumption following a job loss and the extent to which EI benefits affect their decisions. Using data from the Canadian Out of Employment Panel (COEP) for 1993 and 1995, they find that households in which an individual is still unemployed after six months see a 14 per cent average fall in their total expenditure over this six-month period. Their results also indicate that a reduction in the insurable earnings’ replacement rate from 60 per cent to 50 per cent would have a very small average impact on expenditures. They point out, however, that while small, the responses are heterogeneous, depending heavily on the degree of liquidity constraint faced by the family at the time of job separation.

Another way that households can compensate for the loss in income is for the spouse of the unemployed individual to increase his or her hours of work. The two spouses therefore engage in labour supply substitution where one spouse compensates for a reduction in the other spouse’s labour supply. The income replacement offered by EI benefits may therefore play a role in mitigating the need for the spouse to adjust his or her hours of work. In *Employment Insurance and Family Response to Unemployment: Canadian Evidence from the SLID*, Rick Audas and Ted McDonald (2004) investigate this issue, concentrating on the

labour market behaviour of women during a period of unemployment by their spouse over the 1993 to 2001 period, where the male spouse is identified as the highest income earner in the household.²⁰

Previous research by Cullen and Gruber (2000) using data from the United States has shown that eligibility for unemployment insurance benefits appears to “crowd out” the spouse’s labour supply response to the other spouse’s job loss, as benefits have a negative impact on the spouse’s labour supply. Following Cullen and Gruber’s methodology, Audas and McDonald (2004) find similar, although much weaker, evidence of differences in female spouses’ labour supply during their spouses’ period of unemployment, according to whether the male spouse is eligible for EI or not. They find that EI eligibility of the spouse is associated with a slight decrease in the female spouse’s incidence and hours of work, particularly among spouses of workers who did not become unemployed for seasonal reasons. From the evidence available, it is not clear whether this impact is desirable or not; for some female spouses, their male partner’s receipt of benefits may give them greater flexibility to adjust their working schedule to care for their family responsibilities, while for others, EI benefits may reduce their incentive to work.

Audas and McDonald (2004) undertake a series of estimations to evaluate what determines a woman’s labour supply during the unemployment period of her spouse. To examine the impact of EI on the female spouse’s labour supply, the authors determine the potential EI receipt for the male spouse calculated as the amount of benefits he would most likely be entitled to receive given his hours of work prior to the unemployment period. This allows the authors to examine any differences in the female spouse’s behaviour due to her knowledge of what EI benefits her spouse could possibly receive at the time of his job loss, as opposed to what he actually receives.

To reflect differences in employment and family circumstances, the authors provide separate models that account for the seasonal nature of the job loss and the presence of children in the household. A summary of their results is shown in Table 5. Among the different characteristics included in the analysis, family composition has a significant impact: having preschool and school-aged children reduces the probability of female spouses working while their spouse is unemployed compared with those who do not have children. Education is found to be an even more important determinant: female spouses who do not have a high school diploma have a significantly smaller likelihood of working when compared with those who have at least completed high school.

²⁰The authors also examined the labour market behaviour of men during a spouse’s period of unemployment in the cases where the woman was the highest income earner, but opted not to include it in the analysis to avoid endogeneity issues with respect to female labour supply decisions.

Table 5: Selected Determinants of Female Spouse’s Probability of Working During Male Spouse’s Unemployment Period, Marginal Effects (1993–2001)

Determinant	Entire Sample	Male Spouse Lost Job Due to Seasonal Reasons		Presence of Children in Household	
		Yes	No	Yes	No
Male spouse’s EI eligibility	-0.065**	0.120	-0.101***	-0.086**	0.002
Presence of young children	-0.086***	-0.118***	-0.079***	–	–
Female spouse has less than high school diploma	-0.184***	-0.229***	-0.169***	-0.164***	-0.230***
Sample size	2,079	730	1,349	1,470	609

Source: Audas and McDonald (2004).

Note: One asterisk (*) indicates statistical significance at the 10 per cent level, two asterisks (**) at the 5 per cent level, and three asterisks (***) at the 1 per cent level.

When the authors examine the role EI plays in the labour supply of the female spouse, they find that the impact of EI among all other factors is small on average; however, the responses are again heterogeneous. They find that the reason why the period of unemployment occurred sheds a different light on the interaction between EI and spousal labour supply. When the male spouse’s job separation occurs for seasonal reasons, EI eligibility has no significant impact on his spouse’s probability of working. However, spouses of workers who became unemployed due to non-seasonal reasons are significantly less likely to work if the male spouse is eligible for EI. Similarly, the impact of EI on a female spouse’s labour supply is related to the presence of children in the household. EI eligibility has no impact on the labour supply where no young or school-aged children are present in the household. However, it does have a negative impact on the probability of working where children are present in the household.

For comparison purposes, the authors examine the labour supply of the female spouse at different times relative to the start of her spouse’s job loss (not shown in the table). They look at the probability of working during the three months just prior to the job loss and the three months following. They find that the impact of EI on the female spouse’s labour supply during the first three months of her spouse’s unemployment period is qualitatively similar to her labour supply during the entire unemployment period. However, they find that the male spouse’s eligibility for EI has approximately twice as great an impact on her labour supply in the three months prior to the male spouse’s job loss than during his period of unemployment itself.

The results of Audas and McDonald (2004) suggest that EI may reduce the need for a spouse to seek employment, thus giving families greater flexibility in balancing their work and family responsibilities. However, further research is warranted to better understand the role that EI plays in the way households make their collective labour market decisions.

Lesson 4: EI does not appear to be a consistent influence on individuals' decisions to move between or within provinces.

A frequent criticism of the EI program is that by providing benefits to workers who have a high risk of being laid off, such as seasonal workers, EI is giving them less incentive to seek more stable, year-round employment. Moreover, since EI eligibility and entitlement rules that were established to reflect the variation in employment opportunities in different regions of the country are relatively more generous in high unemployment regions, many have argued that EI is playing a key role in reducing the incidence of geographic mobility in Canada. While these rules are designed to allow workers more time to secure employment following the loss of a job, they may also adversely discourage them from pursuing more stable employment in other regions where employment opportunities are better.

Despite these concerns, the extensive body of research on this topic has yet to demonstrate clear empirical evidence that EI has an impact on geographic mobility. In a review of early research on the determinants of geographic mobility in Canada, Day and Winer (1994) conclude that there is no consensus about either the statistical significance or the magnitude of the effect of the EI program on mobility. Using data based on individual survey responses, Osberg, Gordon, and Lin (1994) find that the receipt of transfer payments, including EI benefits, does not affect an individual's decision to change region of residence. Similarly, Lin (1995) finds that neither receipt of EI benefits, social assistance, nor individual participation in a training program has any significant effect on interprovincial mobility. More recently, Finnie (2000) finds that over the 1982 to 1995 period, the receipt of EI benefits increased the probability of moving to another province by 7 to 16 per cent, except for males aged 20 to 24 years. As well, an extensive simulation analysis conducted by Day and Winer (2001) found that eliminating the regional differences in the EI program over the 1974 to 1996 period had a uniformly small effect on the volume of interprovincial movements.

In *Employment Insurance and Geographic Mobility: Evidence From the SLID*, Rick Audas and Ted McDonald (2003) extend this literature by broadening the concept of mobility to include all movements between economic regions, both within and between provinces. They find that although geographic migration remains a relatively rare phenomenon, intraprovincial migration is much more common than interprovincial migration, with Canadians being 2.5 times more likely to move within a province than between provinces. Their estimates of the determinants of geographic mobility reveal there is no strong, convincing evidence that EI inhibits individual mobility, even at the intraprovincial level. They also find that the relationship between EI and migration decisions is a complex one that critically depends on individuals' degree of attachment to the labour market.

To perform their analysis, Audas and McDonald (2002) rely on data from the Survey of Labour and Income Dynamics (SLID) over the 1993 to 1999 period, allowing them to pinpoint the geographic location of workers on an annual basis and any moves they make over the seven-year period. In order to account for the fact that EI eligibility and entitlement rules are based on an individuals' level of work over the past year, they divide their sample according to individuals' degree of labour market attachment: individuals categorized as having strong labour market attachment worked at least 50 weeks in the past year; those with moderate labour market attachment worked 20 to 49 weeks; those with weak labour market

attachment worked 1 to 19 weeks during the year; those with no labour market attachment did not work at all during the year. Table 6 shows a set of summary statistics for each category of workers.

Table 6: Selected Characteristics of Households' Highest Income Earners by Degree of Labour Market Attachment (1994–1999)

	Proportion of Households' Highest Income Earners (%)				
	Entire Sample	Degree of Labour Market Attachment			
		Strong	Moderate	Weak	None
All households' highest income earners	100.0	77.9	9.5	2.5	10.1
Move to another economic region	2.7	2.4	4.3	5.2	2.4
Intraprovincial move	2.0	1.7	3.0	4.0	1.9
Interprovincial move	0.7	0.7	1.3	1.2	0.5
Receipt of benefits					
EI benefits	14.6	8.5	52.9	50.5	8.0
SA benefits ^a	9.6	2.4	14.7	34.1	54.8
Gender					
Female	33.8	31.8	29.4	39.0	52.4
Male	66.2	68.2	70.6	61.0	47.6

Source: Audas and McDonald (2003).

Note: ^aSocial Assistance benefits.

The table clearly shows that migration between economic regions is a relatively rare phenomenon: on average, only 2.7 per cent of the household highest income earners moved economic regions in any 12-month period, and most mobility appears to be within a particular province rather than between provinces. It also illustrates that the incidence of migration varies according to the degree of labour market attachment: individuals with moderate and weak attachment to the labour market are substantially more likely to migrate, although those with no labour market attachment are about as likely to migrate as those with a strong labour market attachment. There is also a clear pattern between the receipt of social transfers and labour market attachment since those with strong labour market attachment were very unlikely to receive social assistance (SA) or EI in the year prior to the observation year. A majority of individuals with moderate labour market attachment received unemployment benefits, but very few received SA benefits. These individuals have generally worked sufficient weeks to qualify for EI benefits. The converse is true for those with weak labour market attachment.

In order to address the challenges of distinguishing the factors that lead to a decision to move from the decision to claim benefits, Audas and McDonald (2003) use modeling techniques that allow them to identify the impact EI has on migration decisions with a great deal of confidence. To model the decision to move, the authors assess five broad sets of factors that are likely to influence the individual's decision to move: the expected income gains from moving (based on personal characteristics, skills and experience), the financial and psychological costs of moving, the individual's degree of labour market attachment, the individual's own human capital characteristics, and the individual's experience with the EI and SA programs. To identify the effects of EI generosity on the decision to move, the

authors calculate the individual's potential EI eligibility and entitlement weeks based on the number of weeks worked and EI eligibility and entitlement rules for the region in which the individual lives. Since the period under observation spans the period before and after the change from the Unemployment Insurance to the Employment Insurance program, the authors also calculate separately the impact of the program's generosity for both periods.

Table 7 provides a summary of Audas and McDonald's (2003) results of the impact of EI on the probability of moving over the 1994 to 1999 period. In this table, the magnitude of the predicted marginal effect gives the percentage point change in the probability of moving that arises from a one percentage point change in the probability of receiving benefits.

Table 7: Selected Determinants of the Probability of Moving by Households' Highest Income Earners' Degree of Labour Market Attachment, Marginal Effects (1994–1999)

	Degree of Labour Market Attachment			
	Strong	Moderate	Weak	None
Receipt of benefits				
EI benefits	0.178	-4.001*	0.217	0.454
SA benefits	0.520	-0.934	0.062	-0.661
Program parameters				
Region unemployment rate	-0.056	0.134	0.034	-0.043
Region unemployment rate and post-1996 reform indicator	-0.012	0.054	0.086**	0.197***
Sample size	60,565	8,572	2,198	7,677

Source: Audas and McDonald (2003).

Notes: Each specification includes a full set of personal characteristics, including the workers' gender, marital status, number of children, age, education, and language, as well as their work experience, expected wage gain from moving, and local labour market conditions. The specifications also include year, region, and occupation indicator variables, as well as interactions of the occupation indicator variables with the local employment rate and employment growth rate.

The results for moderately attached individuals rely on an instrumental variable for predicted benefit receipt.

One asterisk (*) indicates statistical significance at the 10 per cent level, two asterisks (**) at the 5 per cent level, and three asterisks (***) at the 1 per cent level.

The results show that the impact of EI on workers' propensity to move is very much related to their labour force attachment. For instance, having received EI appears to reduce slightly the likelihood of moving among workers who worked between 20 to 49 weeks, but it has virtually no impact on the mobility decisions of either individuals who have worked for a full year or those who have fewer than 20 weeks of employment. Since EI rules determine eligibility and entitlement according to an individual's work experience, it is not surprising that the program's impact on individual decisions to move should differ according to individual labour market experience. What is surprising is the small size of the impact, suggesting that even among workers who were able to qualify for and receive benefits, their experience with the EI program has little bearing on their decision to move to another location.

Another way in which EI can impact an individual's decision to move is the relative generosity of the EI program in the workers' region of residence, as measured by the "EI region unemployment rate." The authors find that the inclusion of this variable by itself has little impact on the decision to move. However, when it is interacted with a post-1996

reform indicator, the authors find that the change in the relative generosity of the EI program increases the likelihood of moving among workers who were the least likely to qualify for the program — those with 20 or fewer weeks of work — in the post-reform period. One interpretation of this result is that the tighter eligibility criteria introduced in the 1996 reforms gave workers with weak labour market attachment and who consequently are the least likely to qualify for benefits a stronger incentive to move, possibly so that they could improve their chances of qualifying for EI in the future. This finding suggests that changes to EI rules will have the greatest impact on workers who are on the margins of EI's eligibility requirements and that, for these workers, increasing their insurability under the EI program may require that they move elsewhere to do so.

Lesson 5: Seasonal workers are not by definition frequent claimants of EI.

According to the latest EI Monitoring and Assessment (M&A) report, seasonal claims represented 80 per cent of all frequent claims in 2001–2002 (HRDC, 2003a). While the number of seasonal claims declined from the previous year, the number of non-seasonal claims declined even faster, resulting in seasonal frequent claims continuing their trend of comprising an even larger share of all frequent claims since the program was overhauled in 1996.

The M&A report suggests that seasonal claims may decline less rapidly than other claim types due to the fact that seasonal workers may not have the same exposure as other workers to the improving economic conditions over this period. Indeed, previous research has shown that seasonal workers tend to live in regions where employment opportunities are poorer and often lack the skills and experience that would provide them with greater flexibility in the labour market. However, with the Canadian economy becoming increasingly less dependent on traditional seasonal industries, the typically defined seasonal worker — someone who works in a particular industry that experiences annual shutdowns on a predictable basis — is becoming a historical artifact. With the decline of the share of traditional seasonal employment in the Canadian labour market, should policy makers still be concerned about the extent to which seasonal workers rely on the EI program?

This debate is the inspiration for *Seasonal Employment and Reliance on Employment Insurance: Evidence From the SLID*, by Shawn de Raaf, Costa Kapsalis, and Carole Vincent (2003). In this study, the authors contribute new insights into the relationship between seasonal work and EI by proposing a new perspective of seasonality, one that highlights the multi-dimensionality of seasonal work in Canada and allows for a better understanding of the link between seasonal work and frequent reliance on EI. Their research indicates that while typically defined seasonal work may be in decline, there are still many workers who face regular periods of unemployment on an annual basis but who may not be captured by traditional measures of seasonal work. Moreover, this study reveals that it is seasonal workers' economic circumstances and personal characteristics, rather than the seasonal nature of their work, that are key factors in explaining their degree of reliance on EI.

The study reviews the extensive literature that examines seasonal employment in the Canadian labour market. Due to the variety of definitions of seasonal work, the authors group the various measures into three broad categories: seasonal employment, seasonal unemployment, and seasonal reliance on EI. The definitions are provided in Table 8. The table shows that definitions matter, as the extensiveness of seasonality can vary greatly from

one measure to the next. For instance, estimates of seasonality vary considerably whether one looks at a sample of workers who currently hold a job (about 5 per cent of all paid workers report having a seasonal job), a sample of workers who lost their job but are not necessarily unemployed (about 15 per cent of whom report that their job loss was due to seasonal factors), or a sample of unemployed workers (about 18 per cent report that their last job was seasonal). In comparison, 20 per cent of EI beneficiaries report that their last job was seasonal. As well, most measures of the seasonality of jobs, or of job losses, are based on observations of workers at one point in time. The limitation of these cross-sectional measures is that they do not determine whether the seasonal work being observed is part of a longer-term seasonal pattern or merely a one-time occurrence.

Table 8: Comparison of Alternative Measures of Seasonality

Definition and Source	Findings
Seasonal employment	
Labour Force Survey, 2000	5.1% of all paid workers reported having a non-permanent seasonal job. Of these <ul style="list-style-type: none"> • 14.6% were under the age of 25 • 2.8% were 25 years of age or older
New Brunswick Seasonal Workers Survey, 1996	20.1% of paid and self-employed workers in New Brunswick reported having a seasonal job. Of these <ul style="list-style-type: none"> • 23.3% were male workers • 16.3% were female workers
SRUEI, 1997	57.3% of 1996 EI claimants who were working in 1997 reported having a seasonal job in that year. Of these <ul style="list-style-type: none"> • 61.6% were male frequent EI claimants • 49.9% were female frequent EI claimants • 27.6% were male occasional EI claimants • 20.1% were female occasional EI claimants
Seasonal unemployment	
Canadian Out of Employment Survey, 1995 to 1997	15.5% of all workers who experienced a job separation reported that this separation was due to seasonal factors. Of these <ul style="list-style-type: none"> • 73.0% of them expected to return to their employer (compared with 47.1% of workers reporting their job separation was not due to seasonal factors) • 52.9% of them claimed EI (the same proportion as that of workers who reported that their job separation was not due to seasonal factors)
EI Coverage Survey, 1997 to 1999	18.3% of unemployed workers reported their last job was seasonal. Of these <ul style="list-style-type: none"> • 21.6% were those under 25 years of age • 17.3% were those 25 years of age and older • 60.8% received EI benefits (compared with 53.2% of unemployed who reported that their last job was not seasonal)
Seasonal reliance on EI benefits	
EI Coverage Survey, 1997 to 1999	20.5% of EI beneficiaries reported their last job was seasonal. Of these <ul style="list-style-type: none"> • 25.1% were among those under 25 years of age • 19.9% were among those 25 years of age and older
EI M&A report, 2001 and 2002	26.7% of all EI claims were made by claimants with seasonal claim patterns. Of these, 79.0% of these claims qualified as frequent EI claims
SRUEI and EI administrative data, 1996	Approximately 15% of 1996 EI claimants have seasonal claim patterns over a six-year period from 1992 to 1997.

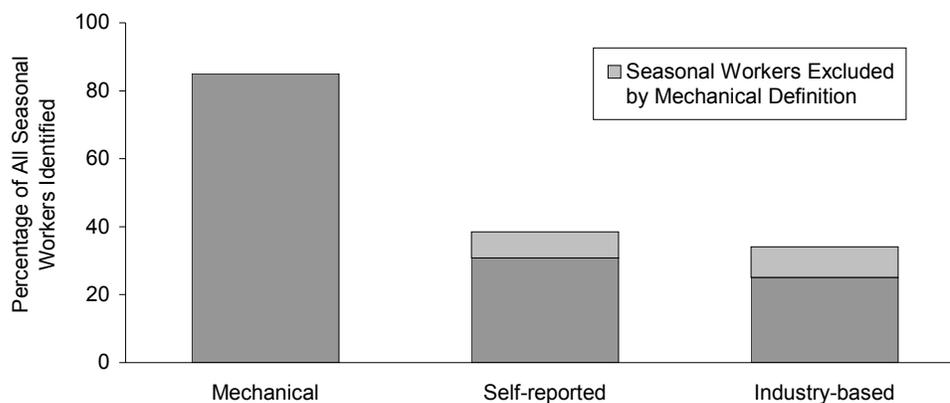
Source: de Raaf, Kapsalis, and Vincent (2003).

de Raaf, Kapsalis, and Vincent (2003) move beyond the more common measures of seasonal employment, which are based on workers’ own perceptions of the seasonal nature of their current job or their employment in a particular industry by introducing a new definition of “long-term” seasonal workers based on workers’ employment patterns over several years. To perform this analysis, the authors use data from the SLID covering the 1993 to 1998 period. In addition to its longitudinal nature, the SLID provides a unique advantage by capturing more fully workers’ labour market experiences both on and off claim. Other data sources, such as EI administrative data, are often restricted to one dimension of workers’ labour market activity (in this case, their reliance on EI over time).

The authors’ original definition of a long-term seasonal worker is based on observed employment patterns over a five-year period. Workers are classified as long-term seasonal workers if they had at least three paid periods of employment that ended within the same three-month “off-season” over the five-year period of 1993 to 1997 or 1994 to 1998. According to this “mechanical” definition, 4.4 per cent of all paid workers and self-employed fishers who were aged 18 to 65 and who were not full-time students at any point during the period of analysis are identified as long-term seasonal workers.

The authors compare this “mechanical” definition of seasonal workers with the two more traditional measures, the industry-based definition and the self-reported definition, and find that identifying seasonal workers using only the self-reporting or the industry-based definitions would have failed to capture an extensive proportion of long-term seasonal workers. According to Figure 5, the mechanical definition captures 85 per cent of all seasonal workers identified by any of the three definitions, more than double that identified by the self-reported and industry-based definitions respectively. The figure also shows that only a small proportion of claimants identified by either the self-reported and industry-based definitions were not also captured by the mechanical definition. The authors therefore conclude that relying on workers’ employment patterns appears to be a more appropriate way to identify the commonalities of workers who face recurrent seasonal breaks in employment.

Figure 5: Comparison of Methods for Identifying Long-Term Seasonal Workers



Source: de Raaf, Kapsalis, and Vincent (2003).

When the authors examine the characteristics and circumstances of long-term seasonal workers, they find that seasonal workers represent a heterogeneous group: they can be found in all regions across Canada, and a large percentage of them live in regions with relatively low levels of unemployment, which contrasts with the stereotype of seasonal claimants living in regions with poor economic conditions. When seasonal workers are examined according to their reliance on EI, the authors do indeed find a strong link between seasonality in employment and EI receipt, as 60 per cent of seasonal breaks in employment incurred by long-term seasonal workers led to the receipt of benefits as shown in Table 9.²¹

Table 9: Reliance on EI Among Long-Term Seasonal Workers (1993–1998)

	Proportion of Seasonal Jobs That Led to an EI Claim (%)	Proportion of Long-Term Seasonal Workers (%)
Degree of EI reliance following seasonal job loss		
Never relied on EI	0.0	17.3
Relied once on EI	6.7	20.2
Relied twice on EI	16.6	24.9
Relied three times on EI	37.6	37.6
Total	60.9	100.0

Source: de Raaf, Kapsalis, and Vincent (2003).

Note: “Long-term” seasonal workers are workers who experienced a job loss in the same three-month “off season” in at least three of the five years from 1993 to 1997 or 1994 to 1998.

However, the authors’ findings dispel the myth that all seasonal workers are necessarily frequent claimants. As shown in Table 9, a minority of long-term seasonal workers (37.6 per cent) received EI benefits following each of their three seasonal periods of employment and as many as 17.3 per cent of them never received benefits following any of their three seasonal periods of employment.

de Raaf, Kapsalis, and Vincent conclude that it is seasonal workers’ economic circumstances and personal characteristics, rather than the seasonal nature of their work, that appear to be key factors in explaining their degree of reliance on the EI program. As shown in Table 10, seasonal workers who consistently depend on EI following each of their seasonal job losses face significant barriers in transitioning from one job to another compared with those who do not rely on EI: they are more likely to be older, less educated, and living in regions with the poorest employment opportunities, especially the Atlantic provinces and Quebec.

²¹This result is consistent with estimates from the Employment Insurance Coverage Survey, according to which 60 per cent of unemployed seasonal workers received EI benefits from 1997 to 1999.

Table 10: Selected Characteristics of Long-Term Seasonal Workers (1993–1998)

Demographic Characteristics	Degree of Reliance on EI Following All Three Seasonal Losses				
	Entire Sample (%)	Never Relied on EI (%)	Relied Once on EI (%)	Relied Twice on EI (%)	Relied Three Times on EI (%)
Age					
Under 30 years	37.1	45.4	48.9	36.8	27.1
30 to 39 years	32.3	33.5	30.3	31.3	33.6
40 years and older	30.6	21.2	20.8	31.9	39.3
Gender					
Male	63.7	50.8	53.3	68.4	72.0
Female	36.3	49.2	46.7	31.6	28.0
Education					
High school or less	59.8	54.8	53.5	55.7	67.9
More than high school	40.2	45.2	46.5	44.3	32.1
Regional unemployment rate					
7% or less	28.8	49.3	42.5	24.5	14.9
7% to 9%	20.3	17.0	27.2	21.9	17.0
Over 9%	50.9	33.7	30.2	53.6	68.1
Marital status					
Without partner	30.4	40.0	33.4	31.3	23.8
With partner	69.6	60.0	66.6	68.7	76.2
Region					
Atlantic and Quebec	47.6	28.4	25.2	44.8	70.2
Ontario and West	52.4	71.6	74.8	55.2	29.8
Family income					
Under \$35,000	34.8	32.4	26.6	42.7	35.0
Between \$35,000 and \$60,000	37.9	40.6	33.6	34.1	41.4
\$60,000 and over	27.4	27.0	39.8	23.3	23.6

Source: de Raaf, Kapsalis, and Vincent (2003).

Note: “Long-term” seasonal workers are workers who experienced a job loss in the same three-month “off season” in at least three of the five years from 1993 to 1997 or 1994 to 1998.

Another important finding from this research is the gender disparity in EI reliance among seasonal workers. While female workers represent 36 per cent of all seasonal workers and 28 per cent of seasonal workers who rely heavily on EI, they represent as much as 50 per cent of those who do not rely on EI. Female seasonal workers may be less reliant on EI than male workers either because they are able to find new employment in the off-season or because their seasonal employment does not provide them with sufficient hours to qualify for benefits.

The authors are also able to observe what seasonal workers do when they do not claim EI after a seasonal job loss. Here, the authors’ findings show that the reason why the workers refrain from claiming EI is not necessarily that they have another job to which they can turn. Table 11 illustrates the alternatives of workers who do not rely on EI at least once following their seasonal breaks in employment. While most seasonal workers do have enough hours

over the previous year to qualify for benefits, those who never rely on EI are the least likely to have accumulated enough hours. These workers are also found to be the most likely to be working multiple jobs at the time of their seasonal job loss, the least likely to be re-employed full time in the following three months, and more likely to be re-employed part time instead. As a consequence, those seasonal workers who do not rely on EI are not necessarily doing better in the labour market.

Table 11: Alternatives to Reliance on EI Among Long-Term Seasonal Workers Who Did Not Rely on EI Following All Three of Their Seasonal Breaks (1993–1998)

	Proportion of Seasonal Job Losses			
	Entire Sample of Seasonal Job Losses Not Leading to EI (%)	Among Seasonal Workers Who Never Relied on EI (%)	Among Seasonal Workers Who Relied Once on EI (%)	Among Seasonal Workers Who Relied Twice on EI (%)
All seasonal workers who did not rely on EI following all three seasonal losses	100.0	42.0	35.3	22.7
Lower attachment to the labour market During 12 months preceding seasonal job loss, individual had fewer hours of paid work than the minimum hours requirements	21.0	27.1	15.2	18.9
Multiple job holding During the month preceding seasonal job loss, individual was a multiple job holder	29.0	35.5	28.1	18.1
Re-employment Within 3 months following seasonal job loss, individual was re-employed part time	20.2	25.0	21.5	9.3
Within 3 months following seasonal job loss, individual was re-employed full time	56.5	49.6	61.8	61.1

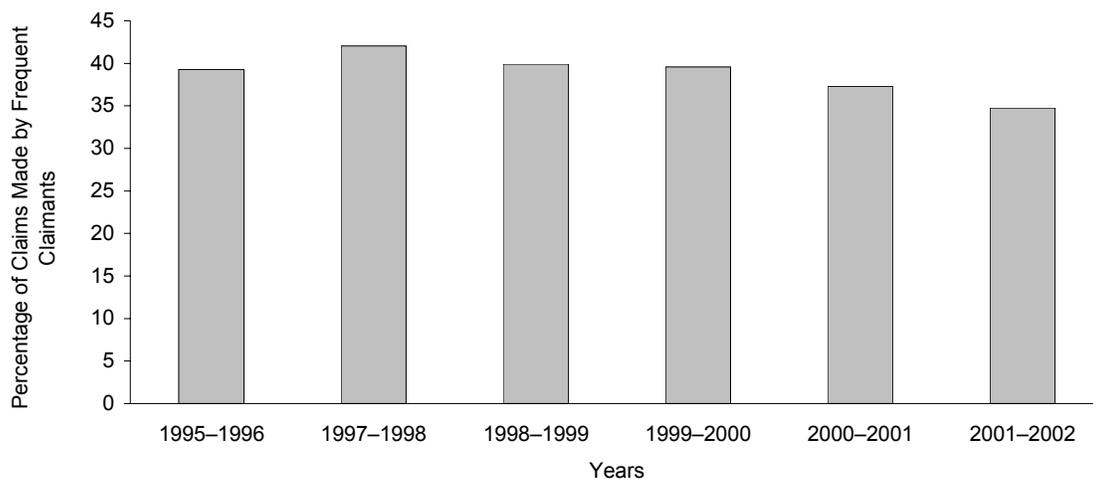
Source: de Raaf, Kapsalis, and Vincent (2003).

Note: “Long-term” seasonal workers are workers who experienced a job loss in the same three-month “off season” in at least three of the five years from 1993 to 1997 or 1994 to 1998.

Lesson 6: A minority of frequent claimants remain frequent claimants over time.

The stability of some labour market indicators often masks the dynamic nature of the phenomenon being measured. For instance, while the national unemployment rate may only vary slightly from one month to the next, a great number of people transition in and out of unemployment every month. The same observation applies to frequent reliance on EI. Annual data shows that the volume of claims made by frequent claimants has been relatively stable through time. As shown in Figure 6, the proportion of claims made by frequent claimants fluctuated between 35 and 40 per cent in the period from 1995 to 2002.

Figure 6: Proportion of EI Frequent Claimants (1995–2002)



Source: Human Resources and Development Canada (2002, 2003a).

These data provide an interesting snapshot of the proportion of frequent claimants at a particular point in time, but they do not give much information on the movements in and out of frequent reliance on EI. A common misperception is that frequent claimants represent a relatively stable group of workers who have an established pattern of claiming benefits every year over a long period of time. However, it is likely that for some individuals, being in frequent reliance on EI is only a temporary episode as they work towards gaining full-year, full-time employment, while for others, it is a pattern that is repeated over many years. Understanding what factors play a role in reducing or increasing the mobility from frequent reliance on EI is important in order to shape policies that will better respond to the needs of workers for whom recurring periods of EI reliance are their only alternative.

In *Dynamics of Reliance on EI Benefits: Evidence From the SLID*, Shawn de Raaf, Anne Motte, and Carole Vincent (2003) investigate what factors may explain why some individuals remain in a pattern of frequent reliance on EI over time while others do not. Their results support previous findings and show that specific workers' characteristics and circumstances, as well as the conditions of the local labour market in which they live, may increase the probability that they will remain in frequent reliance on EI over time. Moreover, the study reveals that characteristics typically understood to be major determinants of frequent reliance, such as gender and the part of the country in which individuals live, do not play a role in explaining their remaining reliance on EI, once past reliance is taken into account.

Using a sample of Canadian workers who had at least one work interruption in 1993 to 1998, the authors examine work and EI reliance patterns in two periods, 1993 to 1995 and 1996 to 1998. The descriptive analysis of the study reveals that the probability of remaining or transitioning into intense reliance on EI, defined as receiving benefits in at least two years out of three, varies according to various characteristics. Tables 12 to 15 show the transition probabilities matrices into and out of three degrees of reliance on EI between the two periods: non-, low, and intense reliance.

The tables indicate that only a minority of workers (one third) who received EI for at least two years in 1993 to 1995 did so again in 1996 to 1998. The other two thirds only received EI once (low reliance) or not at all (non-reliance) in the second period. Compared with all workers, women who were intense reliers between 1993 and 1995 are less likely to be intense reliers in 1996 and 1998. There are also differences in transitions according to the region in which workers live and their level of education, as living in the Atlantic provinces and having less than a high school diploma are associated with a higher probability of entering into or remaining in intense reliance compared with other workers. However, of all the characteristics analyzed, the probability of remaining in intense reliance over two periods never exceeds 50 per cent, which suggests that for a majority of claimants, being an intense relier in one period does not lead to being an intense relier in the subsequent period.

It also appears that the probability of becoming an intense relier increases with the number of years the individual received EI in the previous period, suggesting that past reliance may be associated with future reliance on EI. For instance, individuals who were in non-reliance in 1993 to 1995 have much lower probability of entering in intense reliance on EI in 1996 to 1998, compared with that of low and intense reliers. This finding echoes results from previous research, which show that past receipt of EI benefits may increase an individual's probability to receive benefits again in the future. For instance, Lemieux and MacLeod (1995) find that over the 1972 to 1992 period, first exposure to the program increases the probability of claiming again in the future by about 10 percentage points over a three-year period or at least by 3 to 4 percentage points a year, suggesting the existence of what Lemieux and MacLeod call a "learning effect."

Table 12: Probability Matrix of Transitions Between Three Degrees of Reliance on EI, All Workers (1993–1998)

		Reliance in period 1996 to 1998		
		Non-	Low	Intense
Reliance in period 1993 to 1995	Non-	71.7%	24.0%	4.3%
	Low	68.3%	21.5%	10.2%
	Intense	37.5%	28.1%	34.4%

Source: de Raaf, Motte, and Vincent (2003).

Table 13: Probability Matrix of Transitions Between Three Degrees of Reliance on EI, Female Workers (1993–1998)

		Reliance in period 1996 to 1998		
		Non-	Low	Intense
Reliance in period 1993 to 1995	Non-	73.2%	23.7%	3.1%
	Low	72.2%	20.3%	7.5%
	Intense	42.8%	29.5%	27.7%

Source: de Raaf, Motte, and Vincent (2003).

Table 14: Probability Matrix of Transitions Between Three Degrees of Reliance on EI, Workers Living in the Atlantic Provinces (1993–1998)

		Reliance in period 1996 to 1998		
		Non-	Low	Intense
Reliance in period 1993 to 1995	Non-	61.8%	26.7%	11.5%
	Low	55.2%	22.3%	22.5%
	Intense	26.2%	24.1%	49.7%

Source: de Raaf, Motte, and Vincent (2003).

Table 15: Probability Matrix of Transitions Between Three Degrees of Reliance on EI, Individuals With Less Than a High School Diploma (1993–1998)

		Reliance in period 1996 to 1998		
		Non-	Low	Intense
Reliance in period 1993 to 1995	Non-	59.1%	33.0%	7.9%
	Low	64.5%	20.6%	14.9%
	Intense	27.5%	31.5%	41.0%

Source: de Raaf, Motte, and Vincent (2003).

To better understand transitions into and out of intense reliance, the authors first analyze the factors that contribute to a worker being an intense relier in the first period (1993–1995) using a standard probit specification, and then, conditioning on past reliance, examine the factors that contribute to a worker being an intense relier again in the following period

(1996–1998). The econometric model allows for correlation between the two periods of observation with the implicit assumption that past experience may have an impact on future experience. Table 16 presents the estimation results.

Table 16: Selected Determinants of Intense Reliance on EI, Marginal Effects (1993–1998)

	Intense Relier 1993–1995	Intense Reliance in 1996–1998	
		Intense Relier 1993–1995	Not Intense Relier 1993–1995
Average EI region unemployment rate	0.003**	0.027***	0.006***
Sector of occupation			
Primary industries	0.104***	0.266***	0.105***
Trades, transport, and construction	0.093***	0.234***	0.058***
Processing industries	0.069***	0.127*	0.067***
Administration and sciences	-0.011	0.144*	-0.001
Sales and services	–	–	–
Occupation not reported	-0.061***	0.009	-0.047***
Worked less than 1365 hours	0.099***	0.088*	0.035***
Educational attainment			
Less than high school	0.054***	0.158***	0.024*
High school graduate	0.011	0.032	0.006
Post-secondary education	–	–	–
Region of residence			
Atlantic	0.071***	0.027	0.051***
Quebec	0.005	-0.077	0.011
Ontario and West	–	–	–
Living in rural area	0.024**	0.082*	0.002
Female	-0.079***	-0.053	0.002
Other characteristics			
Home ownership	0.026*	0.064	0.014
Non-individual income ($\pm 1,000$)	-0.001**	-0.004***	0.000
Member of a union	0.036***	0.075	0.016
Change in household composition	-0.023**	-0.005	-0.012
Female living with a partner	0.063**	0.138	-0.017
Observed probability	0.129	0.347	0.063
Predicted probability	0.087	0.332	0.047
Correlation between periods (ρ)	n.a.	0.522**	-0.205

Source: de Raaf, Motte, and Vincent (2003).

Notes: To control for other characteristics, the estimations also include information on age, age squared, mother tongue, as well as some instrumental variables to control for the initial selection into intense reliance.

One asterisk (*) indicates statistical significance at the 10 per cent level, two asterisks (**) at the 5 per cent level, and three asterisks (***) at the 1 per cent level.

The first column of Table 16 identifies the set of characteristics that are related to being in intense reliance on EI, without taking into account past reliance. According to this specification, individual characteristics and claimants' local labour market conditions play an important role in explaining their reliance on EI. For instance, being a female is associated with a lower probability of being an intense relier in 1993 to 1995. On the other hand, having

less than a high school education, working in some specific occupational sectors, and living in the Atlantic provinces or in a region with a high unemployment rate all have a positive impact on the probability of being in intense reliance in that period. These findings are consistent with previous analyses. For example, Schwartz et al. (2001) showed in their analysis based on the SRUEI that on average frequent claimants were more likely to be male, had a lower education level, lived in Eastern Canada, and worked in primary and construction industries.

The second and third columns of Table 16 give the estimation results on claimants' probability of being in intense reliance on EI in 1996 to 1998, conditioning on their reliance in 1993 to 1995. For individuals who were in intense reliance in the first period, a number of characteristics related to individuals' work and regional labour market conditions have a strong impact on the probability of remaining in intense reliance. For instance, every percentage point increase of the regional unemployment rate above the average increases the probability of remaining in intense reliance by 2.7 percentage points. The impact of working in some occupational sectors, such as primary industries or in trades, transport, and construction, is even stronger when compared with working in the sector of sales and services, ranging between 12.7 and 26.6 percentage points. It is interesting to note that these characteristics also have an impact on the probability of entering into intense reliance. In addition, having less than a high school diploma has a significant and positive impact on the probability of remaining or entering into intense reliance, regardless of the individual's degree of reliance on EI in the first period.

The most striking result is that once past reliance on EI is accounted for, some of the most commonly identified factors of frequent reliance do not contribute to a worker remaining dependent on EI in the longer term. In particular, being a female or living in the Atlantic provinces has no significant impact either on the probability of remaining in intense reliance over two periods or on the probability of entering intense reliance. In other words, once past reliance is taken into account, gender and province of residence have no direct bearing on whether frequent claimants will repeat their claim pattern in the future and remain dependent on EI over a longer period of time. Instead, longer term EI reliance appears to be very much related to workers' employment opportunities due to their education, occupation and the conditions of their local labour market.

Key Principles of the EI Program

The six lessons presented in the previous chapter lead to the general conclusion that workers' frequent reliance on Employment Insurance (EI) should not be viewed simply as a problem of workers becoming familiar with the program and learning how to benefit from its rules and provisions; rather in many cases it is a symptom of their difficulties in finding year-round employment due to inadequate skills, insufficient education or limited job opportunities offered by the firms in their region. The lessons also caution against concluding that non-reliance necessarily reflects better labour market outcomes for workers who do not claim EI; for many of these workers, their non-reliance on EI is a symptom of sometimes even more severe circumstances reflecting the barriers they face to year-round employment and their ineligibility for receiving benefits because of their particular work schedule.

To some extent, the EI program itself is part of the problem of frequent reliance, as its specific rules and provisions give rise to disincentives that actually reward workers and employers for adopting certain behaviours that lead to EI reliance. Throughout the history of the program, there has been considerable debate about whether benefits should be provided to workers who have work patterns that put them at greater risk of annual periods of unemployment and consequently must rely on benefits on a frequent basis. Based heavily on insurance principles, the original *Unemployment Insurance Act* of 1940 was intended only for workers who had unpredictable periods of unemployment. However, the history of the Unemployment Insurance (UI) program illustrates that legislators have struggled to balance these original principles with the need for a more encompassing program, one that provides extended coverage and greater financial support to the unemployed.

To protect the rights and benefits of other workers in year-round employment and keep the program actuarially sound, the original *UI Act* imposed special conditions on workers in seasonal industries who experienced annual layoffs during the winter months. However, these seasonal regulations were gradually curtailed with incremental changes to the UI program over its first 15 years that culminated in the 1955 consolidated *UI Act*, which eased eligibility requirements, increased benefit levels, and introduced a separate benefit for seasonal workers. The expanded UI program was given a broader mandate to meet the needs of working Canadians not originally covered by the first *UI Act*, allowing the government to pursue a more ambitious income support agenda.

The relaxation of UI's insurance principles sparked the beginning of a never-ending debate over UI's coverage of work patterns that lead to frequent reliance on UI benefits. In 1961 the federal government commissioned the first fundamental study of the UI program, the mandate of which included a review of the program's seasonal employment provisions. The committee of inquiry, known as the Gill Committee, recommended that special regulations be introduced to disqualify claimants who made repeated claims at the same time every year, with seasonal workers and workers in regions with high unemployment receiving income supplements outside the UI program. Despite these recommendations, UI was changed only incrementally over the course of the decade, the government waiting until 1971 before undertaking a complete overhaul of the program.

The more generous eligibility rules of the 1971 *UI Act* treated seasonal workers the same as other eligible claimants but provided additional regulatory power to the UI Commission to restrict the amount or period of benefits to seasonal workers. The Act also introduced a new benefit structure that varied according to both regional and national economic conditions and claimants' degree of attachment to the labour market. Therefore seasonal workers and other claimant were treated the same *de jure*, but *de facto* they would typically face different schedules of benefit entitlements.

In 1978 the *UI Act* was amended again to incorporate a special entrance requirement for frequent claimants, whereby claimants who were receiving benefits for an extended period were required to work up to six weeks longer than their normal entrance requirement before regaining eligibility for more benefits. However, claimants in regions with an unemployment rate exceeding 11.5 per cent were exempted from this rule.

Over the course of the 1980s, several commissions examined the issue of frequent reliance on UI benefits and suggested alternate ways to address what was considered to be a persistent yet unaccounted for problem within UI's eligibility and entitlement rules. In 1985 the MacDonald Commission severely criticized the UI program, arguing that UI supported temporary and unstable work in high-unemployment regions and too generously rewarded repeated benefit claims. The Commission recommended a return to an insurance-based system with lower benefits and higher qualifying criteria, the elimination of regional benefits, and the introduction of experience rating of premiums paid by employers. It also recommended the creation of an income supplementation program for low-income individuals.

The Forget Commission, created in 1985, concurred with the MacDonald Commission, arguing that the existing UI program discouraged long-term stable employment and should instead refocus on insurance-based income protection. It also agreed that regional extended benefits should be replaced with new programs that would support low-income individuals and families. The 1986 Newfoundland and Labrador Royal Commission on Employment and Unemployment further reinforced the Forget Commission's recommendations. One exception in this series of reports was the 1987 Hawkes Report, which opted for reform within the existing UI framework. It recommended the extension of benefits for long-term unemployed claimants and claimants living in regions with high unemployment. It also recommended eliminating the higher entrance requirements applicable to new entrants and re-entrants in the labour market, introduced in 1979.

Lack of political consensus, deteriorating economic conditions, and record-level claims prevented the government from proceeding with any substantive reforms to UI in the wake of these comprehensive reviews of the program. In 1989 some changes were introduced, including a new benefit system that linked the required number of weeks of work to the regional unemployment rate and eliminated the additional six-week frequent claimant provision. The new legislation also effectively maintained the status quo with regard to UI's insurance principles while expanding the program's active employment measures by giving greater emphasis on provisions for training, self-employment, and re-employment assistance.

In 1994 the federal government issued a report on social security reform that attempted to address the steady growth of structural unemployment and dependence on UI (HRDC, 1994). In this report, the government admitted that the large proportion of frequent claimants among all claimants was perfectly legitimate given the program's eligibility rules, but they argued that the program had become for many workers an annual income supplementation system, not an insurance program. The report proposed two different approaches to UI reform. The first approach entailed splitting the program into two regimes whereby occasional and frequent claimants would be offered different packages of benefits, with frequent claimants receiving less generous benefits and more active re-employment assistance services. The second approach would maintain the existing system while tightening eligibility requirements and reducing benefit amounts and durations. In addition, regional variances in benefit levels would also be eliminated to decrease the duration and incidence of unemployment in regions with high unemployment rates. The report also made a number of suggestions to discourage frequent reliance on UI benefits, including options for reducing the level of benefits according to the claimant's UI history.

In 1996 the EI program was introduced. One of the reform's main objectives was to foster greater independence and self-sufficiency among frequent claimants. EI separated benefits under a new financing scheme: Part I benefits provided temporary income support, and Part II benefits provided direct assistance to the unemployed through various Employment Benefit and Support Measures (EBSM) delivered by the provinces. The program was changed from a weeks-based to an hours-based system, and the EI program continued the process begun in the early 1990s of finding new methods to limit frequent and systematic recourse to benefits. In this vein, EI included two provisions aimed at frequent claimants: the intensity rule, whereby benefits were slightly reduced based on claim history, and the new clawback schedule, whereby higher-income claimants were required to pay back a portion of their benefits with a separate lower income threshold and higher clawback rate for frequent claimants. However, these provisions were repealed in 2000 as they were seen as having little effect on curtailing frequent reliance (HRDC, 2002a, p. 13).

This long history has led to a program that is designed to achieve a number of different objectives in the benefits and supports it provides to workers. It has also led to a program that employs a complex set of rules in order to determine claimants' eligibility and amount of benefits they are entitled to receive. Today, EI rules are designed to reflect claimants' degree of attachment to the labour market, their earnings, and the regional labour market conditions they face. Taken together, these rules may seem very complicated, especially to the uninitiated. However, it is possible to move beyond the specifics of the rules and identify five underlying principles for determining eligibility for and entitlement to regular benefits. Through this exercise, priorities for further research on EI and areas for improvement within the current EI program can be identified.

Principle 1: Labour market attachment remains the cornerstone of EI rules.

When determining eligibility and the level of regular EI benefits received, the EI program places heavy emphasis on the work experience of individuals who become unemployed. It indemnifies claimants by the extent to which they have worked in the past, measured both in terms of hours and weeks of work over a period that can span up to two years. In order to be deemed eligible for regular benefits, individuals must have worked a minimum number of hours in the 52-week qualifying period that precedes the date they became unemployed. Claimants who started a claim within this period must have worked a minimum number of hours since the start date of that previous claim in order to qualify again for benefits.

A simple rule of thumb is that all individuals who have worked at least 910 hours in the year that precedes the date they lost their job are eligible for regular benefits, no matter where they live. Individuals who have worked fewer than 910 hours yet meet the minimum entrance requirements have the added obligation of demonstrating that they have been attached to the labour market in a significant way over the past two years. These workers must have been participants to the labour market for at least 490 hours in the year preceding the 52-week qualifying period (this can include combinations of periods of employment and EI receipt). This rule ensures that all new entrants and re-entrants to the labour market, with the exception of parents who left the labour market to take care of their children, must work at least 910 hours, or 6 months at an average of 35 hours per week, over the past year before they are able to claim EI. Workers who are not entrants or re-entrants to the labour market are not subject to this higher requirement of 910 hours.

Principle 2: Flexible entrance requirements reflect local employment opportunities.

EI rules attempt to respond to fluctuations in job opportunities for unemployed Canadians. The program has flexible entry requirements where the minimum number of hours required to qualify for benefits depends on the unemployment rate in the individual's region of residence. As shown in Table 17, this minimum requirement ranges from 420 hours to 700 hours; the higher the regional rate of unemployment, the lower the number of hours required for claimants to be eligible for benefits. (For illustration purposes, the eligibility requirements are also presented in terms of weeks of work assuming 35 hours of work per week). Additionally, the minimum number of weeks of entitlement ranges from 14 weeks in regions where the labour market conditions are good and unemployment is low to 32 weeks in regions with the highest unemployment rates. The maximum number of weeks of entitlement also varies by region from 36 to 45 weeks.

Table 17: Eligibility and Entitlement Rules for Regular EI Benefit Receipt (2003)

Regional Rate of Unemployment	Required Number of Hours of Insurable Employment in the Last 52 Weeks		Minimum Number of Weeks of Benefits Payable	Maximum Number of Weeks of Benefits Payable	Minimum Divisor (Number of Weeks)
	Number of Hours	Number of Hours/ Week			
0% to 6%	700	20 weeks at 35 hours/week	14	36	22
6.1% to 7%	665	19 weeks at 35 hours/week	15	38	21
7.1% to 8%	630	18 weeks at 35 hours/week	17	40	20
8.1% to 9%	595	17 weeks at 35 hours/week	18	42	19
9.1% to 10%	560	16 weeks at 35 hours/week	20	44	18
10.1% to 11%	525	15 weeks at 35 hours/week	21	45	17
11.1% to 12%	490	14 weeks at 35 hours/week	23	45	16
12.1% to 13%	455	13 weeks at 35 hours/week	24	45	15
13.1% to 14%	420	12 weeks at 35 hours/week	26	45	14
14.1% to 15%	420	12 weeks at 35 hours/week	28	45	14
15.1% to 16%	420	12 weeks at 35 hours/week	30	45	14
16.1% and over	420	12 weeks at 35 hours/week	32	45	14

Source: *Employment Insurance Act.*

Principle 3: The weekly benefit that a claimant receives is mostly determined by the level of individual earnings.

The current EI program is often referred to as an hours-based system. Indeed, the number of hours worked over the past 12 months determines if the individual is eligible for EI and for how long. But this is where the hours-based system ends as entitlement calculations are weeks-based. The number of weeks worked and the amount of income earned over the past six months determines the weekly benefits the individual will receive, as the amount depends on the individual's average weekly earnings. To calculate average weekly earnings, earnings received during the 26 weeks preceding unemployment are divided by the number of weeks worked during that period. The amount of weekly benefits paid to the individual is then equal to 55 per cent of average weekly earnings. Since the EI program insures income from work up to a maximum of \$39,000 per year (or \$750 per week), weekly benefits cannot exceed \$413 per week.

There are two variations in the way average weekly earnings are calculated. First, under the small weeks provision, weeks of work with earnings of less than \$150 are excluded for the purpose of calculating claimants' average weekly earnings. This provision is intended to encourage workers to accept all available jobs during their qualifying period without adversely affecting their future weekly benefits. Second, once small weeks are excluded, earnings received during the six months preceding unemployment are divided either by the number of weeks actually worked during this period or by the number of weeks given by the region's minimum divisor rule, whichever is greater. The divisor rule (shown in Table 17) encourages individuals to work longer before making a claim; if they work two weeks more than the minimum entrance requirement applicable to their region of residence, their weekly benefits are maximized. For claimants who work fewer weeks than the divisor, this provision effectively lowers their average weekly earnings used in the calculation of their benefits, resulting in lower weekly benefits. According to the 2001 EI Monitoring and Assessment

Report, the proportion of claimants whose benefits were reduced as a result of the divisor rule was only 3.4 per cent in 2000–2001 (HRDC, 2002a, p. 18).

Claimants' earnings also come into play in the way income from EI and from other sources can be combined. Under the benefit repayment provision, when a claimant's net income (i.e. the sum of all income that is potentially subject to tax minus such deductions as union dues, contributions to Registered Retirement Savings Plans (RRSPs), or child care expenses) exceeds \$48,750 in a given year, the claimant is required to repay 30 per cent of the amount of regular benefits received in that year, or the amount by which the claimant's net income exceeds \$48,750, whichever is lower. Another area where earnings influence benefit receipt is under the terms of the allowable earnings provision (explained earlier), where individuals are permitted to earn up to 25 per cent of their weekly benefit while on a claim (or \$50 per week, whichever is higher) without seeing their benefits clawed back.

Principle 4: The financial circumstances of the claimant's household are recognized by EI rules in a limited fashion.

To some extent, EI entitlement rules reflect households' financial circumstances through the family supplement provision, under which additional benefits are available for claimants in low-income families who receive payments under the Canada Child Tax Benefit (CCTB). For these claimants, the earnings replacement rate could reach more than 55 per cent, although restrictions apply that limit this rate to a maximum of 80 per cent, with maximum weekly benefits of \$413. Claimants who have at least one dependent child qualify for this supplement if their net family income is \$25,921 or less, which corresponds to the income threshold under which low-income families would receive the National Child Benefit supplement in 1998. One limitation of the EI family supplement that can be seen in Table 18 is that its parameters have not kept pace with the enrichment of the CCTB over the years.

Table 18: Comparison of the EI Family Supplement and the Canada Child Tax Benefit, One-Child Family (1998 and 2002–2003)

Program Parameters	1998			July 2002–June 2003		
	EI Family Supplement	National Child Benefit	Canada Child Benefit (Base Benefit Only)	EI Family Supplement	National Child Benefit	Canada Child Benefit (Base Benefit Only)
Maximum benefit						
Income threshold	\$20,921	\$20,921	\$25,921	\$20,921	\$22,397	\$32,960
Weekly benefit	\$31.30	\$31.25	\$19.61	\$31.30	\$41.54	\$22.13
Exhaustion of benefit						
Income threshold	\$25,921	\$25,921	\$66,700	\$25,921	\$32,960	\$79,000
Weekly benefit	\$0	\$19.61	\$0	\$0	\$22.13	\$0

Sources: *Employment Insurance Act* and Canada Customs and Revenue Agency.

Note: The amounts of weekly benefits reported for the National Child Benefit supplement include the CCTB base benefit. Weekly benefits do not include the supplement for a child under the age of seven.

Principle 5: Past use of the EI program is virtually no longer accounted for.

Since provisions related to frequent recourse to EI were repealed in 2001 (and were made retroactive to 2000), individuals' historical degree of reliance on the EI program no longer has an impact on EI eligibility and entitlement. The only exception is that first-time claimants, defined as individuals who have received less than one week of regular benefits over the past 10 years, are now exempt from the benefit repayment provision under which higher-income claimants are required to repay a portion of the benefits they received.

Priorities for Future Research and Possible Interventions

The previous section highlighted the underlying principles of the current Employment Insurance (EI) program. These principles are embodied in the various rules and provisions of the program, which have evolved over time to account for the workers' experiences in the Canadian labour market. Despite the many reforms over the years, the key determining factors of the extent to which the EI program insures claimants' earnings remain the region in which they live and their degree of attachment to the labour market.

There is a common perception that every hour of employment is now covered by EI because the program is hours-based and therefore does not exclude any paid employment.²² However, the specific way workers' labour market attachment is recognized by EI does not imply a neutral treatment of different types of employment, as shown in Figure 7.

Figure 7: Regular Benefit Entitlement Schedule in Selected EI Regions (2003)



Source: Authors' calculations based on Schedule I of the *Employment Insurance Act*.

This figure illustrates EI eligibility and entitlement rules (as presented in Table 17 in the previous section) and shows the extent to which EI compensates hours of work in three typical regions: one where the unemployment rate is less than 6 per cent and the duration of

²²Under the previous UI legislation, only jobs of more than 15 hours per week were insurable and potentially covered. See Sweetman (2000) for an analysis of the impact of EI on workers working less than 15 hours per week.

benefits varies from 14 to 36 weeks depending on hours worked; one where the unemployment rate is greater than 10 per cent but no greater than 11 per cent and duration of benefits vary from 21 to 45 weeks; and one where the unemployment rate is greater than 16 per cent and duration of benefits vary from 32 to 45 weeks. EI compensation rates for each hour of work in the claimant's qualifying period are calculated as the ratio of maximum weeks of benefit per hour worked.²³

One of the most notable features of Figure 7 is the substantial difference in the extent to which EI insures a particular hour of work according to unemployment rate in the claimant's region of residence. Claimants who live in regions with high unemployment rates not only qualify for benefits with fewer hours of work, but they also receive three times the entitlement that can be received by claimants who qualify for benefits at the minimum threshold in low unemployment rate regions. At 420 hours of work, claimants in high unemployment regions can receive up to 0.076 weeks of benefit per hour worked, while at 700 hours of work, claimants in low unemployment regions can receive only 0.02 weeks of benefit per hour worked. This variation in compensation reflects the fact that EI takes into account the employment opportunities available in claimants' region of residence in two distinct ways: through variable entrance requirements and through variable benefit periods.

A lesser-known aspect of the EI program that is illustrated by Figure 7 is the extent to which EI compensation patterns differ as claimants work more hours within each region. In low unemployment regions, the ratio of weeks of benefit for every hour of work does not vary to any great extent as hours worked increase. In high-unemployment-rate regions, however, the compensation rate changes quite drastically as the claimant accumulates more hours of work. Beginning at its high point of 0.076 weeks of benefit for every hour worked, it consistently declines with each additional hour of work to its low point of 0.024 weeks of benefit per hour of work, one third of its original value. Therefore, the EI entitlement schedule may serve as a discouragement to pursue further work opportunities as every additional hour of work is compensated at a lower rate, particularly for claimants who live in regions with higher unemployment rates.

Moreover, because of the way EI weekly amounts are calculated, claimants' particular work schedules — not just the total number of hours they work — very much play a role in the amount of benefits they receive from EI. Claimants who work on average more hours per week receive a higher amount of benefits than those who work the same number of hours in their qualifying period, but over a longer period. The weekly amount of benefits that claimants are entitled to is generally determined by applying the earnings replacement rate of 55 per cent to average weekly earnings over the 26 weeks preceding job loss. A claimant who receives higher average earnings will thus be entitled to higher weekly benefit amounts throughout the entire duration of the claim.

This feature of the EI program reflects the principle that financial support provided to the unemployed should be to some extent related to their "usual" earnings and thus helps maintain their standard of living while they are searching for work. However, the financial

²³For example, in lowest unemployment regions claimants with 700 hours of work are entitled to up to 14 weeks of benefits, claimants with 770 hours of work are entitled to up to 15 weeks of benefits, and claimants with 840 hours of work are entitled to up to 16 weeks of benefits, with corresponding compensation rates of 0.02 (14 weeks divided by 700 hours), 0.0195 (15 weeks divided by 770 hours), and 0.0190 (16 weeks divided by 840 hours). See EI Schedule 1 of the *EI Act* at www.hrdc.gc.ca/ae-ei/loi-law/ei_act_sched_1.shtml.

advantage provided to claimants who work more hours in fewer weeks can be quite substantial, as is shown in Table 19.

Table 19: Maximum EI Entitlement According to Claimants' Work Schedule (2003)

	Work Schedule			EI Entitlement		
	Weeks	Hours/Week	Total Hours Worked	Weekly Benefit (\$10/ hour)	Maximum Number of Weeks of Benefits ^a	Total Amount of Benefits
Worker 1	15	35	525	\$169.85	21	\$3,566.85
Worker 2	35	15	525	\$82.50	21	\$1,732.50
Difference in entitlement				\$87.35	0	\$1,834.35

Source: Authors' calculations.

Note: ^aMaximum number of weeks of benefit corresponding to an EI region with an unemployment rate that is higher than 10 per cent and lower than 11 per cent.

The table illustrates the difference in EI entitlement for two workers living in a region with an unemployment rate between 10 and 11 per cent who receive the same hourly wage and work the same number of hours but in a different number of weeks. Since the first worker has higher average weekly earnings, the worker's weekly benefit would be substantially higher (\$87.35 more per week), resulting in a \$1,834.35 difference in entitlement between the two workers (assuming that benefits are received for the entire duration period). Thus, the EI program insures to a lesser extent the earnings of workers who work fewer hours per week, even though they meet the eligibility requirements in their region and have paid the same amount of EI premiums as the amount paid by workers who work the same amount of hours but in fewer weeks.

Since the EI program is only partially hours-based and does not compensate every hour worked in the same way across and within EI regions, it creates various incentives and disincentives for workers to alter their behaviour according to the parameters of the program. Claimants with the most flexibility in their work pattern will therefore be in better position to benefit the most from EI rules. As shown in research by Gray and de Raaf (2003), an example of this disparity is reflected in the way different claimants make use of the provision that allows them to work while on a claim. Since weekly benefits are clawed back dollar-for-dollar when earnings exceed a certain threshold and only weeks in which benefits are completely clawed back can be claimed at a later time, the allowable earnings provision is giving claimants the adverse incentive not to accept work unless they can completely offset their benefits in a particular week. Again, hours of work while on claim are not all treated the same since some work is given a preferential treatment due to the benefit postponement proviso.

Finally, because minimum eligibility criteria are based on absolute number of hours over the past year, workers who hold a regular pattern of part-time work may never be able to qualify for EI should they lose their jobs, even though they have maintained this pattern over many years. Research by de Raaf, Kapsalis, and Vincent (2003) has shown that 20 per cent of long-term seasonal workers never rely on EI after any of their job losses. These workers are more likely to be younger, female, and living in regions with relatively good employment opportunities. They are also more likely to be in precarious employment that does not provide them with sufficient hours to qualify for benefits.

EI coverage may become a more pressing issue as an increasing number of Canadians are in non-standard work. According to a recent study, 26 per cent of employees had either a temporary or a part-time job (or both) in 2002 compared with 21 per cent in 1989 (Vosko, Zukewich, and Cranford, 2003). The percentage of employees who have temporary jobs (either full-time or part-time) rose from 8 per cent in 1989 to 13 per cent in 2002. The study found that women in particular are much more likely to be working part time: in 2002, 1 in 4 employed women had a part-time status compared with 1 in 10 men. Among employees who have temporary jobs, 50 per cent of women were working part time in 2002 compared to 31 per cent of men.

To examine how the program can better reflect the realities of today's labour market, different modifications to EI rules could be assessed. One approach that could be considered would consist of an eligibility and entitlement schedule that compensates workers for every hour they work, not just the work they do above a minimum threshold. Some recognition of differences in regional employment opportunities could be maintained but a different set of parameters could be investigated, with the objective of reducing the work disincentives embodied in the current EI regime.

Modifications to the "working while on claim" provision could also be tested to evaluate how it can provide greater incentives to work for all claimants. One option could be to allow claimants to defer any weekly benefits that are clawed back due to earnings until the end of their entitlement period, instead of limiting deferment to only those benefits in weeks during which no benefits were paid. This option would enhance fairness by extending to any claimant who finds part-time work what is already available to claimants who earn enough to completely offset their weekly benefits. In addition, it could potentially remove any disincentives to accept part-time work, giving claimants the opportunity to retain stronger attachment to the labour market as they work towards full-year, full-time employment. Another option is to modify the no benefit claw-back earnings limit beyond its current 25 per cent (maximum \$50) threshold, thereby encouraging claimants to accept more employment opportunities.

A thorough evaluation of these options would allow researchers and policy-makers to identify the extent to which claimants respond to changes in EI's incentives, apart from any differences in their relative opportunities in the labour market. The evaluative success of any of these modifications would rest on their ability to ensure that EI rules better reflect the realities of all Canadian workers who are insured by the EI program without creating any further disincentives for claimants to work. However, it is impossible to fully understand the labour market consequences of EI reliance without investigating the role of firms in EI behaviour, since past research has provided evidence that firms take EI rules into account in their layoff decisions and that some of the consequences of EI rules often attributed to individual behaviour reflect to some degree the demand side of the market.

Recent research by Corak and Chen (2003) offers an opportunity to revisit the demand side of unemployment and reliance on EI benefits. Their main results indicate that firms' individual characteristics are twice as important as the industry or the province in which they operate in explaining whether or not they were net beneficiaries of or net contributors to the program. The study points to some firms' characteristics (e.g. the firm's size or the seasonal nature of their layoffs) that may play an important role in explaining cross-subsidization patterns through the EI program and suggests that a more disaggregated indicator of

geographical location — at a finer level than the broad provincial level — could contribute further insights from their analysis. This research provides an important contribution by raising the importance of identifying specific practices that differentiate firms in the extent to which they are subsidized through EI in such a way that incentives could be tested to determine what motivates firms to adopt these practices.

A helpful resource for acquiring more knowledge about the relationship between the practices of firms and their employees' EI reliance is Statistics Canada's Workplace and Employee Survey (WES). The WES captures data on both firms and their employees; data collection includes information on employment practices, work organization, training activities, business performance, employees' use of technology, and a wide range of employees' individual circumstances and characteristics. This survey is longitudinal and follows the same firms over a period of six years and three different cohorts of firms' employees over a period two years. Because the WES does not document the employees' EI reliance, data from the WES would need to be combined with administrative data, taxation data or data from the Longitudinal Employment Analysis Program (LEAP), a database on payroll and employment collected at the firm level.

Using data from the WES, a recent study by Turcotte, Leonard, and Montmarquette (2003) analyzes the incidence of training in different types of firms and finds that as the size of the firm increases, the probability of receiving training increases, but the proportion of employees that receive training diminishes. They also show that workers who receive training are more likely to be permanent as opposed to temporary workers. Their results illustrate that the impact of firm-level incentives, such as those designed to encourage firm-sponsored training, may very well differ depending on the characteristics of the firm, stressing the need for more in-depth analysis of the relationship between firm's practices and employees' labour market outcomes before new policies are implemented.

In addition to exploiting existing research tools, the development of new instruments such as a special survey or pilot projects may be required to identify firms' human resource practices that are likely to increase work opportunities and thus reduce reliance on EI for their employees who are not employed year round. One option would be to test the effectiveness of EI premium reductions to encourage firms to change their practices. This type of incentive could be modeled on the existing EI Premium Reduction Program, which has been in place since 1971. Under this program, employers pay lower EI premiums if they provide a qualified short-term disability plan for their employees who would therefore be less likely to rely on EI should they become sick. The program requires that the employer's plan satisfy certain standards so that coverage is at least equivalent to the one offered by the EI program. This program reduces premiums on 60 per cent of all EI insurable earnings in Canada.²⁴

In 1994 the proposal of EI premium reductions for firms that provide training to their employees was part of the many recommendations that gave rise to the 1996 EI reform (HRDC, 1994). However, possibly due to a lack of evidence on the impact of training on EI reliance, this recommendation was never implemented. The lessons learned from this research strongly suggest that the impact of various incentives to encourage "best practices"

²⁴See www.hrdc-drhc.gc.ca/prp-prtc for a description of the EI Premium Reduction Program.

among firms should be further explored, as these practices can play a major role in reducing employees' reliance on EI.

Another key lesson learned from research is that it is the characteristics and circumstances of claimants rather than the region in which they live, the seasonal nature of their employment, or the type of industry in which they work, that serve as more meaningful indicators of their likely reliance on EI. Therefore, policy interventions aimed at improving the situation of all workers who are unable to find stable, year-round employment may be more effective than policies that focus more narrowly on addressing the needs of those who rely frequently on EI. One of the main barriers that workers face is the lack of skills and education that would give them the flexibility they need to avoid frequent periods of unemployment. According to Statistics Canada data, individuals with more than a high school education experienced employment growth over the 1990 to 1998 period, while the employment of individuals with a high school diploma remained relatively stable and the employment of those with less than a high school diploma in fact declined (HRDC, 2002b).

Recent research by de Raaf, Motte, and Vincent (2003) shows that workers with less than a high school education are also the most likely of all claimants to remain reliant on EI in the long term. Research by de Raaf, Kapsalis, and Vincent (2003) shows that long-term seasonal workers who had no more than a high school education were the most likely of all seasonal workers to receive benefits after all three of their observed seasonal job breaks. For this reason, provisions to discourage frequent reliance on EI through broad-based disincentives (for example, the intensity rule or incentives such as that tested in the Earnings Supplement Project) have proven ineffective: they failed to address the individual barriers to employment faced by unemployed workers who have come to rely on EI year after year. Moreover, policies that focus narrowly on reducing EI reliance would not address to the needs of workers who do not qualify for EI because their education and skills place them in precarious employment, combining multiple and possibly part-time jobs to make ends meet.

In February 2002 the federal government sought to redress the situation of unskilled Canadian workers by launching a 10-year Innovation Strategy, which includes a skills and learning agenda seeking to provide ongoing opportunities for Canadian workers to upgrade their skills to keep pace with current and future job requirements. And in the September 2002 Speech from the Throne, the government committed itself to addressing the growing issue of workers who lack the skills and education to participate fully in the knowledge-based economy:

The economy of the 21st century will need workers who are lifelong learners, who can respond and adapt to change. Canada's labour market programs must be transformed to meet this challenge. To this end, the government will work with Canadians, provinces, sector councils, labour organizations and learning institutions to create the skills and learning architecture that Canada needs, and to promote workplace learning. This will include building our knowledge and reporting to Canadians about what is working and what is not. (Government of Canada, 2002)

Since the federal government has limited constitutional capacity to engage in the area of education and training, it has had to work in conjunction with the provinces to further its skills and learning agenda over the years. Before 1996 the federal government purchased training courses or seats from provincial or private institutions for its clients (particularly the

unemployed) under the *Adult Occupational Training Act* (AOTA). This regime was replaced with new agreements under the 1996 *Employment Insurance Act*, which introduced a new strategy to improve workers' access to skills and learning under the Employment Benefits and Support Measures (EBSMs). The EBSMs include the provision of training opportunities available to individuals. The form and financing of EBSMs are negotiated separately between Human Resources and Skills Development Canada (HRSDC) and each province or territory under the terms of Labour Market Development Agreements (LMDAs). Unlike training purchases, they are designed to represent a more client-centred approach to skills development and are available to individuals who are currently eligible for EI as well as those who have received benefits in recent years.

Despite recent initiatives in the area of training and learning, a recent review of adult learning in Canada prepared by the Organisation for Economic Co-operation and Development (OECD) stresses the lack of policies that are specifically designed for adult education and, in particular, highlights the situation of the working poor who are often denied access to adult education opportunities "because of the special circumstances of their lives or because they fail to meet conditions of eligibility" (OECD, 2002a, p. 50). The study recommends that careful consideration be given to supplementing existing employment-oriented training programs with more specific forms of adult education, such as basic literacy.

The OECD study also identifies specific areas for research, including a careful examination of the role that employers play in the area of training, and the barriers Canadian workers face in pursuing further educational opportunities such as work and family responsibilities, program costs and characteristics, and workers' attitudes and disposition to learning. It points out that a key source for future research is the existing Adult Education and Training Survey (AETS) database. While this survey does provide insights into the roles of individuals and employers in education and training, its major limitation is that it lacks sufficient information on the barriers individuals face in accessing training opportunities, particularly among the working poor and long-term unemployed. As a consequence, it is suggested that "barriers and motivations may also be an appropriate subject for a social experiment" (OECD, 2002b, p. 91).

One option that could be explored through social experimentation is the examination of a flexible benefit that empowers workers in precarious employment situations to decide what kind of help they most need to become re-employed. This benefit could take the form of a lump-sum payment that individuals could use to finance education or training programs in lieu of receiving some or all of their EI benefit entitlement. In this case, claimants would be able to receive advances on their future entitlement if they have a sound plan that will help them increase their employability and secure full-year employment.

One example of a "re-employment account" option is the recent Personal Reemployment Accounts (PRA) introduced in the United States to help the long-term unemployed go back to work.²⁵ If the current legislation is adopted, the federal US government will set aside \$3.6 billion to assist 1.2 million unemployed workers who are identified as being most likely to be long-duration claimants. This would allow eligible unemployed individuals to spend up to \$3,000 to either purchase job training or arrange services like child care, transportation, or

²⁵A copy of Senate Bill 5955, an act relating to the Personal Reemployment Account Program, can be found at www.leg.wa.gov/pub/billinfo/2003-04/Senate/5950-5974/5955_02242003.txt.

counselling. A person who leaves unemployment insurance to go back to work within a prescribed period of time would be entitled to retain however much is left in their account as a bonus. The “bonus” aspect of the PRA program is designed to give the long-term unemployed an incentive to return to the labour market, thereby shortening the duration of current or future claims, under the assumption that the new skills they acquire will make workers more likely to remain in employment once they become re-employed.

Conclusion

As long as Canada remains as it is, that is — a country with ample arable land that can easily be made available and of abundant natural resources able to provide employment to a large number of people, a proposal of this kind is a staggering admission of incompetence on the part of our governments.²⁶

If in 1940 opponents of the introduction of unemployment insurance in Canada viewed this new program as a “staggering admission of incompetence on the part of our governments,” then today’s critics of the current regime may argue that the extent to which frequent claimants make use of the Employment Insurance (EI) program represents “staggering” evidence that this program has shifted from its original scope and mandate.

The prevalence of frequent reliance on EI has been long debated. Some argue that frequent claimants are not abusing the program but simply taking advantage of its’ provisions and accessing the benefits to which they are entitled; the real problem is with the design of the program and its incentives, not with claimants themselves. Others argue that frequent reliance represents a misuse of a program that should be limited to providing insurance against the risk of unexpected and involuntary layoffs. This raises a fundamental question: for whom is the program intended?

Every month, the EI program provides financial assistance to thousands of workers who find themselves without a job. Eligibility for regular benefits is generally based on having paid premiums to the program, having lost a job for involuntary reasons, and meeting EI’s hours of work requirements. This greatly restricts the number of unemployed who actually qualify for benefits. According to the most recent Employment Insurance Coverage Survey figures (Statistics Canada, 2004), 55 per cent of the unemployed would have the potential to be eligible for regular benefits in 2002. Of unemployed individuals who would not have been potentially eligible, 32 per cent were not eligible because they quit their job for invalid reasons according to EI rules, 12 per cent were engaged in work activities that are not covered by the program (such as self-employment), and 56 per cent had not worked in the past 12 months. Of all the unemployed who would have been eligible, 84 per cent accumulated enough hours of paid work to qualify for benefits. According to the 2002 EI Monitoring & Assessment Report, women represent a disproportionate share of those who do not accumulate enough hours to qualify for benefits (HRDC, 2003a, pp. 43–44).

Considering the extent of frequent reliance and the proportion of the unemployed who are not eligible for benefits, some may argue that the list of five principles proposed previously may be incomplete and that there is a sixth principle: eligibility is based on having lost a job for unforeseen and involuntary reasons. However, it is often not clear how this requirement is interpreted and applied. For instance, research has shown that a majority (around 60 per cent) of seasonal breaks in employment lead to the receipt of EI benefits. Yet, some would argue that many of these breaks are *not* involuntary and *not* unforeseeable. To some extent, workers

²⁶Léopold Richer, “Préliminaires d’une loi d’assurance-chômage”, *Le Devoir*, June 26 1940, p. 1, quoted in *As I recall Si je me souviens bien: Historical Perspectives*, IRPP (Ed.), 1999, p. 396.

who have recurrent unemployment periods accept being laid off temporarily (sometimes every year and at the same time every year) with the understanding that the same employer will hire them again. However, others would argue that it is not clear which party — the employee or the employer — benefits most from these arrangements and the extent to which these so-called “implicit contracts” are voluntary, and in particular *voluntarily recurrent*, on the workers’ part. A seasonal work schedule may be adequate for some individuals who prefer temporary work or who have family responsibilities, school activities, or other obligations that make a full-year employment schedule unfeasible. However, seasonal work may not be the preferred employment pattern of many workers who, from year to year, face various barriers to secure, year-round employment.

The requirement of having lost a job for involuntary reasons also appears to be less important than the requirement of having accumulated enough EI insurable hours for workers who do not have a pattern of employment that reflects a strong attachment to the labour market according to EI rules. One analysis of how effectively EI provides support to workers estimates that 88 per cent of all paid workers would have been eligible for regular benefits had they lost their job in December 2000 based on the number of hours they worked prior to this hypothetical time of layoff (HRDC, 2003a, p. 43). Again, there are important differences in the degree of coverage between men and women as the proportion of men who would have potentially qualified for EI was 91 per cent compared with 84 per cent of women. As suggested in the 2002 Monitoring and Assessment (M&A) report, this difference is likely due to differences in labour market patterns between men and women, since women are more likely to be engaged in part-time employment.

Since the EI program compensates workers for an eventual job loss only if they have demonstrated a significant attachment to the labour market, it potentially excludes many workers who have a work schedule that prevents them from accumulating enough EI insurable hours because of their own preferences, family responsibilities, activity limitations due to disabilities, or other reasons. Based on the figures reported above, this group could be made up of more than one million Canadian workers, many of whom have been paying EI premiums for many years.²⁷

A separate, yet related issue is the growing fraction of EI benefits that are paid out in special benefits, which provide financial assistance to workers who have interruptions in employment for reasons other than a job loss. The enrichment of parental benefits and the more recent modifications to include a compassionate leave for those who need to take time off work to care for a gravely ill parent reflect a new type of contractual arrangement between the government and insured workers. Instead of essentially providing compensation to Canadians who involuntarily lose their jobs — an arrangement that sees most workers contributing to a program that they may never need in their lifetimes — the government is extending EI coverage to temporary work interruptions that occur due to personal reasons, as long as the individual remains committed to returning to work after receiving benefits. This new “contract” between the government and workers makes the EI program more integral to families’ life decisions and one that individuals may end up relying on at least once, if not many times, throughout their working lives.

²⁷This approximate figure is based on the estimate that 12 per cent of 13 million paid workers (according to the 2001 Census data) would not have been eligible for regular benefits had they lost their job in December 2000. It should be noted that EI premiums are reimbursed only to workers who earn less than \$2,000 annually.

The extension of EI coverage to other types of work interruptions reflects an important yet unstated shift in the program's underlying philosophy about "who this program is intended for" — one that should motivate future research on EI. In this vein, the present report points to a number of alternative options with regard to EI provisions that could be tested to determine if — and how — the EI program can be more responsive to the realities of today's labour market, at the same time addressing potential disincentives and inequities in the current system. These options could be designed to provide to both workers and firms a different set of incentives with the goal of encouraging more desirable labour market outcomes.

This research also points to a need to revisit the notion that frequent reliance on EI remains an issue worth addressing; instead, it highlights the need for addressing the difficulties of many workers who cannot secure employment due to their inadequate skills or education, whether they rely on EI or not. At a time when the federal government and its partners are fully engaged in an innovation strategy that aims at developing a better-skilled workforce, when a new EI premium rate-setting regime is under way to bring EI revenues in line with program costs, and when there is increasing recognition that workers are not only factors of production, but also members of families and communities, innovative options in the area of workers' income security should be given a *place de choix* on Canadian policy-makers' agenda.

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