

EMPLOYMENT INSURANCE One Size Does Not Fit All

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The Employment Insurance (EI) program serves a number of important functions in our labour market and our society. Most importantly, it delivers vital income support to Canadian workers and their families during periods of unemployment. While this is the program's prime objective, EI also has a number of wider, unintended consequences. A generous EI program has been shown to contribute to a cycle of unstable work and a reliance on benefits by acting as a disincentive for people to make needed labour market adjustments, such as changing one's career focus or migrating to find work. Much of the research on unemployment benefits generally, and EI specifically, focuses on the extent to which benefits contribute to the long-term economic misfortune of those who receive them. What is sometimes lost is that EI also has a positive effect on the stability of consumption patterns, health status, educational/career choices of dependents and family/martial stability.

The main problem with EI as it is

currently delivered is that virtually any reform proposal that seeks universally to modify access to EI benefits (e.g. change the claim period, alter the maximum insurable earnings or reduce the benefit replacement rate) will positively affect one or more of these factors while at the same time negatively affecting others. Two examples of this are the repealed intensity rule and clawback provision. The repeal of these provisions made EI more generous for repeat claimants, thereby reducing the incentives to make labour market adjustments. But by being more generous, it also increases the positive impacts EI has on the households of those who are unemployed. In other words, the repeal of these provisions means that EI is more generous to repeat claimants – which may make a profound difference in the lives of some families – while making the on-going cycle of seasonal work and EI use more viable.

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This is the ‘generosity paradox’ the EI program faces. Either increasing or decreasing the generosity of EI has both positive and negative impacts. The key is to set out a path of EI reform which allows a generous EI program to offset the negative aspects of unemployment while not creating disincentives to positive labour market adjustment.

Generous EI is Bad

It is well-documented that generous EI can have negative labour market consequences. Meyer (1990), Lemieux and MacLeod (2000), Hollett and May (1995), among others, have established that a relatively generous EI program encourages repeat use, encouraging a cycle of dependency.

A particularly worrying aspect is that young people – those most able to alter their life chances and avoid falling into the so-called ‘EI trap’ – continue to take up highly seasonal occupations at an alarming rate, and generous EI seems to play a role in this. Audas and Murrell (2000) demonstrated that the reforms in the 1990s which made EI more difficult to obtain and less generous appeared to slow the rate of entry into occupations which regularly rely on EI.

It has also been established that the best way

to avoid the cycle of unemployment and subsequent reliance on state benefits is to avoid the first spell of unemployment (see Lemieux and MacLeod, 2000 and Arulampalam, Booth and Taylor, 2000). This is particularly critical for young people who face decisions that will make them more or less susceptible to unemployment in the future. The EI program needs to be structured so that it directs people, and especially youth, to make good educational and career choices.

Generous EI is Good

Unemployment can be devastating for families. First off, there is the obvious loss of income and the often abrupt change in the structure of a person’s life. There is also mounting evidence which points to an increasing number of negative social, psychological and physiological effects relating to unemployment and income loss. For example, unemployment can be a factor in family instability. A recurring theme asserts that it is not income loss, per se, that contributes to marital dissolution but the instability of income which is the main factor. This suggests that by providing income stability during a period of unemployment, EI can contribute to family stability,

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which has a wide range of positive effects for both individuals and their families.

The negative correlation between psychological well being and unemployment is well-documented. Individuals tend to define their self-worth, to a great extent, by their jobs. The absence of work tends to cause individuals to lose confidence and experience depression. This threat to psychological well-being can extend to spouses and children. Ström (2003) identifies numerous studies that find parental unemployment associated with children's diminished expectations of finding jobs as adults; increased parent-child conflict; bed-wetting (which is sometimes symptomatic of stress); suicide attempts; self-destructive behaviour; health problems; and leaving school early. Ström concludes that since much of the adverse effects of unemployment are attributable to a sudden loss in income, unemployment benefits can play a positive role in ameliorating these effects, and, as such, argues for wider coverage and more generous benefit levels. Audas (1994) uses the Labour Market Activity Survey (LMAS) to examine factors influencing the probability of young Canadians dropping out of school. He finds that individuals in families experiencing unemployment are more likely to

drop out of school, but this effect is largely mitigated when unemployment benefits are received.

Audas (2004) also studied the impact of EI receipt on the career decisions of young people, with a focus of examining how its receipt by various family members influences the likelihood of a young person changing career states. The lesson is that youths' own EI receipt tends to be associated with 'bad' outcomes, while parents EI receipt, after controlling for labour market histories, tends to have a neutral or positive influence on the probability of observing a 'good' transition. This suggests that EI needs to be considered in the context of the family. Benefits received by parents tend to limit the adverse effects of unemployment on their children while benefits received by youth tend to reinforce a cycle of dependence.

The EI program is designed to counteract these negative consequences of unemployment by allowing households to maintain some level of normalcy during a difficult period. It allows families to meet their on-going financial commitments such as mortgages, car payments and support for dependents. A generous EI program can also better offset some of the wider

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adverse effects that unemployment can have on families. This may help reduce some of the longer run intergenerational correlations between incidence of poverty, educational attainment and receipt of government transfers.

Moving away from One-size-fits-all EI

The critical point is that making EI universally more generous will serve to improve outcomes for some families while, at the same time, reduce the urgency for individuals to make important labour market adjustments that will decrease the likelihood of future unemployment and use of EI. The ideal EI policy will deliver sufficient income support to individuals who are at a life stage where opportunities to make major career changes are not practical and will ensure that the families of these workers have sufficient financial resources to make good education and career choices themselves. In contrast, EI should be less generous and less accessible to those who are more able to make important labour market changes, either through skill-enhancing activities, geographic mobility, or changing career focus.

This optimal structure cannot be delivered in a program which only considers quantity of work and insurable earnings as the metric for assessing benefits. What is required is a

program which offers different levels of benefits based on life or demographic circumstances. This approach is not without precedent. The current EI program already treats low-income families differently from those without dependents through the Family Supplement. First time users of EI have to accumulate more hours of work before qualifying for EI benefits. In addition, there has been an experiment with “experience rating” EI benefits to make the program less generous for repeat claimants, particularly those with relatively high incomes.

Tie Youth Benefits to Positive Career Enhancement

The factors contributing to youth unemployment – lack of training, lack of networking opportunities, lack of experience – tend to be different than the factors affecting other unemployed persons (which tend to be more a function of labour demand). Because they are in the early part of their work lives, youth are in a better position than other workers to make major labour market adjustments (geographic, occupational and sector mobility). There is a strong argument for treating youth differently when it comes to unemployment and their entitlement to EI. Unemployment programs in other countries are often

altered to encourage young people to take on ‘positive’ skill-building activities while receiving benefits or as a condition of qualifying for benefits. Active labour market policies, like the United Kingdom’s New Deal and the Danish Youth Unemployment Program, are directed at youth to help them develop work experience, employable skills, and good job search techniques, usually under the guidance of a personal job counsellor.

Young Canadians should be required to engage in some form of positive career development while receiving EI benefits. This could take the form of skills enhancement courses and other forms of training, degree program or vocational training, or temporary employment programs that allow for young people to remain more attached to the labour market and to augment their human capital. Existing programs targeting youth skill developments – such as Career Focus or Skills Link – should be tied more closely to EI.

Youth experiencing unemployment should receive counseling on their employment and education options to facilitate them making positive career choices. When making an EI claim, they should receive on-going job search counseling and a career plan should be devel-

oped to reduce the risk of future unemployment spells. At this time, a range of vocational and employment options could be used to design a program that is tailored to the individual’s specific situation. For young people, it should be made clear that participation in employment or vocational programs and career counseling are part of their EI claim and that benefit receipt is conditional upon adequate participation.

Reintroduce the Intensity Rule and the Clawback

The Intensity Rule and the Clawback were two policy measures that allowed the EI program to distinguish between those individuals who regularly rely on the EI as a form of income supplement and those who suddenly lose their jobs and need some form of transfer to smooth consumption. These kinds of alterations to the program are known as experience rating because claimants’ treatment by the system is determined by the amount of experience they have with it.

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more benefits. Those who do not use the system regularly and experience more unexpected unemployment should receive a higher proportion of their regular earnings than those who use the system as regular part of their yearly earnings.

Concessions for those with Families

The Family Supplement is an important initiative for families experiencing unemployment, although individuals only receive the full supplement if the total family net income is less than \$20,921 and families receive no supplement if their net income is above \$25,921. Furthermore, claims remain restricted to the legislated cap of \$413 per week. The program should consider relaxing both of these constraints for those individuals with children and special provisions should be created to ensure that claimants who are in education (particularly post-secondary or tertiary education) can have access to 'emergency' funds to ensure continuity in developing skills. Further, the new entrants/re-entrants provisions could be relaxed for individuals in particularly precarious situations, such as single mothers.

Grandfather in the New Rules

Much of the criticism of the 1996 EI reform

was that it was unduly punitive towards seasonal workers and, as this note has demonstrated, this may have had two conflicting effects. The first is that a less generous EI program appears to have been associated with a number of positive career outcomes for young people – in terms of making better choices about participating in education and choosing occupations that offer full-year employment. In contrast, the punitive elements may have had a number of adverse effects on families and subsequently on the future prospects of the dependents of workers employed in seasonal sectors. Future reforms of EI can limit these adverse outcomes and still have their desired incentive effects by not subjecting claimants over a certain age or with dependents to the new rules. This form of grandfathering would make EI less punitive to established seasonal workers who may be limited in their capacity to make labour market adjustments, but will make youth less inclined to choose occupations that will make them reliant on EI.

Conclusions

The negative consequences of unemployment are significant from both an economic and social perspective and EI is an important program that reduces the consequences of an employment disruption. However, it is impor-

tant that the social safety net, which Canadians clearly value so dearly, does not create incentives (particularly short-term incentives) that encourage long-term unemployment or a cycle of dependency. Income instability, and the concomitant problems this brings to families, can have severe consequences by encouraging other family members to make decisions that may have adverse long-term effects. These may include children suspending or abandoning education or spouses increasing the hours they work to compensate for the income decrease attributable to unem-

ployment, and this may create a less stable home environment for children. Further, income instability may have severe effects on family relations and could ultimately encourage the dissolution of the family.

In addition to the entitlement period being tied to the EI region unemployment rate, an individual's age, number of dependents, occupational history, and future prospects will need to be assessed. Ultimately, Canada's EI Program should better segment applicants into programs and benefits which are more suited to their individual and family circumstances.

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