

3. Ministerial Council on Social Policy Reform and Renewal. *Report to Premiers*, December 1995, 1.
4. Canada. Canada Assistance Plan. *Statutes of Canada*, 1966-1967, c.45.
5. Canada, *Evaluation of the Canada Assistance Plan*, Program Audit and Review Directorate, Health and Welfare Canada, January 1991. National Council on Welfare, *The Tangled Safety Net*, Ottawa, 1987. A. Moscovitch, "The Canada Assistance Plan: A Twenty Year Assessment," in Katherine Graham (ed.), *How Ottawa Spends* (Ottawa: Carleton University Press, 1990).
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Dismantling Unemployment Insurance: The Changes, The Impacts, The Reasons

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In the 1995 Budget, the federal government continued its systematic attack on Canada's Unemployment Insurance system by calling for a 10% cut in UI expenditures, the fourth cut in the 1990s alone. Under the guise of cuts, the government proposed a complete overhaul to "better reflect the realities of the current and future labour market and to return UI to its original purpose." This in no way meant that the government intended to improve the UI system to ensure greater economic security for the unemployed in a labour market where unemployment remains persistently high and where jobs are increasingly unstable and insecure. The sweeping changes to UI in the *Employment Insurance Act*, Bill C-111, were designed to weaken the income security of unemployed people at the very time when the economy has failed to create enough jobs for people who want and need to work.

The Employment Insurance Act, Bill C-111

The new *Employment Insurance Act* will replace the *Unemployment Insurance Act* and the *National Training Act*. Expenditures will be reduced by \$1.9 billion. The government's intent is to target workers in seasonal industries who receive UI more frequently because of the nature of seasonal work. Workers in Atlantic Canada will bear the brunt of the cuts. Overall, the impact of the proposed changes will hurt the working poor, women,

and others already facing great disadvantage in the labour market. It is estimated that less than 40%, and possibly as low as 33%, of workers will qualify for UI. Premiums will be lowered, saving business \$1 billion. It must be noted up front that, because of previous cuts, the government's \$1.9 billion target will already have been met before the new cuts are even implemented.

Specific changes to UI include the following:

- Eligibility for UI will be converted from weeks to hours. Under the new variable entrance requirement, workers will need between 420 and 700 hours of work to qualify for UI. Based on the new hour standard, 35 hours of work will be needed to constitute one week, compared to 15 hours per week previously. For youth and new entrants, the qualifying hours would triple. On the plus side, hours of work from all places of employment will be added together for the purposes of qualifying for UI.
- The overall maximum period of time a person can qualify for benefits is 45 weeks, down from 50. The benefit rate will remain at 55% of insurable earnings, but workers having received UI in the previous five years will have benefits reduced by 1% for every 20 weeks of claim over the past five years as a frequent use penalty. A top-up benefit will be phased in for claimants with children if family income is below \$25,921. A new formula will calculate average weekly earnings for the 16 to 20 consecutive weeks prior to lay-off. Weeks of no earnings during that fixed period will be included, which will have the effect of lowering the benefit level, in some cases quite significantly.

The existing tax-back of benefits will be increased. People with incomes of more than \$48,750 will have 30% of their UI benefit taxed back. Frequent claimants (more than 20 weeks of claim over the past five years) will have benefits taxed back beginning at incomes of \$39,000. The rate of the tax-back will be 50% of benefits, escalating to 100% for people with 121 weeks of claim over the five-year period.

The Maximum Insurable Weekly Earnings will be reduced to \$750 a week and frozen until the year 2000, dropping the maximum weekly benefit to \$412.50.

- The premium rate will drop to \$2.95 per \$100 of insurable earnings.
- UI (EI) dollars will account for nearly two-thirds of federal employment program spending in the near future. People eligible for UI (EI) financed programs will include people who have had a claim in the past three years (or five years in the case of people who have drawn maternity or parental benefits). Provinces will be allowed to deliver employment benefits on behalf of the federal government. Employment benefits include targeted wage subsidies; an earnings supplement to induce low-wage employment; self-employment programs; job creation partnerships; and

skill loans and grants. There will be a transitional jobs fund to offset the effects of UI changes in the amount of \$300 million over three years.

Impact of the Cuts

The government's EI scheme moves us far away from the idea of a social insurance program which performs specific functions, towards a program designed to provide only a minimum income floor. The government is ignoring the important distinctions between the two types of programs, especially the distinction that social insurance programs are designed to prevent people from falling into poverty rather than to pick up the pieces after they have become poor. Equally important is the evidence that UI helps to maintain a job-ready and skilled workforce.

At the specific level, the higher entrance requirements will affect workers in part-time and those in nonstandard jobs who already find it more difficult to get enough hours to qualify before a lay-off occurs. Women and other disadvantaged groups will be the primary losers because they are most likely to be in these types of jobs. As well, access to maternity and parental leave may be reduced by the new entrance requirements. The extremely high number of qualifying hours for new entrants to the labour force will limit access for youth, women reentering the labour market, and immigrants. The government has yet to reveal an adequate impact analysis in these areas.

Unpublished data developed by Kevin Hayes at the Canadian Labour Congress put some hard numbers to the changes. The numbers show unequivocally the price workers are to pay for the government's suspect view that UI is a disincentive to work.

Increased entrance requirements and the cuts in benefit levels and duration of benefits will hit seasonal workers the hardest. Workers in both Quebec and Atlantic Canada will bear the greatest burden, but all workers in jobs where lay-offs are frequent will suffer. Nearly one million UI claimants or 40% of the total number in 1993 had three claims in five years. More than two-thirds of the UI recipients in Newfoundland and Prince Edward Island would have their benefits cut below 55%, as would well over half of claimants in New Brunswick (59%) and Nova Scotia (53%). In Quebec, 45% of workers would get rates below 55%. The penalty would hit close to 40% of workers in all other provinces, except Ontario (25%) and Alberta (32%). It is estimated that the increased entrance requirement will cut UI by \$2 billion.

The reforms will hurt low-income earners hardest. The penalty for frequent use will reduce UI payments over the next three to five years by \$400 million. Frequent recipients of UI are most likely to have lower incomes. More than 70% of frequent claimants in all four Atlantic provinces had annual earnings of \$15,000 or less in 1991 (latest available). When the fixed

16- to 20-week averaging formula is in place to determine earnings for the purpose of the benefit level, UI recipients who are also frequent recipients of UI will have their benefit levels cut by 50%. About a million UI recipients do not have consecutive weeks of earnings in the 20 weeks prior to lay-off. Having zero earnings included in the fixed 20-week averaging formula will mean a reduction of 20% to 50% in benefit rates. On average, UI recipients will lose about \$1,500 each as a result of the 20-week fixed average. By 1999, when fully operational, benefit payments to the unemployed will be reduced by \$1.5 to \$2 billion by this measure alone. Again, the Atlantic provinces and Quebec, which have the highest levels of seasonal work, will be hit hard. Over three-quarters of UI claimants with fewer than 20 weeks of work reside in these provinces.

Lowering the Maximum Insurable Earnings (MIE) means that UI premiums will be based on a lower portion of a person's income. This shifts contributions to UI from higher- to lower-income earners, and particularly to women. While workers with higher earnings than the MIE will receive a reduction in UI premiums, those with earnings lower than the MIE will not. Only 18% of women have incomes over the MIE compared to 39% of men. It will also shift the burden of paying into UI from the better-off provinces to the less well-off. Overall, the reduction will remove about \$1 billion from the UI (EI) program.

Business sees lowering the MIE as good because it lowers their costs. However, it lowers the income replacement levels for higher-paid workers. There is no valid reason for assuming that higher-paid workers do not need a good portion of their salary replaced when unemployment occurs. This is further evidence that the government does not see the necessity for an income stabilization program. It reflects the government's position that all social programs ought to provide only a minimum income floor.

Using UI dollars in the form of an earnings supplement as an "employment tool" clearly indicates that the government has bought into the low-wage strategy. Earnings supplements will obviously be used to induce unemployed workers into taking jobs which pay well below the rate of pay of their former jobs, an indication of the move away from the principles of social insurance.

Proposed changes for training and labour market programs, in combination with the veto offered to the provinces over federal training initiatives, and the offer to turn the delivery of employment programs over to the provinces, point to an eventual withdrawal of the federal government from this area. This move threatens the existence of a national labour market and training strategy, as one part of a broader strategy dealing with unemployment and the creation of higher-skilled, better-paid jobs.

The most fundamental impact of the sweeping changes to the Unemployment Insurance system is the distortion of the original and primary purpose of UI. As documented in Jim Overton's article in the Winter 1995 issue of *Canadian Review of Social Policy*, UI is a social insurance program which is intended to replace the earnings of people when they become unemployed. The insurance principle is clear. UI limits the risk of reduced living standards as a result of unemployment. The social part of the insurance stems from the view that it is correct to ensure that those who are most at risk of income loss and least able to protect themselves against this risk have available the same level of insurance protection as those who are less likely to need it. As a practical matter, the best way, if not the only way to deal with the wide-ranging risk of unemployment and the associated costs is to adopt a collective responsibility approach to mitigating against that risk.¹⁵

UI has played an important role in stabilizing our national and local economies and in reducing potential job loss during economic downturns and recessions. The proposed changes will hamper the ability of UI (EI) to perform this key role.

The Context for the Changes

The changes to UI in the context of an economy in which growth is slow and unbalanced between the domestic and export sectors, in which job creation is almost zero in net terms, and in which real wages are stagnating is extremely important in coming to an understanding of the government's policy choices. Indeed, this context explains the entire federal policy agenda of severe cuts to all social programs.

Rather than recognize, accept or deal with these truths about the economy and the inherent and critical need for job creation as the win-win solution, the federal government has opted for the right-wing view that high unemployment is caused, in large part, by "rigid" labour markets. In English, rather than technical jargon, this means that wages are too high, including minimum wages; labour legislation governing everything from working conditions to statutory holidays burdens employers; social programs such as UI or welfare are too generous and are a "disincentive to work"; jobs are too secure and unions are too strong to force workers to accept concessions; collective bargaining gives workers some level of income security and an expectation of rising living standards; and payroll taxes kill jobs because of the additional expenses incurred by employers taking on new employees.

In short, in the view of right-wing economists, business, and government, more jobs can be created if wages are lowered, jobs are more precarious, labour standards are weakened, and programs which reduce the

dependence of workers on income from employment such as UI are severely diminished. Such a deregulated labour market will be more flexible; prospective workers, in the absence of effective income replacement programs, will be obliged to take any job, at any wage, under any conditions, or face impoverishment. Those who are employed (all but the most highly skilled) will have less bargaining power, less job security, poorer working conditions, and will be more likely to accept wage and benefit concessions based on the threat of give in or no job.

This is what is meant by a low-wage strategy and "restructuring" the economy to achieve that. That is what economists mean by the term "clearing the labour market". For employers, it means employing two persons for the price of one. For federal government policy, it means making the free market the prime determinant of how well people will fare. For people, it means greater poverty and insecurity; a decline in living standards for the majority; greater inequality in every sphere of life, particularly for women, visible minorities, youth, and others who are most at risk of disadvantage and discrimination. In an impact evaluation commissioned by Human Resources Development Canada and done by Martin Browning, the impact of cuts to UI on living standards was clear. The lower the UI benefit rate, the lower net personal incomes were as a percent of pre-unemployment earnings. The impact on women was much harsher. For both men and women, a cut in UI benefits meant a drop in the consumption of goods and services, including food and clothing.¹⁶

Selling a Low-Wage Strategy

Federal government policy based on a low-wage strategy would not be a popular sell with the Canadian public. The vast majority of people think that a job ought to pay a wage which affords a decent standard of living and that, over time, participation in work ought to provide a rise in living standards. The federal government is quite anxious about the fact that people who have been laid off from higher paid jobs appear reluctant to leap at the opportunity to take lower-paying jobs. At the same time, most Canadians have believed that people, who for a variety of reasons cannot work, ought to have a decent standard of living. We have been prepared to pay for these beliefs through taxes, as long as the system was perceived to be fair. To counteract and undermine those beliefs, the government has attempted to sell its UI program cuts in a variety of ways which play on fears and insecurities rampant in unstable economic times.

The core of the government's case for reform was that the UI system itself is causing unemployment and, therefore, needs to be drastically changed. The government claimed that UI is a "disincentive to work" because it actually provides people with income after they have been involuntarily laid

off and this discourages people from looking for work. From this position, completely flawed logic led the government to claim that the provision of UI creates "voluntary unemployment"; thus, UI is one of the causes of high unemployment.

Part of this argument is that the "generosity" of UI benefits makes unemployed workers reluctant to take lower paid jobs, choosing instead "generous" UI benefits. The solution is to reduce benefit levels and duration, which will force people to take any job, most likely a low-wage job. Completely ignored is the fact that a good many UI recipients do, in fact, accept significant reductions in wages when taking new jobs.¹⁷

The government argued that UI has become a way of life for some people because it is seen as a major supplement to earned income, particularly for workers in regions of the country where seasonal work is the mainstay of the economy. It is the availability of UI, not the reality of seasonal work and the lack of alternative jobs, which is responsible for high unemployment in these regions. The implicit assumption is that "chronic users and repeat users" of UI are making a 'lifestyle choice' in their "dependency" on UI. Therefore, altering behaviour is the solution. Lower benefit and duration levels, in combination with an additional penalty for frequent users of UI, were offered as the solution to wean people from UI dependency and force them either to move to a location where they may find a job or to take any available job regardless of the wage.

For good measure, every effort was made to haul out before the public eye "UI cheater stories" to spread the myth that people who receive UI are more likely than not to abuse the system, blindly ignoring the facts which show that such abuse is minute. Such stories attempt to bolster the false argument that unemployment is voluntary. It is not often we hear the government noting that since 1993, workers who quit their jobs without just cause are not eligible for any UI benefit.

The third tactic used to implicate UI as a major cause of unemployment is the argument that UI premiums are killers of jobs. It is argued that UI premiums increase the wage costs of employers, forcing employers to resist hiring new employees. A more obscure argument claims that the share of UI premiums paid by workers acts as a disincentive to taking a job.

Finally, the arguments put forward have included the need to reduce the deficit, an argument which Canadians have been browbeaten into accepting. This remarkable deception has gone unchallenged. UI, as a program financed entirely by premiums paid for by workers and employers, does not contribute to the deficit. Even when the UI account is in a deficit, the legislation requires an increase in premiums to balance the account.

Is the Government's Justification Accurate?

The crucial question is whether or not the government's claim that UI is a cause of unemployment is accurate and, therefore, provides adequate justification for the massive overhaul of UI as proposed in Bill C-111.

Andrew Jackson conducted a review of academic research on the validity of the arguments the government has used to justify the sweeping changes to UI. Jackson concludes overall that the claims levelled against UI, i.e., that it acts as a disincentive to work, hampers necessary adjustments in the economy, and kills jobs, are "enormously exaggerated" and "cannot be sustained by reference to the expert research which has been undertaken."¹⁸

Following is a short summary of some of the main conclusions of the various pieces of research identified in Jackson's review:

1. People do not choose to be unemployed because they prefer leisure to work. That argument assumes that there are no economic or personal consequences to choosing unemployment and that jobs are available. Secondly, UI as a choice to support leisure activity is not available to people who voluntarily quit their jobs without just cause.
2. The willingness or unwillingness of employers to offer jobs to unemployed workers and to lay off workers on either a temporary or permanent basis is a greater determinant of the unemployment rate than is the willingness or unwillingness of workers to accept jobs. Evidence shows that the majority of people who are unemployed want a job and a high percentage of those with jobs want more hours of work, particularly people in part-time jobs.
3. High unemployment is a product of the lack of jobs, not a personal choice made by workers.
4. There is no relationship between the generosity of UI benefits and the duration of unemployment for men. Nor is there a relationship between the level of benefits and the likelihood of being a repeat claimant.
5. While it is accepted that payroll taxes may have some, although minimal, effects on job creation, the evidence shows that over the longer term, these costs are shifted back to workers in the form of lower wage and benefit increases than might otherwise have been the case. In any case, premium increases would have to be extremely large to have even a very modest impact on the unemployment rate.
6. The existence of UI does not have significant negative economic effects nor does it contribute in any significant way to the level of unemployment. It should be quite obvious that sustained high unemployment in Canada, throughout a period of successive cuts to UI which has lowered access to the system, is adequate reason to question the claim that UI contributes, in a major way, to unemployment levels. In any case, the research done to examine the effects of UI on the unemployment rate is

inconclusive. Of seven studies, three found no effect and two found an impact of 1% or less.

7. Far from being a drag on the economy or creating more unemployment, the UI system performs an important role in stabilizing the economy, reducing the likelihood of even greater job loss in economic downturns and recessions, and equalizing income. Income from UI during periods of unemployment is particularly important for low-income workers and their families.

This review of the research on the effect of UI necessarily leads to the conclusion that the government's massive overhaul of UI cannot be supported on the basis of reducing incentives to work and removing a significant cause of high unemployment. Nor can it be supported on the basis of the cost of the program nor on the basis of the absolute need to reduce premiums.

Conclusion

The proposed changes completely ignore the interests and needs of workers at a time when workers are facing increasing insecurity due to critical changes in the labour market. Massive public and private sectors lay-offs, growth in contract, part-time, and temporary work with its increased risk of successive lay-offs, the tendency to permanently lay off older workers, and the growing need to balance work and family responsibilities are realities which are entirely ignored by the government's planned reform of UI. On the other hand, business received most of its wish list. The changes closely reflect UI reforms proposed by the Business Council on National Issues.

There are many unanswered questions about the federal government's plans to reform the Unemployment Insurance system or perhaps, more correctly stated, there has been insufficient information given to the public about the reasons for, and the impacts of, these plans.

Key questions include, why is the government pressing ahead with this reform when the savings target the government wanted to reach has been already met without the cuts being implemented? A second key question is how can the government justify this massive overhaul when the academic research shows that the government's assumptions about the program's disincentives to work are largely unfounded, as are the assumptions that it hinders labour adjustment and kills jobs? Thirdly, the government has not been made to answer the critical question of how is it in the best interests of workers to distort the social insurance principles of UI, significantly cut income protection during unemployment, and deny access to UI to well over 60% of the unemployed?

Finally, while the government continues to float rhetoric about the importance of, and its commitment to job creation, the facts tell a very

different story. The goal of full employment as a strategy for lowering unemployment and promoting economic growth has been abandoned. In its place is a right-wing strategy to reduce unemployment through the promotion of low wage jobs and massive cuts to social insurance, indeed, to all social programs. This shift away from the Red Book policy to the right-wing policies identified in the government's other coloured books has been carefully documented in Andrew Jackson's paper "Jobs, Jobs, Jobs: The Liberal Plan and Its Consequences for Workers".¹⁹ The public needs to know this. Hopefully, when the EI legislation is returned, there will be strong opposition in all parts of the country and the public will become better informed as to what is really at stake.

NOTES

1. Jim Overton, "'Original Intentions' and the War on UI: Newfoundland's Proposal for an Income Supplementation Program," *Canadian Review of Social Policy*, 36 (Winter 1995), pp. 17-18.
2. Martin Browning, "Income and Living Standards During Unemployment," *HRDC Evaluation Brief*, 14 (1994).
3. Robert Baldwin, "A Good Program in Bad Times: The Dismantling of Unemployment Insurance" (Ottawa: Canadian Labour Congress, 1996), p. 7.
4. Andrew Jackson, "The Economic Impacts of Unemployment Insurance — The Case for the Defence" (Ottawa: Canadian Labour Congress, 1995).
5. Andrew Jackson, "Jobs, Jobs, Jobs: The Liberal Plan and Its Consequences for Workers" (Ottawa: Canadian Labour Congress, 1995), p. 6.

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