

# HELP WANTED

How Well did the EI Program  
Respond During Recent  
Recessions?

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APPLIED PUBLIC POLICY RESEARCH  
INFORMED BY ONTARIO'S REALITY

# EXECUTIVE SUMMARY

**R**ecessions provide stress tests for existing social policies. They also provide opportunities to improve policies that are not working well or may not be fulfilling their original intentions.

This *Mowat Note* assesses how well Canada's Employment Insurance (EI) system performed during the most recent recession compared to previous recessions, focusing on regional inequities. The goal is to reflect on the program's effectiveness and fairness during periods when it is most needed.

In 2008-09, only 46 per cent of unemployed Canadians received EI benefits, compared with 71 per cent and 76 per cent in the recessions of 1981-82 and 1990-91.

Regional differences in coverage between provinces were significant. In Ontario and British Columbia in 2009, only 38 per cent and 39 per cent respectively of the unemployed were receiving benefits, while in some other provinces, over 90 per cent of the unemployed were receiving benefits.

Despite rising unemployment rates in Ontario and Western Canada during the past recession, Canadians in Ontario and the West were far less able to access EI benefits than Canadians in the five easternmost provinces. In fact, during the most recent recession Ontario's unemployment rate was above the national average (it was the fourth highest in the country), but the percentage of Ontario's unemployed that received EI benefits was lower than in any other province. The EI program is broken and does not work in the current labour market.

This note documents that policy solutions do not lie in the past. Investing more money in the existing program or redistributing money from one region to another will only compound existing problems. Solutions must be found elsewhere. These new models of income support for the unemployed must acknowledge changes in the labour market and must work in tandem with the country's entire suite of government programs, including training and provincial income assistance.

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## How Well Did the EI Program Respond During Recent Recessions?

Matthew Mendelsohn & Jon Medow

**T**he federal Employment Insurance (EI) program is a key component of Canada's social safety net. EI is the first line of protection for many Canadians who lose their job. Its effectiveness is critical, especially during recessionary periods.

If the EI system is not working properly during recessions, there is an increased chance that Canadians who lose their jobs will not receive support. If EI is not functioning properly, some unemployed Canadians may be forced to turn to provincial social assistance programs, which, unlike EI, are accessible only after one has exhausted savings, sold assets, and fallen into destitution.

Looking beyond income support, EI qualification is a pre-condition for accessing most of the training benefits offered by government. Training benefits are an important support for unemployed Canadians seeking to acquire skills needed to find work in a changing economy. Unemployed individuals who do not qualify for EI find it more difficult to access financial support for training than do EI recipients.

As unemployment rose in Canada in 2008 and 2009, how did the EI system respond? Government and opposition parties believed that the system had shortcomings, as evidenced by the federal government's modifications to the EI program<sup>1</sup> and the discussions between political parties on various reforms proposed at the height of the recession.<sup>2</sup>

Many of the problems with the EI system are well-known. For example, Ontario and, increasingly, Western Canadian governments have complained that the regional differences in access to benefits are unacceptable and at odds with the Canadian social contract and principles of equality amongst Canadians.<sup>3</sup>

Supporters of the current EI program, by contrast, argue that it is sufficiently flexible and responsive to changes in unemployment and does a good job helping Canadians in need. Human Resources and Skills Development Canada (HRSDC), the federal department that manages EI, asserts that "... the current EI program has built-in flexibility specifically designed to respond automatically to changes in local labour markets, with entrance requirements easing and the duration of benefits increasing as the unemployment rate rises."<sup>4</sup> These automatic responses are indeed part of the system.

The question addressed in this *Mowat Note* is whether these automatic responses are sufficient to erase the structural regional inequities in access to benefits. The term “structural” in this note refers to the stable features of the EI program that do not evolve with changes in labour market conditions like the local unemployment rate.

In a properly functioning system of support for the unemployed, a province that saw a spike in its unemployment numbers would likewise experience commensurate increases in access to benefits.

This note assesses how well the EI system performed during the most recent recession compared to previous recessions, with a particular focus on regional inequities. The data are clear. During the recent recession the program worked better for Canadians in some provinces than in others.

Despite rising unemployment rates in Ontario and Western Canada during the past recession, Canadians in Ontario and the West were far less able to access EI benefits than Canadians in the five easternmost provinces. Although regional differences were also observable during past recessions, the availability of EI during previous recessions was far more extensive than it is today, moderating the impact of the regional inequities within the program.

This analysis shows something quite extraordinary. In earlier recessions, while fewer unemployed Canadians in Ontario, British Columbia and Alberta received EI than in the rest of Canada, unemployment rates in those three provinces were also lower (below the national rate).

During the most recent recession, however, Ontario’s unemployment rate was the fourth highest in the country (above the national rate), but a lower percentage of Ontario’s unemployed received EI benefits than in any other province. Something has broken down in the way the EI program works in the context of Canada’s current labour market.

On the one hand, the data confirm the position of

HRSDC: the EI program does respond moderately to changes in local unemployment rates and provides additional benefits to Canadians in regions that have experienced rapid rises in unemployment.

On the other hand, these responses are far from adequate and function within entrenched regional inequities and within the constraints of a program designed for a traditional labour market that no longer exists for many working-age Canadians. The automatic responses within the program do not take into account the increasing numbers of Canadians working in occupations that place them outside the EI safety net.

Policy solutions to these problems will not be simple. Regional disparities in access to EI cannot be addressed through simple redistribution of EI resources from provinces with greater EI access to provinces with lesser EI access. Since regions with greater access are generally smaller than regions with lesser access, merely recalibrating the program so that, for example, EI benefits are sent from one region to another would be an ineffective approach for addressing regional differentiation.

Likewise, simple enrichment of the EI program through easing entrance requirements may be unaffordable for workers and businesses that pay for the system through premiums and could hurt job creation.

Given the changes in the labour market since the recessions of the 1980s and 1990s, simply easing entrance requirements will still leave many Canadians, disproportionately concentrated in Ontario, Alberta and BC, with no protection against loss of employment. A broad re-think of the EI program and support for the unemployed that is sensitive to changes in the Canadian labour market is required.

## DEFINITIONAL NOTE

In this note, the “EI benefit rate” is calculated by dividing the number of regular EI recipients by the number of unemployed persons, producing a ratio of beneficiaries over unemployed persons. The EI benefit rate is also commonly referred to as the

**Regional disparities in access to EI cannot be addressed through simple redistribution of EI resources from provinces with greater EI access to provinces with lesser EI access.**

Beneficiary to Unemployed ratio (B/U ratio). This measure is widely used by researchers, including by those working for the federal government. It is a simple measure and highlights whether the EI system is providing coverage to those who are unemployed.

It is, however, recognized as an imperfect measure. In particular, the denominator (i.e. the number of unemployed) includes people without jobs for very different reasons: those who work in non-standard employment and are not part of the EI system, those who are part of the EI system but had not worked long enough to collect benefits or who have exhausted their benefits, and those who had left their job voluntarily or for other reasons.

Appendix 1 discusses alternative methods of gauging EI coverage other than what is labelled in this note as the EI benefit rate (the B/U ratio). The benefit rate is good at identifying whether a problem exists but not as good at explaining why the problem exists. This note makes the choice to employ this commonly used metric because it is the best measure to assess the question of interest: namely, is the EI system, as currently designed, treating unemployed Canadians fairly no matter where the live?

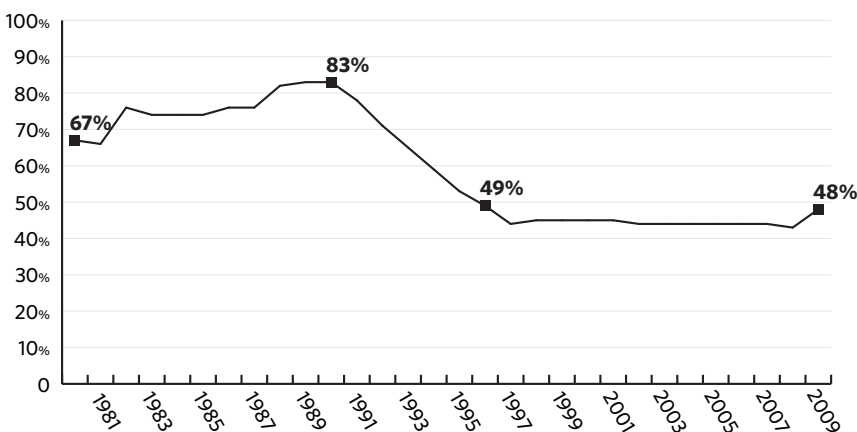
## NATIONAL AND PROVINCIAL TRENDS: THE EI BENEFIT RATE OVER 30 YEARS

In general, the EI benefit rate has declined sharply over the past 30 years, though a moderate increase began in 2008 due to federal changes introduced in response to the global economic downturn, some of which expire in September 2010. As demonstrated in Figure 1,<sup>5</sup> over 80 per cent of the unemployed once received EI, whereas fewer than 50 per cent did in 2009.

Changes to the EI program have contributed to a national decline in the EI benefit rate. In 1993, reforms to the EI program made unemployed

workers who refuse to accept suitable employment or who were fired “with cause” ineligible for EI benefits. In 1996 another series of reforms to the EI program increased the amount of work that new and returning workers needed prior to job loss in order to qualify for EI benefits.

**FIGURE 1**  
Percentage of the Unemployed Receiving EI/UI Benefits - Canada 1980-2009



Source: Statistics Canada

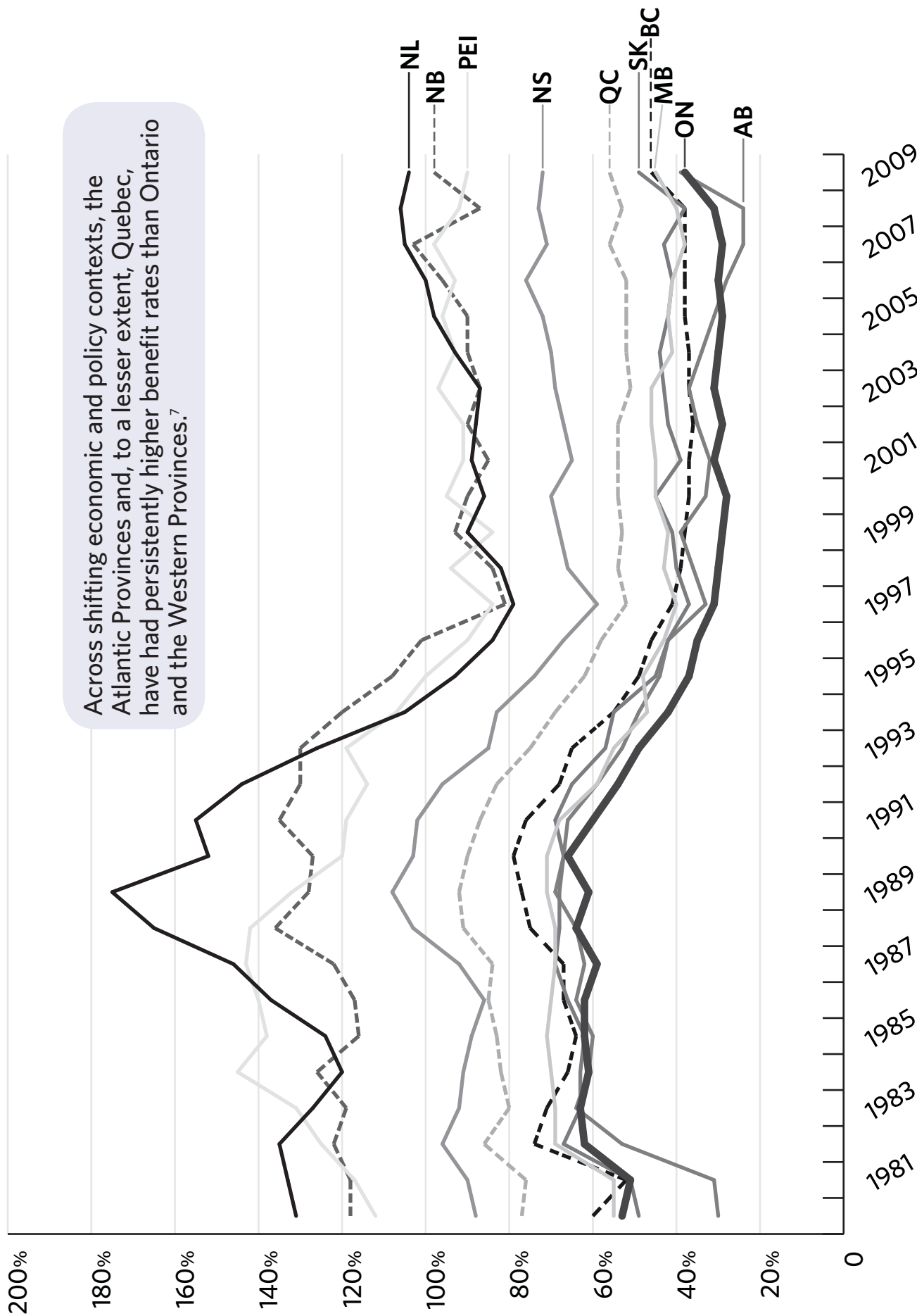
There is significant debate in the Canadian public policy community about these changes, with some suggesting they encouraged Canadians to work and have been an important contributor to Canada’s strong economic performance over the past decade, and others suggesting that they weakened Canada’s social safety net.<sup>6</sup>

Beyond these changes to the program itself, broader labour market changes have contributed to a decline in the EI benefit rate. Throughout the period covered by Figure 1, the expansion of non-standard work (self-employed, contract, part-time) has left many workers with less ability to accumulate the hours of work necessary for EI qualification or placed them outside the system altogether (i.e. making no contributions and expecting no benefits should they be without employment).

The declining national benefit rate is part of the backdrop for this note, which focuses on regional inequities in the EI system.

Figure 2 shows that all provinces have experienced declines in benefit rates that mirror national trends. Regional differentiation in the EI benefit rate remained stable despite changes to EI rules and labour market patterns.

**FIGURE 2**  
**Percentage of the Unemployed Receiving EI/UI Benefits**  
**- by Province 1980-2009**



## HOW EI RESPONDS TO UNEMPLOYMENT

**B**efore turning to an analysis of EI's performance across recessions, it is important to discuss how EI responds to unemployment at an operational level.

EI divides Canada into 58 "economic regions," with the availability of EI benefits in each region differing according to how the region's unemployment rate compares with the national unemployment rate (averaged for the three months prior to the time at which an individual applies for benefits). Individuals living in regions with higher unemployment rates can qualify for EI benefits faster and receive benefits for longer periods of time.

In 2008, in regions with unemployment above 13.1 per cent, 85.2 per cent of individuals with qualifying job separations (i.e. those laid-off without cause) had accumulated enough hours to receive EI. In regions where unemployment was six per cent or lower, 69.2 per cent of individuals with qualifying job separations had sufficient hours to qualify for EI.<sup>8</sup> This practice of regional differentiation in access rules produces significant variation in the benefit rates across provinces.

There is widespread evidence that the local unemployment rate is a blunt, inefficient and unfair measure to differentiate between workers. Canada is one of the few countries in the world to tie one's eligibility and duration of benefits to the local unemployment rate.<sup>9</sup>

The rationale cited for the use of this measure is that the local unemployment rate is an indicator of the ease with which one can find a job. However, local unemployment rate is an inadequate basis for determination of benefit eligibility for a number of reasons:<sup>10</sup>

- Unemployment is a sectoral phenomenon. For example, a worker laid off from a traditional manufacturing position in a region with relatively low unemployment, like the IT-intensive Kitchener-Waterloo region, may not have the skills necessary to fill the jobs that are in demand in that region (i.e. the IT sector).
- To determine eligibility, the federal government uses a lagging indicator, the official unemploy-

ment rate in the three months immediately prior to the time at which an individual applies for benefits. As job losses mount in a community, individuals may experience more difficulty finding work, which an unemployment rate from an earlier and stronger economic period would fail to capture. It is particularly problematic to limit benefits at a time of large scale job loss, merely because unemployment was low months earlier.<sup>11</sup> Correspondingly, during periods of economic recovery and strong hiring, an unemployment rate from an earlier and weaker economic period may offer benefits that are too generous.

- The official unemployment rate fails to account for people in communities that are often under-measured and under-reported, including, for example, Aboriginal communities in Western Canada.
- Most fundamentally, the rate itself is quite simply a poor measure of how easy it is to find a job in many circumstances when compared to the *rate of change* in local unemployment. Change in local unemployment is usually a better measure of the difficulty of finding a job than comparison of the local unemployment rate to its national equivalent.<sup>12</sup>

Despite these significant misgivings about the utility of the local unemployment rate as a valid measure to determine benefits, in order to examine the substantive outcomes of regional differences in access to EI benefits, this note assesses the effectiveness and responsiveness of EI within the current program parameters, namely, that local unemployment rate is a justifiable basis on which to differentiate between Canadians.

## COMPARATIVE ANALYSIS OF THREE RECESSIONS

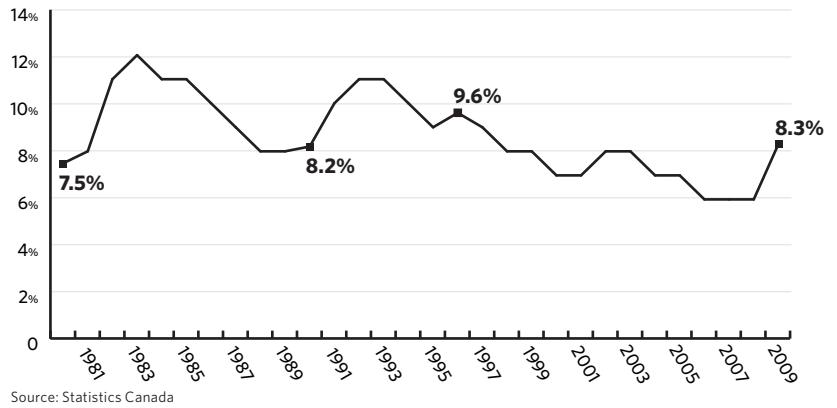
**T**his section first profiles trends in unemployment over the past 30 years and then examines average EI benefit rates during the initial 18 months of each of the past three recessions. The performance of EI during the two most recent recessions is then analyzed in greater detail on a calendar year basis. Identical timeframes are used to draw valid comparisons of the performance of EI.<sup>13</sup>



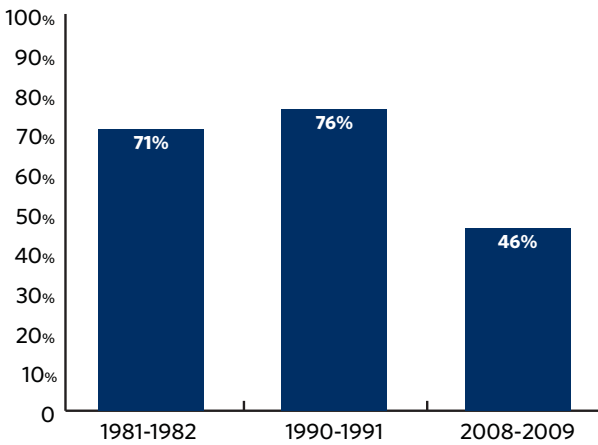
To set the stage for this analysis, Figure 3 charts trends in unemployment in Canada from 1980 to 2009.

The recessionary periods of the early 1980s, early 1990s, and late 2000s are clearly reflected in unemployment trends. It is during such periods that the responsiveness of the EI system is most important to Canadians.

**FIGURE 3**  
Average Unemployment Rate 1980-2009 (Yearly Average)



**FIGURE 4**  
Average Percentage of the Unemployed Receiving EI/UI Benefits - Initial 18 Months of Three Recessions - Canada



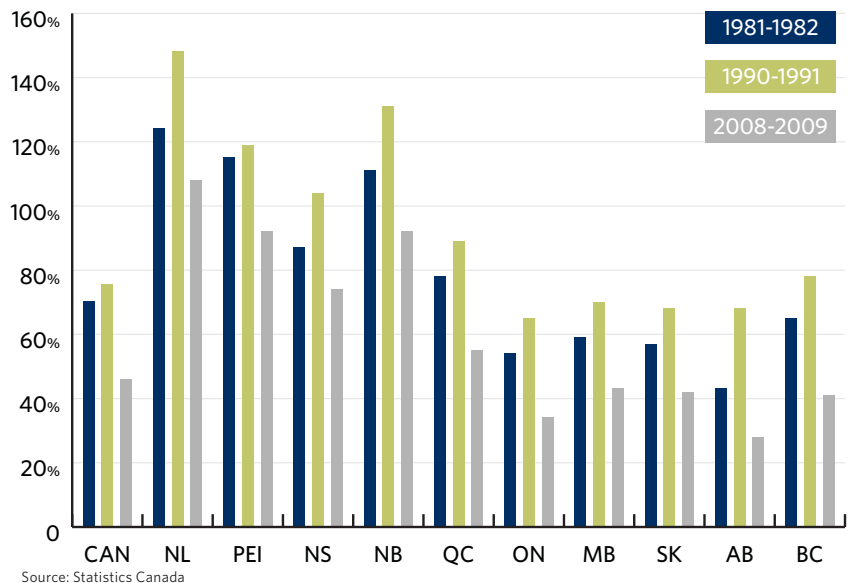
The performance of the EI system across the past three recessions mirrors the national decline in the EI benefit rate over the past 30 years. As Figure 4 demonstrates, the EI benefit rate during the 2008-2009 recession was lower than during past recessions.

In the first 18 months of the recession that began in 1981 the average EI benefit rate was 71 per cent. In the initial 18 months of the recession that began in 1990 the average EI benefit rate was 76 per cent. At 46 per cent, the average EI benefit rate was dramatically lower during the first 18 months of the 2008-2009 recession. This analysis is replicated on a provincial basis in Figure 5.

While a national decline in EI benefit rate is observable between the 1990-1991 recession and the 2008-2009 recession, this trend is clearly accompanied by the regional differentiation that has persistently characterized the EI program.

As shown, the EI program functioned very differently during the three recessions. Yet, despite differing economic and policy contexts during these periods, regional variation within the EI program has remained stable.

**FIGURE 5**  
Average Percentage of the Unemployed Receiving EI/UI Benefits - Initial 18 Months of Three Recessions - Canada and Provinces





## EVOLUTION IN BENEFIT RATE BY PROVINCE DURING TWO RECESSIONS

Tables 1 and 2 analyze the responsiveness of the EI system to increasing unemployment between 1990-1991 and 2008-2009. The EI system is intended to react and adjust to increases in unemployment. Benefit availability is supposed to be a function of individuals' capacity to access employment. To what extent does the EI system produce greater coverage during periods of greater unemployment and does the pattern of these changes differ by province?<sup>14</sup>

In both 1990-1991 and 2008-2009, unemployment increased on a national basis by roughly two percentage points. As unemployment rose on a national basis, the EI benefit rate declined slightly in 1990-1991 and increased slightly in 2008-2009. In the early 1990s, however, the EI benefit rate was far higher at the outset of the recession. The end result was a higher overall EI benefit rate during the earlier recession.

As unemployment rose by 2.1 percentage points between 1990 and 1991, the EI benefit rate in Canada fell from 83 to 78 per cent. In both 1990 and 1991 the five westernmost provinces had the lowest EI benefit rates. This distribution remained stable as unemployment grew significantly and the EI benefit rate declined marginally across Canada.

- Ontario, which experienced the largest increase in unemployment of any province (3.4 points), saw its benefit rate fall by six percentage points. As Ontario's unemployment rate moved from lowest in the country to become the sixth highest, its benefit rate rank in Canada fell from eighth to last place.
- In Quebec, as unemployment hit 12.1 per cent, the province's EI benefit rate remained high, falling by only three points from 90 to 87 per cent. Quebec's benefit rate rank remained stable in fifth.
- As BC's unemployment rate increased from 8.4 to 9.9 per cent, the province's benefit rate decreased by three points from 79 to 76 per cent. BC's benefit rate ranking remained at sixth, making it the province with the highest EI benefit rate west of Quebec.
- Following increases in unemployment, the four Atlantic Provinces saw their EI benefit rates remain steady at over 100 per cent (endnote 7 describes how this is possible); they also remained the highest in the country.

On a national basis, the EI benefit rate dropped by five percentage points between 1990 and 1991, but still remained relatively high at an average of 78 per cent in 1991. While patterns of East-West

**TABLE 1**  
Reaction of the EI System to Recessionary Unemployment 1990-1991,  
Outcomes for the EI Benefit Rate - Canada and Provinces

|     | UNEMPLOYMENT RATE 1990 | UNEMPLOYMENT RATE 1991 | BENEFIT RATE 1990 | BENEFIT RATE 1991 | BENEFIT RATE RANK 1990(1991) | UNEMPLOYMENT RANK 1990(1991) |
|-----|------------------------|------------------------|-------------------|-------------------|------------------------------|------------------------------|
| CAN | 8.2%                   | 10.3%                  | 83%               | 78%               | N/A                          | N/A                          |
| NL  | 17%                    | 18.1%                  | 152%              | 155%              | 1(1)                         | 1(1)                         |
| PEI | 14.6%                  | 16.7%                  | 120%              | 119%              | 3(3)                         | 2(2)                         |
| NS  | 10.7%                  | 12.1%                  | 103%              | 102%              | 4(4)                         | 4(4)                         |
| NB  | 12.1%                  | 12.7%                  | 127%              | 135%              | 2(2)                         | 3(3)                         |
| QC  | 10.4%                  | 12.1%                  | 90%               | 87%               | 5(5)                         | 5(4)                         |
| ON  | 6.2%                   | 9.6%                   | 66%               | 60%               | 8(10)                        | 10(6)                        |
| MB  | 7.4%                   | 8.6%                   | 71%               | 68%               | 7(8)                         | 7(7)                         |
| SK  | 7.1%                   | 7.4%                   | 67%               | 69%               | 9(7)                         | 8(9)                         |
| AB  | 6.9%                   | 8.2%                   | 67%               | 66%               | 9(9)                         | 9(8)                         |
| BC  | 8.4%                   | 9.9%                   | 79%               | 76%               | 6(6)                         | 6(5)                         |

Source: Statistics Canada

regional differentiation existed during the recession of the early 1990s and Ontario found itself in last place in benefit rate, the impact of these regional differences was mitigated by the relatively high levels of overall benefit rates.

Table 2 analyzes EI's responsiveness to the recession of 2008-2009, a recession that has formally concluded but continues to affect many Canadians today. Regional disparities in benefit rates had a greater impact during the most recent recession than in earlier ones.

Between 2008 and 2009, national unemployment increased by 2.2 percentage points, which was accompanied by an increase of 5 percentage points in the EI benefit rate—from 43.3 to 48.3 per cent. This increase, however, was not uniform across the country.

Between 2008 and 2009, the 2.5 percentage point growth of unemployment in Ontario resulted in an increase in Ontario's benefit rate by 7.5 percentage points from 30.5 to 38 per cent (this was the lowest benefit rate in Canada, just as in 1991). As Ontario went from having the sixth to fourth highest unemployment rate in Canada, its EI benefit rate ranking moved from ninth to last. Ontario's benefit rate in 2009 seemed especially low in comparison with provinces with similar unemployment rates.

For example, New Brunswick had an EI benefit rate of 97.9 per cent and Quebec had a rate of 55.7 per cent, despite unemployment numbers comparable to Ontario's. On the other hand, BC's pattern during the period closely resembles Ontario's: both experienced similarly significant increases in unemployment between 2008 and 2009 and both experienced very little increase in their benefit rate.

One of the important take-aways from the data is that regional differentiation in benefit rates is a structural feature of EI that has gotten worse. Ontario and all provinces west of it face barriers to EI that the system's self-adjustment never eliminates.<sup>15</sup> As patterns of regional differentiation have continued, many of the unemployed in Ontario and provinces to its west are either left to fend for themselves or forced to shed assets and spend savings in order to access provincial social assistance.

Even operating within the logic of federal assumptions—specifically, that local unemployment rate is a suitable surrogate for measuring the difficulty of finding a job—the EI system fails to respond adequately to increases in unemployment.

While there was never a direct correlation between a province's unemployment rate and its EI benefit rate, Canada now faces a perverse scenario in which a province (Ontario) can be in the top 5 in terms of unemployment and last in terms of EI

**TABLE 2**  
Reaction of the EI System to Recessionary Unemployment 2008-2009,  
Outcomes for the EI Benefit Rate - Canada and Provinces

|     | UNEMPLOYMENT RATE 2008 | UNEMPLOYMENT RATE 2009 | BENEFIT RATE 2008 | BENEFIT RATE 2009 | BENEFIT RATE RANK 2008(2009) | UNEMPLOYMENT RANK 2008(2009) |
|-----|------------------------|------------------------|-------------------|-------------------|------------------------------|------------------------------|
| CAN | 6.1%                   | 8.3%                   | 43.3%             | 48.3%             | N/A                          | N/A                          |
| NL  | 13.3%                  | 15.5%                  | 106.1%            | 104.3%            | 1(1)                         | 1(1)                         |
| PEI | 10.8%                  | 12.1%                  | 91.9%             | 89.7%             | 2(3)                         | 2(2)                         |
| NS  | 7.7%                   | 9.2%                   | 72.8%             | 71.7%             | 4(4)                         | 4(4)                         |
| NB  | 8.6%                   | 8.9%                   | 86.8%             | 97.9%             | 3(2)                         | 3(5)                         |
| QC  | 7.2%                   | 8.5%                   | 43.3%             | 55.7%             | 5(5)                         | 5(6)                         |
| ON  | 6.5%                   | 9.0%                   | 30.5%             | 38.0%             | 9(10)                        | 6(4)                         |
| MB  | 4.2%                   | 5.2%                   | 40.4%             | 45.4%             | 6(8)                         | 8(9)                         |
| SK  | 4.1%                   | 4.8%                   | 38.5%             | 49.0%             | 7(6)                         | 9(10)                        |
| AB  | 3.6%                   | 6.6%                   | 23.7%             | 39.1%             | 10(9)                        | 10(8)                        |
| BC  | 4.6%                   | 7.6%                   | 38.4%             | 45.5%             | 8(7)                         | 7(7)                         |

Source: Statistics Canada

benefit rate. For both Ontario and BC, significant increases in unemployment led to little change in the ability of the unemployed to access benefits.

## TRAINING FUNDS

The inequity that troubles EI regular benefits is compounded because accessibility to regular benefits determines access to the largest pool of federal training dollars.

In 2008-2009, the federal government spent \$2.11 billion on training through the EI program.<sup>16</sup> The great majority of these expenditures was in the form of direct transfers to the provinces, which then delivered training benefits to EI clients. In 2008-2009, 42 per cent of Canada's unemployed persons lived in Ontario, but Ontario received only 25 per cent of funds for training available for the unemployed through EI.

**The creation of a separate training program does not correct the structural inequities in the existing program.**

**TABLE 3**  
**Comparison of EI Training Expenditures - Ontario and Canada**  
**2008-2009 Fiscal Year**

|                | AVERAGE UNEMPLOYED PERSONS 2008-2009 | EI TRAINING EXPENDITURES 2008-2009 | PER-CAPITA FUNDING | % OF CANADA'S UNEMPLOYED | % OF EI'S TRAINING FUNDS |
|----------------|--------------------------------------|------------------------------------|--------------------|--------------------------|--------------------------|
| <b>CANADA</b>  | 1,213,833                            | \$2,110,000,000                    | \$1,738.29         | 100%                     | 100%                     |
| <b>ONTARIO</b> | 510,958                              | \$532,777,000                      | \$1,042.70         | 42%                      | 25%                      |
| <b>CNIO*</b>   | 702,875                              | \$1,577,223,000                    | \$2,243.96         | 58%                      | 75%                      |

\* Canada not including Ontario

Source: Statistics Canada, HRSDC EI Monitoring and Assessment Reports

While the federal government through EI Part II spent an average of \$1,042.70 on training per unemployed person in Ontario, an average of \$2,243.95 was spent per unemployed person in the rest of Canada, a figure more than double that in Ontario.

Hence, unemployed Ontarians, who are less likely to receive financial support through EI, also receive far less support for training, despite the fact that Ontario's dramatic transition away from a manufacturing-based economy likely makes retraining for the unemployed at least as necessary in Ontario as in any other province.

The federal government has implicitly acknowledged the shortcomings within the distribution of EI training funds by creating a separate pool of funding, through Labour Market Agreements with the provinces, not tied to EI eligibility. However, the creation of a separate program with fewer structural inequities does not correct the structural inequities within the existing EI training funds program.

## EI AND SOCIAL ASSISTANCE

**B**ecause of the regional inequities within the EI system, some provinces more than others may be required to shoulder greater social assistance costs for their residents, all the while seeing their residents continue to support Canadians in other provinces through the EI system.

Though it has not been possible to identify a direct relationship between low EI benefit rates in recessionary periods and increased social assistance case loads (due to unavailability of federal data), there is anecdotal evidence which suggests that where EI does not work well, provincial social assistance fills some of the gap.

For example, between December 2008 and December 2009, Ontario and BC, with low EI benefit rates, saw their social assistance client base expand by 19 per cent<sup>17</sup> and 32 per cent<sup>18</sup> respectively, while Quebec, with a higher EI benefit rate, saw its social assistance client base increase by only 2 percentage points.<sup>19</sup>

Provincial social assistance programs may play a larger role in responding to recessions in provinces with low benefit rates than in provinces with high benefit rates. If a direct relationship between EI's ineffectiveness in some provinces and the expansion of social assistance case loads were to be definitively identifiable, this inequity would represent a basic failure of Canada's social safety net.

This is an issue of fundamental importance to Canada's social policy architecture and it is hoped that the federal government will make available the data to allow Canadians to answer this question.

## NO EASY FIXES

**L**ow benefit rates in some provinces are now, more than ever, structural features of the system. There are no easy policy solutions to the regional disparities identified above, though the challenges are clear.

## REGIONAL REDISTRIBUTION IS NOT THE SOLUTION

Given that the five Eastern provinces have persistently higher EI benefit rates than the rest of Canada, calls for reform of the EI system frequently revolve around redistribution of EI resources from East to West. While uneven distribution on a per capita basis exists, the notion that the national EI problem can be solved through regional redistribution from the East ignores the simple problem of scale.

Due to population differences, the resources expended in provinces with high benefit rates are in fact relatively insignificant in terms of the demands in provinces with low benefit rates. There may be other reasons to address EI's interaction with seasonal work (which contributes to Atlantic Canada's very high benefit rates, as discussed in endnote 7), but it should not be imagined that changing the rules around

seasonal work would provide a comprehensive solution to problems of regional differentiation.

**There are no easy policy solutions to the regional disparities identified, though the challenges are clear.**

## PROGRAM ENRICHMENT COULD HURT GROWTH

One reason why the EI program served greater numbers of Canadians during past recessions is simply that EI was once a more generous program that offered easier access to benefits. While regional differentiation existed when the EI program was more generous, overall higher benefit rates moderated its impact.

It is not, however, clear that a simple restoration of the EI program of the past is the best route forward. There is credible evidence that changes to the system in the 1990s encouraged some Canadians to become more active participants in the labour market.<sup>20</sup>

## PROGRAM ENRICHMENT WOULD NOT ADDRESS REGIONAL INEQUALITIES

The Canadian labour market looks very different today than it did in 1982 or 1991. Large numbers of the non-EI recipient unemployed (many of whom are immigrants and/or women) have limited, self-

employed or sporadic labour market attachment that precludes them from EI eligibility.<sup>21</sup> Many are simply not part of the EI system.

This group is more concentrated in some provinces than in others. For example, recent immigrants are heavily concentrated in cities like Toronto and Vancouver and generally have low rates of EI eligibility.<sup>22</sup>

EI is an insurance program. Making it easier for contributors to receive benefits would not help those who are nominal contributors or outside the system altogether (e.g. some non-standard employees and the long-term unemployed).<sup>23</sup> Simply enriching the program by making eligibility easier would not be an adequate response to the persistent regional inequities in Canada's social safety net.<sup>24</sup>

EI is a program that is key to Canada's social safety net, but is available to some kinds of workers and not others. Solutions to improve the insurance quality of the program (i.e. how well it serves its contributors) must be coupled with solutions that address the broader labour market changes that leave many workers, disproportionately concentrated in Ontario and some regions of Western Canada, outside the insurance system altogether.

## CONCLUSION

**T**his *Mowat Note* has analyzed the performance of the EI system across three recessions. The analysis demonstrated that far fewer of the unemployed were able to access EI benefits in the most recent recession compared to previous recessions.

The EI system's self-adjusting mechanisms did produce increases in the number of Canadians who were able to access benefits, but did little to shrink the deep regional variations in benefit rates during the most recent recession, even as unemployment rates went up significantly in Ontario, BC and Alberta.

Despite having an unemployment rate above the national average, Ontario had the lowest EI benefit rate in the country in 2009. The low benefit rate in Ontario produced much lower access to federal training funds than was available elsewhere

in the country. BC also experienced spikes in unemployment during the most recent recession, accompanied by a very small increase in EI benefit rate.

This note empirically tested the argument advanced by defenders of the current EI system that regional inequities are defensible because the system is responsive to changes in local unemployment rates. In terms of substantive outcomes, such claims are overstated. Significant increases in unemployment in some regions during the most recent recession were accompanied by increases in benefit rate, but regional inequities persisted unabated.

In fact, these moderate increases in benefit rate underscore the incoherence of the current system: BC, Alberta and Ontario experienced comparable increases in unemployment, yet experienced quite different increases in benefit rate.

The protection offered by the federal social safety net is regionally differentiated, and this differentiation is structural, offering no support to many who lose their jobs. The automatic adjustments within the EI program offer some help for those who are part of the formal EI program, but they are not designed to deal with the structural issues.

The system simply does not respond well to job losses in Ontario and parts of Western Canada. EI's poor performance in Ontario and Western Canada may place added pressures on provincial budgets and provincial taxpayers in those provinces. Simply stated, a national social program that does not work for Ontario or the West is not in the national interest.

EI reform cannot be considered in isolation. It must be built on a thorough analysis of the fit between EI, the modern Canadian labour market and the full suite of income security and training programs at the federal and provincial level. Canadians deserve a program that is there when they need it. It would be a wasted opportunity to wait until the next recession to rediscover that the EI program is fundamentally broken. *MC*

## APPENDIX

### METHODOLOGY FOR BENEFIT RATE ANALYSIS

There is some controversy regarding how the performance of EI should be measured.<sup>25</sup> This controversy over measurement mirrors the debate regarding the intended/appropriate purpose of the EI program and also reflects programmatic and data collection technicalities.

This note utilized what is known as the “beneficiaries to unemployed ratio” (B/U), referred to herein as the benefit rate. The B/U is a simple comparison of the number of EI beneficiaries to the total number of unemployed. The B/U ratio indicates how the EI system serves all of Canada’s unemployed (who are formally counted as such). One criticism of the B/U is that it measures whether some individuals receive EI, though under current EI rules they have no chance of becoming eligible for benefits. There are other potential problems with using the benefit rate. For example, some regular EI beneficiaries work part-time and may not be counted as unemployed despite receiving benefits.

This note uses the official Statistics Canada definition of unemployed persons, which includes only individuals who are actively seeking work, though some controversy does surround this method of determining who is unemployed. As explained in footnote 7, some EI recipients—most probably seasonal beneficiaries—may not answer that they are actively looking for work in unemployment surveys, thus also potentially excluding them from the denominator and distorting the B/U ratio. However, with the necessary caveats, the B/U ratio is the best available approach and is widely used.

Aside from the B/U ratio, other methods for analyzing EI’s performance are possible. For example, HRSDC sometimes uses the number of individuals who had an EI qualifying job separation as the denominator and EI beneficiaries as the numerator. This approach has the effect of focusing upon those eligible for EI within current program parameters (a useful measure), but does not consider the role that the EI program plays for all unemployed Canadians. Unfortunately, data are not publicly available from HRSDC to produce a full recession-to-recession analysis using this method, though footnote 15 does contain data using this method for 2008.

Use of the ratio of beneficiaries to unemployed contributors is another possible metric for assessing the performance of EI. This approach would gauge how many unemployed persons who paid into EI actually received benefits. Data to produce a recession-to-recession analysis using this approach are similarly not readily available.

The reality is that no metric is perfect. The B/U ratio is blunt, measuring the availability of EI for some individuals who would likely never be incorporated into the program. The HRSDC measurement is, by contrast, overly narrow for the purposes of this analysis. Alternatively, utilizing the percentage of individuals who paid into the system as the denominator has the advantage of capturing “program fairness” from an insurance perspective, which is critical, but still overlooks a sizeable number of the unemployed.

## ENDNOTES

1 Human Resources and Skills Development Canada, “Fairness for the Self-Employed Act passed by Parliament,” News Releases, December 16, 2009, <http://news.gc.ca/web/article-eng.do?nid=502959>; Human Resources and Skills Development Canada, “Government of Canada intends to table legislation to extend Employment Insurance benefits for long-tenured workers,” News Releases, September 14, 2009, <http://news.gc.ca/web/article-eng.do?nid=481549>.

2 Jane Taber, “The deal-making drama behind closed doors,” *The Globe and Mail*, June 18, 2009.

3 Brian Laghi, “Premiers take on thorny issue of overhauling EI standards,” *The Globe and Mail*, August 5, 2009.

4 Government of Canada, “Fact Sheet - Variable Entrance Requirements and Extended Employment Insurance Benefits,” <http://www.rhdcc-hrsdc.gc.ca/eng/corporate/budget/2009/vereieb.shtml>.



5 Prior to 1996, Employment Insurance (EI) was referred to as Unemployment Insurance (UI). This figure also encompasses the UI program. The same applies to all tables and figures presenting pre-1996 data in this note.

6 Alice Nakamura, *Employment Insurance: A Framework for Real Reform* (Toronto: C.D. Howe Institute, 1996), <http://www.cdhowe.org/pdf/nakamura.pdf>; L. Osberg, *Canada's Declining Social Safety Net: The Case for EI Reform* (Ottawa: Canadian Centre for Policy Alternatives, 2009), <http://www.policyalternatives.ca/publications/reports/canadas-declining-social-safety-net>.

7 There are several reasons why provincial coverage rates can be calculated at over 100 per cent. The most likely reason is that one can receive EI benefits from Human Resources and Skills Development Canada (HRSDC) without being defined as unemployed by Statistics Canada. Statistics Canada defines unemployed individuals as persons who do not have a job, who are available for work, and who have actively looked for work in the past four weeks. If an individual is an EI recipient and has not actively looked for work in the past four weeks, then he or she will be counted as receiving EI, but not as unemployed. Statistics Canada would view such individuals as simply "not in the labour market." The Atlantic Provinces, which routinely have coverage rates over 100 per cent, are also the biggest "seasonal" users of EI. When individuals are collecting EI in an "off season," they may not be looking for work, perhaps knowing that work is unavailable at that time. The Atlantic Provinces thus likely have large numbers of individuals without jobs receiving EI who are not defined as unemployed by Statistics Canada. In addition, individuals can earn small amounts of money while receiving EI. Depending how they respond to unemployment studies, such individuals may not be counted as unemployed while receiving EI.

8 Human Resources and Skills Development Canada, "EI Monitoring and Assessment Report 2009," EI and Individuals, [http://www.hrsdc.gc.ca/eng/employment/ei/reports/eimar\\_2009/index.shtml](http://www.hrsdc.gc.ca/eng/employment/ei/reports/eimar_2009/index.shtml).

9 For two commentaries that come to this conclusion see: Michael Mendelson and Sherri Torjman, *Canada's Shrunken Safety Net: Employment Insurance in the Great Recession*, Caledon Commentary (Ottawa: Caledon Institute of Social Policy, April 2009); Grant Bishop and Derek Burleton, *Is Canada's Employment Insurance Program Adequate?* (Toronto: TD Economics, April 30, 2009), [http://www.td.com/economics/special/gb0409\\_EI.pdf](http://www.td.com/economics/special/gb0409_EI.pdf).

10 Jeremy Leonard, "Time to Get Real on EI Reform," *Policy Options*, September 2009.

11 Colin Busby, Alexandre Laurin, and David Gray, *Back to Basics: Restoring Equity and Efficiency in the EI Program*, e-brief (Toronto: C.D. Howe Institute, August 6, 2009), 3.

12 For example, at the height of the recession in 2009, the unemployment rate in Alberta was below the national average at 7.7 per cent (Aug 2009). Nonetheless, because the unemployment rate in Alberta had increased in recent months (from 6.2 per cent in June 2009) it was difficult to find work in many sectors and communities. Static observation of Alberta's unemployment rate as "below the national average" obscures the severity of the contraction in hiring during this period.

13 Tracking the performance of EI across the full development of unemployment in each recession would provide a more nuanced picture of EI performance during each recession, but would harm comparability between recessions (the goal of this analysis). It should be noted, however, that unemployment developed differently in each recession, so the chosen periods do not necessarily capture the long-term impact of each recession on employment levels.

14 For purposes of simple display, the following tables utilize calendar year data. It should be noted, however, that while GDP first contracted in January of 2008 during the most recent recession, the 1990s recession formally began in April of 1990. The use of calendar year data does not significantly alter the outcomes of this analysis.

15 One alternative measure of EI accessibility often used by HRSDC utilizes a denominator composed only of those unemployed persons who had a "qualifying job separation" (persons laid-off recently without cause) who are part of the EI system (i.e. contributors). When this method was used to examine EI accessibility in 2008, Newfoundland and Labrador remained at the top and Ontario remained at the bottom. However, the distance between these provinces closed considerably with this method: eligibility was 91.4 per cent for Newfoundland and Labrador and 78.9 per cent for Ontario. See Government of Canada, "EI Monitoring and Assessment Report 2009," EI and Individuals.

16 *Ibid.*, Chapter 3.

17 Government of Ontario, "Social assistance in Ontario: Reports - Ontario Works," n.d., [http://www.mcscs.gov.on.ca/en/mcscs/programs/social/reports/ow\\_quarterly.aspx](http://www.mcscs.gov.on.ca/en/mcscs/programs/social/reports/ow_quarterly.aspx).

18 While data from Ontario and Quebec are presented in "caseloads" (e.g. family units), data from BC is for individual recipients. See: "Research and Statistical Information - BC Ministry of Housing and Social Development," Issue: 2009-12, December 2009 data, January 29, 2010, <http://www.eia.gov.bc.ca/research/>.

19 Bill Curry, "Ontario seeks Ottawa's help as welfare cases spike," *The Globe and Mail*, March 15, 2010.

20 David Gray, *Employment Insurance: What Reform Delivered* (Toronto: C.D. Howe Institute, 2004), [http://www.cdhowe.org/pdf/backgrounder\\_82.pdf](http://www.cdhowe.org/pdf/backgrounder_82.pdf).

21 Ken Battle, *Gender Aspects of Employment Insurance* (Ottawa: Caledon Institute of Social Policy, March 2009), 7.

22 Government of Canada, "EI Monitoring and Assessment Report 2009," Chapter 5, Section I.

23 Jeremy Leonard, "Time to Get Real on EI Reform"; Jill Black and Richard Shillington, *Employment Insurance: Research Summary for the Task Force on Modernizing Income Security for Working Age Adults*, 2008, [www.torontoalliance.ca/imageLibrary/MISWAA\\_EI.pdf](http://www.torontoalliance.ca/imageLibrary/MISWAA_EI.pdf).

24 That being said, steeper entrants requirements (the 910 hour rule) for returning and new labour market entrance may present a real barrier to coverage that could exacerbate regional differentiation due to the regionally differentiated concentration of younger workers and recent immigrants.

25 The material in Appendix 1 is drawn largely from Richard Shillington and John Stapleton, *Cutting Through the Fog: Why is it so Hard to Make Sense of Poverty Measures?* (Toronto: Metcalf Foundation, May 2010).



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