



EMPLOYMENT INSURANCE IN THE NEW WORLD OF WORK

MORLEY GUNDERSON



School of Public Policy & Governance
UNIVERSITY OF TORONTO



APPLIED PUBLIC POLICY RESEARCH
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By Morley Gunderson
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This paper was prepared by Morley Gunderson. It is one in a series of papers commissioned by the Mowat Centre Employment Insurance Task Force to serve as sources of input for the Task Force as it develops recommendations for reform of Canada's Employment Insurance system.

Executive Summary

The changing nature of work is outlined with respect to those changes that have the most important implications for Employment Insurance. The demand-side changes include: skill-biased technological change, especially associated with the computer revolution and the shift to a knowledge economy; trade liberalization; globalization and offshore outsourcing; industrial restructuring mainly from manufacturing to services; deregulation, privatisation and contracting out; unanticipated one-off shocks such as SARS; and shocks such as the dot.com bust and the recent financial crises. Changes from the supply side of the labour market include: the ageing workforce with transitions to and from retirement; youths making the school-to-work transition; the dominance of the multiple-earner family with its needs for work-family balance; and recent cohorts of immigrants increasingly having difficulty assimilating into the labour market. Important institutional changes include: declining unionization and union power; and increasing pressure on governments to reduce regulatory initiatives so as to compete with other jurisdictions for investment and the jobs associated with that investment. These various pressures have also fostered an increase in non-standard employment as well as a decline in job stability especially for youths.

Particular attention is also paid to the role of other mechanisms that can be complements or possibly substitutes for government regulation through EI; they can also respond to the changing incentives created by EI. They include: compensating wage premiums for the risk of job loss; wage flexibility to reduce the risk of layoffs; substitution across different programs (disability, workers' compensation and social assistance); and the cost shifting of payroll taxes so they are largely borne by workers.

The design features of EI that are most likely to be affected by these changes are then discussed, including: the benefit replacement rate; the benefit duration and regionally extended benefits; the coverage of self-employed fish harvesters and regional development issues; active adjustment assistance through the EBSM programs under Part II; the shift from weeks to hours worked to determine eligibility; experience rating on employers and employees; extending coverage to more forms of non-standard employment; personal unemployment-insurance lifetime savings accounts; EI modifications for job loss from one-off, temporary, unanticipated shocks; EI-assisted work-sharing; and wage insurance.

The design and implementation features that generally adhere to basic insurance principles and that are consistent with the changes of the new world of work, and that should thereby be continued include:

- The modest income replacement rate
- The normal duration of benefits
- The emphasis on active adjustment assistance through the EBSMs
- Eligibility based on hours rather than weeks worked
- Activation requirements to engage in job search or training
- The use of modified EI to deal with unemployment from one-off, unanticipated, temporary shocks
- EI-assisted work-sharing to deal with such shocks as well other temporary bouts of unemployment.

Adhering to basic commercial insurance principles and adjusting to the changes associated with the new world of work, however, suggested a number of reforms in the design and implementation features that merit consideration. The most important are:

- Eliminate or reduce regionally extended benefits
- Apply experience rating to employers
- Apply experience rating to workers through restoring the “intensity rule” on repeat users

A number of potential reforms also merit more attention but more information is needed on them before being seriously considered. These include:

- Extending coverage to various forms of non-standard employment
- Personal unemployment insurance lifetime savings accounts
- Wage insurance

The main suggested reforms of reducing regionally extended benefits and applying experience rating to both employers and employees, however, are ones that are likely to be subject to stringent political resistance, highlighting the challenge for reform.

EMPLOYMENT INSURANCE IN THE NEW WORLD OF WORK

Morley Gunderson

The world of work is rapidly changing, raising the issue of whether labour policies developed and designed for the old world of work are still relevant for the new world of work. Over time in Canada, EI has evolved from a basic insurance scheme to a mixture of insurance and income maintenance as well as having elements of fostering social objectives. It may be poorly designed as an income maintenance program, however, for a number of reasons (Gunderson, 2004a). For example, EI is generally based on the individual as the unit of account while income maintenance is generally based on the family (albeit there can be concern over whether all persons within a family have access to the resources). EI benefit payouts are based on earnings and not on family wealth or need. Since the payouts are for only a short period it does not assist those who may have paid into the system for a lifetime, lost their job late in their career, and have structural difficulty finding a new job. EI is also based on being unemployed as the only measure of need and hence does nothing to assist the working poor. By providing passive income support, EI may exacerbate poverty in the long run by discouraging the structural adjustment and the move out of declining and seasonal industries, regions and communities.

While there is obvious controversy, the evidence (summarized in Benjamin et al., 2007: 575-579 and discussed subsequently) suggests that EI:

- Increases both the incidence and duration of unemployment
- Increases labour force participation to qualify for EI
- Increases seasonal employment, especially because of the regionally extended benefits
- Increases repeat use of EI
- Leads to “spikes” at the weeks of employment necessary to qualify for EI
- Reduces the need for employers to have to pay a compensating wage for such work
- Fosters community reliance on EI running the risk of an artificial economy geared to EI
- Reduces inter-regional mobility since there is less incentive to move from declining to expanding regions, although the effect is often regarded as small (Audas and McDonald, 2003; Day and Winer, 2001; Lee and Coulombe, 1995).
- On the more positive side, EI can foster a better job match by enabling longer job search rather than having to take the first job that becomes available and this can increase the length of subsequent employment spells (Belzile, 2001).
- As well, it serves its important role of sustaining consumption over spells of unemployment (Gruber, 1997).

CHANGING NATURE OF WORK AND IMPLICATIONS FOR EI

From the demand side, skill-biased technological change, especially associated with the computer revolution and the shift to a knowledge economy, as well as trade liberalization have exposed firms and their workers to the forces of international competition, globalization and offshore outsourcing. In part as a result of these forces, industrial restructuring has occurred mainly from manufacturing to services, with the services being at the polar ends of the occupational distribution—high-end services in business, finance, administration and the professions, and low-end consumer services. These have been enhanced by deregulation, privatisation (often associated with re-inventing government) and contracting out—all of which are associated with enhancing competitive market pressures. Unanticipated one-off shocks have also occurred in such forms as SARS, mad-cow disease, and storms. Shocks have also occurred in such forms as the dot.com bust and the recent financial crises.

These demand changes have a number of implications for EI. Many of the changes are permanent and structural rather than short-term or cyclical, and EI is designed more to deal with the latter rather than the former. Many involve job loss for older workers who have paid into the EI system over their lifetime and are now permanently displaced from their former lifetime job, and who may feel too young to retire but too old to retrain or relocate. To the extent that the middle of the job distribution has been “hollowed out” there are few jobs like their former ones. Workers often do not have the skills to move up the occupational ladder into the higher-paying “good jobs” and hence are displaced to lower-paying jobs often in the service sector, with their supply influx also lowering those wages so that if they do obtain a new job it often involves substantial wage reductions that are “uninsured.” In many circumstances, plant closings have affected whole communities that are isolated with few alternative opportunities. Older workers can be affected not only by the job and wage losses but also by the loss of property values, industry-specific human capital, deferred compensation associated with seniority, and the risk of pension loss—all of which are “uninsured.” In essence, while commercial insurance is intended to insure against catastrophic losses, EI is not designed to insure against many of the losses associated with these demand changes. Youths are also facing new challenges. To the extent that the middle-rungs of the job ladders are often missing, they often do not have the opportunity to start at the bottom and move up the career ladder. If they are dropouts or lack education, they can be permanently trapped in the “bad jobs” of the low-wage service economy, if they can even obtain a job. Not being able to obtain an initial job can also leave a permanent legacy or long-run scarring effect (Beaudry and Green, 2000)

From the supply side of the labour market, the ageing workforce means that more workers are in the age bracket when the previously discussed structural adjustments are occurring. For older workers the trend toward earlier retirement has reversed itself and they are increasingly transitioning into and out of retirement (Schirle, 2008). The dominance of the multiple-earner family does provide some diversification against the risk of one-earner being unemployed, and the same applies to the fact that youths are increasingly working while in school and are living at home. Middle-age workers are trying to find work-family balance raising the issue of whether reductions in hours worked would alleviate unemployment and the need for EI. Recent cohorts of immigrants are increasingly having difficulty assimilating into the labour market in spite of their high levels of skill and education (Ferrer and Riddell, 2008 and references cited therein).

Most of these changes from the supply side of the labour market imply a continued role for EI to facilitate the various life-cycle transitions that are occurring and to possibly support job search that could lead to a more productive job match rather than having to take the first job that comes available.

Various institutional changes are also occurring that can have important implications for EI. The decline of unionization and union power implies a decline in supplementary unemployment benefits that unions have often provided. But the decline of union power could also lead to more wage flexibility that could mitigate unemployment.

The most important institutional change is the increased pressure that governments face to reduce regulations given the increased inter-jurisdictional competition for investment and the jobs associated with that investment (Gunderson, 1998a). Businesses are increasingly mobile and able to relocate their plants and engage in offshore outsourcing. This can foster the harmonization of legislative and regulatory initiatives including EI toward the lowest common denominator. While there is considerable debate over the extent to which such downward movement occurred in general, there is evidence that reforms in Canada in the late 1980s and mid 1990s reduced the greater generosity of the Canadian system downwards toward the less generous US system (Boychuk and Banting, 2003; Gomez and Gunderson, 2005).

Partially due to the pressures emanating from the demand and the supply side of the labour market, there has been an increase in non-standard employment in various forms such as: permanent part-time work; seasonal work; casual, temporary work on limited-term contracts; self-employment; temporary-help agencies; on-call work; telecommuting and home working (OECD, 2008; Vosko, 2010). This has given rise to the concern that some of such employment is often not protected by labour laws and regulations, including EI.

Related to the increase in non-standard employment, is the concern that life-time jobs and job stability have declined. The evidence on this is somewhat controversial but it tends to suggest that *average* job stability (perhaps surprisingly) has not declined in part because the workforce is increasingly made up of older workers who tend to have long tenured jobs and women whose job tenure is increasing. The evidence is more in agreement, however, that youths can expect less job security over their work-life (Farber, 2008; Cazes and Tonin, 2009). This does suggest a continued role for EI to facilitate the transitions between jobs and to possibly support job search that could lead to a more productive job match rather than having to take the first job that comes available.

OTHER MECHANISMS FOR DEALING WITH RISK OF UNEMPLOYMENT

In examining the role of EI in the new world of work, it is important to recognize the role of other mechanisms besides government regulations through EI for dealing with the risk of unemployment. Such mechanisms can be complements or possibly substitutes for government regulation through EI; they can also respond to the changing incentives created by EI.

The external labour market, for example, provides compensating wage premiums for risk including the risk of job loss (Adams, 1985; Li, 1986; Murphy and Topel, 1987; and Topel 1984 specifically document that the compensating wage premium paid for the risk of unemployment is lower when the risk is reduced by employment insurance). Such compensating wage premiums, in turn, provide an incentive for employers to provide greater employment stability and to reduce seasonal employment. Conversely, unemployment insurance reduces the compensating wage premium employers pay and reduces their incentive to stabilize their employment including seasonal employment. Since layoffs are insured by EI while wage reductions are not insured, workers may be reluctant to accept wage concessions to reduce the risk of layoffs.

Market responses to the generosity of EI can also occur in the form of “forum shopping” or substitution across different programs as some become more generous and others become more stringent. If EI becomes less generous, for example, workers will substitute into accessing other programs like the Canada Pension Plan Disability program, Workers’ Compensation and Social Assistance (Bolduc et al., 2002; Campolieti and Krashinsky, 2003; Fortin and Lanoie, 2000; Fortin et al., 1996; for Canada see HRSDC, 2001; for the US see Autor and Duggan, 2003 and Black et al., 2002; for Europe see Rege et al., 2008). This highlights that any cost savings from reducing the generosity of EI will be offset in part at least by increased cost associated with accessing these other programs, and the same applies if the generosity of these other programs is altered. The issue is compounded by the fact that EI is a federal program while workers’ compensation and social assistance are provincial programs, creating a potential for inter-jurisdictional cost shifting.

Cost shifting can also occur between workers and employers for the payroll taxes that are used to finance programs like EI. The empirical evidence for Canada indicates that the majority of the cost of such payroll taxes (around 80 per cent) is ultimately borne by workers in the form of compensating wage reductions for the benefits associated with such programs (Kesselman, 2001 and references therein). This highlights that most of the cost increase of any reforms to EI that would increase the payroll taxes used to finance EI will ultimately be borne by workers even if part of the payroll tax falls initially on employers. Conversely any cost saving from reforms will also ultimately go to workers. The ultimate burden of the tax is not necessarily where it is initially imposed. There is no such thing as a free lunch.

IMPLICATIONS FOR EI AND ITS DESIGN FEATURES

The previous analysis highlights a number of implications for the continued relevance of EI and for its various design features that are most relevant to the changing nature of work.

Benefit Replacement Rate

A key policy parameter of the EI system is the benefit replacement rate. Currently the rate at 55 per cent is likely sufficiently low to preserve work incentives, at least compared to the previous benefit rate of around 67 per cent under the UI Act of 1971 which was associated with adverse work incentive effects. Whether a 55 per cent replacement rate is sufficiently high to provide

viable insurance against the earnings loss is a more open question. In commercial insurance terms this is the equivalent of a 45 per cent deductible which would generally be regarded as a high deductible and hence a high burden on the insured party. This is especially the case for older displaced workers who have paid into the system for most of their work-life and are now experiencing a catastrophic permanent job loss—and commercial insurance should be about insuring against catastrophic events more than repeat events where the cost can be anticipated and absorbed by the insured party. As indicated, the rise of the multiple earner family does provide additional insurance and even if both parties are collecting unemployment insurance this amounts to more than the earnings in a single job. The rise of non-standard employment also means there is a wider array of jobs to access and while many are not “good jobs” they can provide some insurance against job loss.

The previous analysis also highlighted that the cost of raising the replacement rate is largely borne by workers; furthermore, if the cost is not borne by workers, then there is the risk that higher payroll taxes will deter investment and the jobs associated with that investment. Raising the replacement rate would also likely increase the need for more stringent monitoring of claims and stronger activation measures to pressure individuals to return to work or to take training as a condition for continued receipt of EI so as to contain costs. Clearly a delicate balance has to be found, and it is not obvious that changing the replacement rate improves that balance.

Benefit Duration and Regionally Extended Benefits

Similar issues apply to the other basic policy parameter of EI—the benefit duration period. Again a delicate balancing act is required between providing insurance and providing the incentive to seek employment. There does not appear to be sufficient theoretical reasoning or empirical evidence, however, to delineate what would be an optimal benefit duration period. In the absence of such information, it is not obvious that any change is merited. An issue that merits consideration, however, is whether the current policy of “cliff” benefits is merited, where benefits fall abruptly to zero once the maximum duration period is reached.

While neither theory nor evidence provides guidance for changing the benefit duration period, this is not the case with respect to regionally extended benefits whereby qualification periods are reduced and benefit periods extended for unemployed persons in high unemployment regions. This design feature of EI appears to be unique to Canada and as discussed previously the theory and evidence suggests that it has increased unemployment and especially seasonal unemployment and the repeat use of EI. As well it has increased community reliance on EI running the risk of an artificial economy geared to EI rather than viable market-based job creation. It has also likely reduced inter-regional mobility from low-productivity to high-productivity regions and fostered sustained regional unemployment differences. To the extent that individuals increasingly live in high unemployment regions (where benefits are based on their residence) but commute to work in low unemployment ones, this can further undermine the rationale for regionally differentiated benefits.

In response to these perverse effects a number of researchers have recommended eliminating or altering the regionally extended benefits (Kesselman, 1983; Lee and Coulombe, 1995;

Macdonald Commission, 1985; and Riddell, 1985: 32; and others cited therein). Presumably this would be done by removing the extended benefits rather than by extending benefits to all regions. As strongly stated by Lee and Coulombe (1995: 7): “the key to reduce regional disparities in living standards in Canada is to reduce regional disparities in unemployment rates. ... We suggest the best way to do this is to facilitate adjustments in the labour market by eliminating regional distortions such as regionally extended unemployment benefits and the perverse subsidy to seasonal unemployment that comes out of the UI system.”

Altering regionally extended benefits will likely imply that economics has to confront politics as such changes will be politically contested given the dependence that has been built around the regional benefits and the fact that they are obviously concentrated in particular regions and communities. The political concern is compounded by the fact that any out-migration that may be fostered by the reduction of regionally extended benefits can involve the exodus of youth—the very persons who may facilitate the future development of such regions. The concern is further enhanced by the possibility that the human capital development of such youths may have involved provincial subsidies for their education and training, and such subsidies will be lost if they leave.

Coverage of Self-Employed Fish Harvesters and Regional Development Issues

Another area where politics has likely trumped economics is with respect to the coverage of self-employed fish harvesters. As indicated previously, in 1956 coverage was effectively extended to self-employed fish harvesters because they were allowed to treat their buyers as employers. This was a clear departure from commercial insurance principles and from the exclusion of other self-employed workers because of the moral hazard problem since they effectively could control the insurable event by “laying themselves off.”

This certainly made the fishing industry an attractive industry in Newfoundland. This was accentuated by the fact that the weeks-worked requirement for eligibility for unemployment insurance was converted to \$100 worth of catch as the equivalent of a week of work. In some circumstances it would be possible to qualify for a year of unemployment benefits based on less than one week of work and certainly less than the 10 week qualifying period that earlier prevailed (May and Hollett, 1995: 65). This obviously fostered an expansion of the fishing industry—an expansion that was further fostered by government supported “make-work” projects that often involved the building of wharfs and fish plants (House, 1986: 406; May and Hollett, 1995: 48). Not surprisingly, this all contributed to overfishing and the collapse of the fishing industry (Cashin, 1993).

There was particular concern within Newfoundland that, for youths especially, alternating between unemployment and short-term often artificial jobs was becoming a way of life (House, 1986). The phrase “Lotto 10-42” was used to describe the system where an individual would work 10 weeks to then collect 42 weeks of unemployment insurance (10 from regular UI and 32 from regionally extended benefits). Workers who worked longer than 10 weeks were sometimes called “scabs” because they were taking the jobs that could be occupied by others to build eligibility for UI, and employers were under pressure to provide rotating 10 week jobs. As well, the underground economy was being fostered since such work could go on while collecting unemployment insurance.

Clearly the combination of the design features of allowing coverage for self-employed fish harvesters, providing regionally extended benefits, and supporting make-work projects to enable eligibility for UI, all interact to potentially foster an artificial economy that is not built on sustainable job creation (Gunderson, 1998b). There is, however, a more optimistic portrayal to this apocalyptic picture. In a system that has demand constraints in that few jobs are available, that system could be thought of as a work-conditioned income maintenance system that did encourage at least some work to obtain eligibility for UI. It could also be considered as a form of work-sharing when jobs are scarce (May and Hollett, 1995: 81). Such practices could also serve as (hopefully) temporary initiatives to bridge a transition until demand increases as more recently has occurred with the mobility to Alberta and with the expansion of offshore oil and gas developments in Newfoundland and Labrador.

Whatever perspective is taken, a reconsideration of the extension of coverage to self-employed fish harvesters seems merited. It is not obvious why someone should be covered by EI if they harvest the sea but not the land (i.e., self-employed farmers are not covered) or if they are self-employed in any other endeavour. The prosperity that is now occurring in Newfoundland and Labrador associated with oil and gas developments suggest that the timing is now right for reconsideration.

Active Adjustment Assistance vs. Passive Income Maintenance

Active labour market adjustment policies (ALMAPs) are ones that facilitate the reallocation of labour in the direction of basic market forces, from contracting to expanding firms, industries, occupations, and regions. They generally involve human capital investments in forms such as education, training, labour market information, job search and mobility. In contrast, passive income maintenance programs like unemployment insurance may discourage such reallocation by providing income assistance to persons who stay in the declining sectors.

As indicated previously, the Employment Benefit and Support Measures (EBSMs) came under the umbrella of the EI system in the mid 1990s in Canada. This was part of the shift from passive income maintenance to active adjustment assistance programs that had been recommended by a series of OECD reports in the 1980s and 1990s (Gunderson and Riddell, 2001).

A continued emphasis on active labour market adjustment policies likely makes sense for a variety of reasons. They enhance efficiency by facilitating the reallocation of labour from declining to expanding sectors and thereby “greasing the wheels” of market forces. In that vein, they reduce the negative consequences of both *downside* adjustments (plant closings, layoffs, unemployment, and underemployment) as well as the *upside* adjustments (skill shortages and bottlenecks, job vacancies, inflationary wage premiums). Active adjustment assistance policies deal with the underlying *cause* of the problem (the need for adjustment) and not the *symptom* (unemployment). They facilitate equity or distributional objectives to the extent that persons in declining sectors are likely to be disadvantaged in terms lower wages and subject to layoffs or plant closings. They enable recipients to earn their income rather than receive it in the form of a transfer and in that vein they foster self-sufficiency by providing a “hand-up” rather than a “hand-out.” Active adjustment assistance programs encourage constant *marginal* adjustments and this can avoid the more costly *inframarginal* adjustments in such forms as mass layoffs and

plant closings that can occur if passive income maintenance programs simply postpone such adjustments. Active adjustment assistance is also better designed to deal with the structural unemployment and permanent job loss associated with the industrial restructuring that is occurring in the transformation from the old to the new world of work. In contrast, the passive income maintenance of conventional EI may have been suited to provide short-term insurance to cover the risk of cyclical unemployment until they returned to their former job. Now many of the former jobs may be gone permanently and active adjustment assistance may be necessary to equip and reallocate people to the new jobs. Active adjustment programs can also be a requirement for continued receipt of EI so as to facilitate the return to work. Such activation measures have been increasingly required in most OECD countries, especially to counteract the disincentive to return to work in countries where EI systems are fairly generous (Gunderson, 2004b; Martin and Grubb, 2001: 27, 28; Nickell, 2003: 16).

Overall, active adjustment assistance is consistent with the emphasis on flexibility and adaptability to market forces that is increasingly important in the new world of work.

Hours Worked Eligibility Requirements

The earlier reforms that changed the qualifying period from one based on weeks worked to one based on hours worked is also an appropriate change that should be continued. It accommodates the more flexible work-time arrangements that are increasingly common in the new world of work as opposed to the old nine-to-five, five days-per-week that was prominent in the old world of work. The hours-requirement will also deter employers shifting to part-time jobs under 15 hours per week because they were formerly ineligible for coverage.

Experience Rating

The potential reform of EI that likely merits the most attention is that of experience-rating—the well-established commercial insurance principle whereby the rate paid by the insured party varies positively with their “accident rate” or receipt of insurance. In the EI area, experience rating can be applied to employers, employees or both.

Experience rating applied to employers (as exists in the US but not in Canada) would involve their payroll tax premium varying positively with the “accident rate” (unemployment) of firms or possibly industry groups. This is in contrast to the current system in Canada of a fixed rate for employers and employees.

In theory such experience rating on firms should reduce layoffs and unemployment by increasing the cost to them of such outcomes (De Raff et al., 2004). It increases the incentive for them to find alternatives to layoffs such as smoothing their production process over seasons and retraining their workers during a cyclical downturn. It also means that firms or industries with a good unemployment record are not cross-subsidizing firms with a bad unemployment record. Experience rating is also in accordance with sound commercial insurance principles, for example, when discounts are given for good driving records.

Empirical evidence from the U.S. where the premium paid by firms depends on the claims of their workers in the recent past strongly confirms the theoretical expectation that experience rating reduces layoffs and unemployment (Anderson and Meyer, 2000; Card and Levine, 1994; Safer, 1982; Topel, 1984, 1990). Anderson and Meyer (2000: 103), for example, conclude: “our estimates imply that a country contemplating a move to experience rating might expect UI claims rates to fall between 10 and 33 per cent, and seasonality of this rate to fall 16-40 per cent. These results clearly suggest that experience rating reduces UI claims and stabilizes employment. Both of these changes mean lower unemployment and, thus, likely higher social welfare.” Simulations for Canada also suggest such positive effects (Beauséjour et al., 1998).

Experiencing rating in other areas such as workers’ compensation also indicates that it has positive incentive effects by reducing accident rates because employers now pay more for the social costs of their production that involves risk (Gunderson and Hyatt 2002). In part for this reason, it is being extended in that area.

Employer experience rating for EI in Canada has been recommended by Kesselman (1983), Poschman and Robson (2001), Riddell (1995) and by the Department of Finance Technical Committee on Business Taxation (Mintz 1998). Clearly, it merits more consideration based on both theory and evidence.

As indicated previously, experience rating has also been applied in Canada to *workers* not through increases in their premium but through the “intensity rule” instituted in 1996 whereby benefit payouts were reduced for repeat users and those who accessed the system extensively in the past (Gray, 2004; Nakamura, 2000). In commercial insurance terms this would be the equivalent of reducing the amount of the insurance claim payout rather than increasing the premium for those with high accident rates. The empirical evidence indicated that the intensity rule did reduce repeat use, but individuals also behaved strategically by ending their claims just before the intensity rule would apply (Gray, 2004; Fortin and van Audenrode, 2000). The intensity rule was abolished in 2000, however, in large part because it had a disproportionate impact on Atlantic Canada (Gray, 2004: 9).

Extending Coverage to More Forms of Non-standard Employment

As indicated previously, non-standard employment has increased in various forms: permanent part-time work; seasonal work; casual, temporary work on limited-term contracts; self-employment; temporary-help agencies; on-call work; telecommuting and home working. Unemployment insurance, however, was instituted in the old world of work designed largely to provide insurance against job loss on the part of “breadwinners” who lost their lifetime job. If the new world of work is increasingly characterized by young persons and multiple-earner families *churning* through various forms of non-standard work—perhaps permanently, perhaps as steps to an ultimate career job—the issue becomes the role of EI in such a system.

A natural reaction is to extend eligibility or coverage to the forms of non-standard employment that are currently not covered. Doing so for some forms such as self-employment, limited-term contracts and temporary-help agencies, however, would lead to the conventional commercial

insurance problems of adverse selection and moral hazard since the parties often have control over the insurable event of unemployment. As well, in some forms such as seasonal employment and limited-term contracts, the insurable event is generally predictable, while commercial insurance is designed to cover unpredictable events and especially those that involve catastrophic losses. The problems that have arisen in areas of covering regularized seasonal work and self-employed fish harvesters have already been illustrated.

Other design changes such as the hours rather than weeks work requirement for eligibility make sense since they effectively extend coverage to persons with non-standard hours. As well, the active adjustment assistance programs under the EBSMs of Part II can facilitate persons who are involuntarily employed in non-standard jobs to make the transition to standard jobs if that is what they prefer.

Personal Unemployment Insurance Lifetime Savings Accounts

A design feature that merits additional attention is the possibility of personal unemployment insurance accounts as are being utilized in some countries in Latin America and that have been proposed in the US (Ferrer and Riddell, 2009; Hartley et al., 2010). While the design features can differ, they essentially involve requiring workers (and perhaps their employers) to pay into a personal unemployment insurance account that the individual can draw on if unemployed. The intent is to reduce the moral hazard problem since individuals have an incentive not to use up their account. Issues still exist, however, since governments cannot pre-commit to not assisting persons who have exhausted their account and individuals still have an incentive to use-up their account toward the end of their work-cycle if they are not allowed to access any unspent balances. Such individual accounts could be used to protect against the risk of income loss from any range of events such as disability, injury at work, sickness, child support, parental leave and loss of income at retirement, or even for wage loss (Bovenberg et. al., 2008; Stiglitz and Yun, 2005).

A variant of such individual accounts for unemployment insurance in the US is outlined in O’Leary and Eberts (2005). Individuals receiving UI benefits would first be profiled so as to predict those most likely to exhaust their benefits. They would then be given up to \$3,000 US to be used for three items: (1) to use as a voucher to purchase re-employment services (the equivalent of our EBSMs) from approved providers who would compete in providing the services, (2) to keep as a re-employment bonus if they return to work early, (3) to keep and use as extended income maintenance if they exhaust their regular UI benefits.

Individual lifetime accounts clearly have the appealing feature of enabling individuals to inter-temporally pool risks over their own lifetime and to possibly pool them across a variety of potential events that would otherwise reduce their income—in effect, they are a form of forced-savings to mitigate such risks. More information is needed, however, at both a theoretical and empirical level on the effect of such individual lifetime accounts as well as the strategic behavioural responses the parties will make to them.

EI Modifications for Job Loss from One-Off, Temporary, Unanticipated Shocks

EI can be a potentially important mechanism for persons who directly or indirectly are unemployed because of one-off, temporary, unanticipated shocks such as SARS, mad-cow, terrorist attacks or natural disasters like fires and storms (Gunderson, 2004a). Passive income maintenance is appropriate to ease the transition when such workers return to their normal job after the shock and to encourage reporting of the pandemics and to accept quarantines. Since they can expect to return to their former job they do not need active adjustment assistance for a new job.

Income maintenance over the temporary unemployment spell can easily and quickly be provided through minor modifications to the EI system. These have occurred in Canada in response to past shocks and include: immediate eligibility for immediate benefits with no waiting period; waiving of job search or training expectations since such workers are expected to return to their original job; adjusting the duration of benefits to correspond to the duration of the shock; and raising the replacement rate since the disincentive not to return to work from a high replacement rate is minimized by the fact that recipients are expected to return to work once the shock is over. Many of these design features that involve a more generous system may also foster the incentive for individuals to report the problem (as in SARS and mad-cow) rather than hide it for fear of job loss.

Employment-Insurance Assisted Work-sharing

The work sharing component of EI is also well-suited to deal with the adjustment consequences of such shocks if they would otherwise lead to layoffs of a portion of the workforce of the organization. This is part of the generally desirable equity and efficiency properties of work-sharing (Gray, 2000; Reid, 1996). They are equitable because they share the unemployment over the organization's workforce in the form of *hour* reductions rather than having it concentrated in the hands of a few in the form of *layoffs*. Work-sharing can have efficiency properties in that they enable organizations to retain their workforce and its embodied human capital rather than risk losing such workers if they are laid off. Work-sharing can also facilitate work-family balance for those on reduced work-time.

As with the regular work-sharing component of EI, work-sharing can be viable to deal with the adjustment consequences of temporary one-off shocks since the job losses are not expected to be permanent or structural. They are designed to facilitate the transition until the situation (hopefully) returns to "normal." Such reductions in hours worked have helped Germany weather the recent financial crises without substantial increases in unemployment (Eichorst et al., 2010).

This does mean that administrative rulings are required to approve requests for work-sharing and this requires distinguishing situations where the adjustment is expected to be temporary (and work-sharing is appropriate) as opposed to permanent (where active adjustment assistance through programs like EBSMs are appropriate to facilitate the more permanent structural adjustment). But the need for such administrative rulings seems a small price to pay for the potential advantages of supporting work-sharing through EI.

Wage Insurance

Income losses associated with negative employment shocks can occur not only through job losses but also through hour reductions and wage reductions. EI provides insurance only against job losses, although the work-sharing component can support hour reductions. But wage reductions are not insured, and as indicated previously this may be one reason for a reluctance to accept wage concessions (which are not insured) to avoid the risk of job loss (which is insured). Wage insurance could also reduce resistance to trade liberalization and other changes that can foster growth and efficiency, but that can lead to job displacement.

In the new world of work, displaced workers often experience substantial wage reductions even if they are fortunate enough to find a new job. This is especially the case for long-tenured older workers who have paid into the EI system throughout their work-life, and who are often displaced from well-paid manufacturing jobs and can only find employment in the low-end service jobs to the extent that the middle of the job distribution has been “hollowed-out.” Morissette et al. (2007), for example, find earnings losses for older long-tenured displaced workers to be around 20-35 per cent which is similar to that found in US studies.

In such circumstances, increased attention has been paid to the possibility of providing wage insurance as a complement to unemployment insurance (Kletzer, 2004; Lalonde, 2007). While the design features differ, they basically involve governments replacing a portion of lost wages for a specified period of time and with a limit on the magnitude of the payment. Given the risk of substantial wage loss for displaced long-tenured workers, more attention is merited on examining the pros and cons of such wage-loss insurance.

POLICY IMPLICATIONS

Even though unemployment insurance was established under conditions of the old world of work, the *basic principle* of a government mandated unemployment insurance scheme continues to be relevant to the new world of work. The risk of unemployment remains a very real risk and in fact may be increasing if job stability declines. Furthermore, individual workers find it difficult to diversify against that risk. Not only their earnings but also their human capital, social capital, pension, health, perception of their self-worth, and even the value of their home are often affected by the risk of being unemployed.

EI in Canada has evolved from an insurance scheme to contain elements of more general income support and regional development for which it is not properly designed. As such, it is likely best to keep the focus on EI as an insurance scheme rather than a more general income support and regional development program. Design and implementation features that generally adhere to such commercial insurance principles and that are consistent with the changes of the new world of work, and that should thereby be continued include:

- The modest income replacement rate
- The normal duration of benefits
- The emphasis on active adjustment assistance through the EBSMs

- Eligibility based on hours rather than weeks worked
- Activation requirements to engage in job search or training
- The use of modified EI to deal with unemployment from one-off, unanticipated, temporary shocks
- EI-assisted work-sharing to deal with such shocks as well other temporary bouts of unemployment.

Adhering to basic commercial insurance principles and adjusting to the changes associated with the new world of work, however, suggested a number of reforms in the design and implementation features that merit consideration. The most important were:

- Eliminate or reduce regionally extended benefits
- Apply experience rating to employers
- Apply experience rating to workers through restoring the “intensity rule” on repeat users

A number of potential reforms also merit more attention but more information is needed on them before being seriously considered. These include:

- Extending coverage to various forms of non-standard employment
- Personal unemployment insurance lifetime savings accounts
- Wage insurance

The main suggested reforms of reducing regionally extended benefits and applying experience rating to both employers and employees, unfortunately, are ones that are likely to meet the most political resistance.

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About the Author

Morley Gunderson holds the CIBC Chair in Youth Employment at the University of Toronto where he is Professor at the Centre for Industrial Relations and Human Resources, the Department of Economics and the School of Public Policy and Governance. He is also a Research Associate of the Centre for International Studies, and the Institute for Human Development, Life Course and Ageing, and a Fellow of the Royal Society of Canada.

About the EI Task Force

The Mowat Centre has convened a research-driven Employment Insurance Task Force to examine Canada's support system for the unemployed. The Task Force will develop an Ontario proposal for modernizing the EI system—conscious of the national context—that works for individuals and businesses.

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