Bill C-50: stimulus, EI reform, or a real solution?

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In discussing Bill C-50 we first need to consider what, exactly, this bill is intended to be.

Is it stimulus or is it EI reform?

If stimulus and stimulus alone, then it is markedly better than many other aspects of Canada's Action Plan. It arguably fits all of the conditions for the gold standard definition of "good" stimulus – timely, targeted and temporary.

If EI reform, then it at least has the merit of being unambiguously temporary.

It also does not necessarily make the current situation worse, in that it apparently:

- Does not unduly inflate the negative incentives against work already built into the system. And,
- It returns some of the EI surplus stolen from workers over time to the people it was taken from.

This second point does raise a couple of key concerns however, given it remains a little vague where this money is ultimately going to come from and it also leaves the employers unrewarded for being employers of long tenure. But I will deal with these items in a few moments.

First, let's consider the stimulus argument.

The gold standard for stimulus as I said is the oft repeated phrase: timely, targeted and temporary.

Bill C-50 is clearly temporary. The closing date for applying for the expanded benefits is September 11, 2010 and so payouts will cease naturally as eligibility expires through to the fall of 2011. Of course, like all stimulus, the initial spending might be "temporary" but the long term costs are not – in this case that is a big question not yet entirely clarified. Who pays this bill? Will the costs of this increase in eligible benefits be picked up by a transfer of funds from general revenue, a return of some portion of the EI surplus stolen from workers and employers over the last several decades, or will it be paid by increased premiums after the recession has ended and the recovery starts.

I have listed those options in reverse order of attractiveness by the way, so a premium increase is, in my view, the worst option.

While specific stimulus efforts should indeed be targeted, they are nevertheless not meant for the exclusive benefit of those targets. Indeed stimulus is explicitly intended to benefit us all and so we all should help pay the tab when it comes due. Indeed, depending on the size and timing of any premium increase (or delay in needed premium decreases) making these funds up in that manner might actually hinder recovery or impede reinvestment which would in turn impede job growth and slow the reemployment of the very people we are trying to help.

Which allows me to move to the question of "targeted".

Bill C-50 is clearly targeted at a class of workers, "long tenured workers", people who have been mostly working and paying EI, without drawing it down and so, it could be said they have some equity built up that they should be allowed to draw down in challenging times.

It is also targeted to a certain extent geographically. This occurs because of the manner in which long tenured workers are distributed across the country and because of the disproportionate impact on certain sectors and certain regions that this downturn has had. So targeting the hardest hit employees in the hardest hit regions would seem to make sense. Or more accurately, adding this new stimulus to the other stimulus steps taken to help these, and other workers, and indeed all employers, arguably makes sense.

Which brings me to timely.

The recession came in earnest to Canada late in 2008 or early 2009, depending on who is counting and what they are counting. Some say it has bottomed out, others say it has turned, others say a new dip is coming. Most however would agree we are getting a bit late in the game for major new stimulus and few are predicting stimulus will be needed as far out as 2011.

But before we judge C-50 as being too much, or too little, too late. We need to recall it is the latest in a series of EI tinkers that were ALL about stimulus:

- the expansion of benefits for all recipients by 5 weeks
- making that offer richer in areas of higher unemployment
- the freezing of EI premiums at 2009 rates for 2010
- and two other steps targeted at this group of workers already – the early eligibility for EI if you use some of your severance to pay for training, and the extension of EI benefits for up to two years while you retool your skill set

Seems to me if we are placing these bricks on a scale we are getting awfully close to "just right" and perhaps, maybe erring a little onto "too much". At least as far as assistance to "long tenured workers" goes.

Which brings me directly around to this bill as EI reform because the principal challenge we have with our current EI system is indeed that question of "too much".

The issue here is that the system as currently designed and delivered acts as a disincentive to work. In fact, according to a study funded by the Canadian Embassy in Washington and completed in 2007 by researchers from the University of California at Santa Barbara, the Canadian EI system actually explains about 2/3 of the gap between the rate of steady employment for men in New Brunswick versus in neighbouring Maine and it explained essentially the entire gap for women. In NB as of 1990 slightly over 20% of employed men worked less than 26 weeks a year, in Maine that number was 6%. That gap was worse among our less educated work force.

The researchers basic message is simple - we pay people so much not to work that it makes absolutely no sense for them to work. This is especially the case when they can combine EI with seasonal wages and under the table transactions and walk away considerably better off then if they took full time employment and regularly remitted all the provincial and federal income and payroll taxes associated with that.

Can we fix that problem while also dealing with the other problem of the unemployed who are NOT being helped by the current EI system?

Absolutely.

In discussing unemployment, particularly in a recessionary period, it is vital to recall that there are three types of unemployment:

- cyclical
- structural, and
- frictional

Cyclical – the cataclysmic type of unemployment that occurs via Schrumpeter's "creative destruction" in a time of recession and market "adjustment" is exactly the type of unemployment our federal program was meant to address and so, of course, it is exactly the kind that it deals with least effectively. See my list of changes we have made to EI since this fiscal downturn began – if the EI program was ready for a cyclical downturn such tinkers should not be necessary. See also the large number of unemployed workers, many (but by no means all) unemployed through no fault of their own and who do not benefit from EI today either because they are not allowed to pay into it, or because they are not allowed to draw out of it.

In a paper recently published by my Institute and provided to the Committee, economist Robin Neill from UPEI, the Chair of our research advisory board, argues that we have before us a golden opportunity to remake employment insurance into what it was intended to be while at the same time effectively responding to the problems we unintentionally created by making EI other than what it was supposed to be.

First he argues that we need to separate our response to cyclical unemployment from our response to structural and frictional.

Second he argues we need to fund our cyclical response from general revenues, not premiums, and that the target group should be the cyclically unemployed to the extent that we can accurately identify them. Bill C-50, if the funds don't end up coming from premiums that should not be collected, actually comes pretty close to this model.

Third he argues that structural and frictional unemployment should be dealt with through a true insurance program – with experience rating and bonuses for good behaviour impacting premiums for both employees and employers, as well as benefits. In such a scheme no one who has paid into EI goes without when they lose their job – their benefits may not be as substantial or as long lasting as the benefits of those who have paid more or made less risky career choices, but benefits and protection they would have. We have such a system for workers compensation for instance, and it works. Why not for employment insurance?

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