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Beyond a hard place

THE EFFECTS OF EMPLOYMENT INSURANCE REFORM
ON ATLANTIC CANADA'S ECONOMIC DEPENDENCY

– by Rick Audas and David Murrell

Research Report

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Where Tomorrow's Public Policy Begins Today

The Atlantic Institute for Market Studies (AIMS) is an independent, non-partisan, social and economic policy think tank based in Halifax. The Institute was founded by a group of Atlantic Canadians to broaden the debate about the realistic options available to build our economy.

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- a) initiating and conducting research identifying current and emerging economic and public policy issues facing Atlantic Canadians, and Canadians more generally, including research into the economic and social characteristics and potentials of Atlantic Canada and its four constituent provinces
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The authors of this report have worked independently and are solely responsible for the views presented here. The opinions are not necessarily those of the Atlantic Institute for Market Studies, its Directors, or Supporters.

Main Findings of the Report

- The most recent EI changes in 1996 have actually increased spending flows to individuals connected to Employment Insurance for both Canada as a whole and for Atlantic Canada. The extra cash spending for the family supplement top-up taken by itself is larger than the spending cuts for the “clawback” and “intensity” rules. Add to this the increased spending on Part II programs, and spending due to these policy changes has actually increased. (Table 1)
- The percentage of young Canadians in both urban and rural areas receiving EI has dropped dramatically in the last decade. In rural Atlantic Canada it has dropped by 18 percentage points, from 43 to 24 per cent. (Table 2a)
- Between 1987 and 1997 the unemployment rate among young Atlantic Canadians increased less than the rate for Canada as a whole. Atlantic Canadian women between 20 and 54 did much better than their counterparts in the rest of the country. (Table 7)
- The proportion of high-income Atlantic Canadians receiving benefits remains more than twice the national average. In terms of amount of benefits received, Atlantic Canadians consistently receive more EI benefits than the national average. (Table 4)
- The greatest increase in length of time worked has been in rural Atlantic Canada where young people worked almost four weeks longer in 1997 than 1987. (Table 13)
- The proportion of Atlantic Canadians receiving EI dropped in the last decade, but the proportion that receive EI yearly is still five to ten percentage points above the rest of Canada. Almost one third of males and one fifth of females draw at least some portion of their income from EI. (Table 5)
- Individuals from all family types, especially in Atlantic Canada, were much more likely to participate in education in 1997 as compared to 1987. (Table 10)
- Young Canadians have substantially increased their level of educational participation in the last decade. In Atlantic Canada urban young people’s participation rate in education went from 20.9 to 32.7 per cent, while rural young people went from 16.1 to 24.5 per cent.
- Young Atlantic Canadians are increasingly choosing occupations that have stronger futures, like managerial, natural sciences and sales, over seasonal work like mining, construction, farming, and forestry. (Table 12)

- Despite these improvements, young Atlantic Canadians continue to go into highly seasonal occupations at a rate significantly higher than the national average.
- Especially worrying is the renewed influx of young Atlantic Canadians into the fishery spurred on by the sales-only qualification for EI.(Appendix A)
- There is some concern that single parent families, and in particular those with young children, may have been particularly adversely affected by the reform, although further research is needed to be sure.(Table 5)
- Based on the data, there were few (if any) compelling arguments to justify the re-liberalisation of EI.

Executive Summary

Employment Insurance reforms of the Nineties have encouraged young Atlantic Canadians to stay in school and choose professions with a stronger future, says AIMS study, but the recent repeal of reforms may undo much of that.

Employment Insurance was initially established to support employees when they lost permanent jobs, but it has expanded to meet a myriad of ends. Increasingly it has become a system for supporting seasonal workers between highly seasonal jobs. At one point in the early 1970s workers could receive unemployment benefits after working eight to ten weeks. These benefits would then last for the rest of the year. As long as workers could get a few months work each year they could draw benefits year after year. The whole work/UI cycle was called the 10-42 syndrome. Closely identified with Atlantic Canada, it created a negative stereotype that has clung to the region ever since.

When the federal government embarked on deficit reduction in the late 1980s, it introduced a series of cuts to the UI program that lengthened the eligibility period and reduced benefits. The Liberal Cabinet Ministers who championed the reforms argued that the reforms would encourage seasonal workers to work longer and draw unemployment benefits for shorter periods of time. This paper argues that those reforms have had some success, especially among the young, and the repeal of some of the reforms was a regressive move.

On September 28, 2000 the Human Resources and Development Canada (HRDC) Minister Jane Stewart announced several changes to the program, eliminating the intensity rule and severely modifying the high-income clawback. The intensity rule reduced benefits for middle income seasonal workers, while the high income clawback taxed back EI benefits to seasonal workers making over \$40,000 a year.

Using a variety of Statistics Canada data bases and HRDC's own annual reports, this study argues that the reforms to the EI program over the 1990s has led to a substantial change in the economic behaviour of young Atlantic Canadians between the ages of 18 and 29.

Unemployment rate changes suggest that Atlantic Canada has witnessed labour-market adjustments in line with or slightly better than that for Canada as a whole. But the improvements are not consistent across all provinces, demographic groups and occupations. Nova Scotia and New Brunswick unemployment rates have improved more than that for the nation as a whole; Newfoundland and Prince Edward Island's unemployed lag behind.

Among demographic groups, unemployed women are adjusting better than unemployed men. In Atlantic Canada the jobless young are adjusting better than that at the national level, whereas those over 55 years of age are not. Among occu-

pational classes, joblessness among the traditional blue-collar occupations has risen. These statistics suggest that while Employment Insurance revisions might have had some success in lowering unemployment, they have largely failed to improve labour force adjustment among older, predominately male, blue-collar workers. While the reforms have not been completely successful, they do represent an improvement from previous configurations of the EI/UI system. But the liberalisation of the clawback provision and the intensity rule is a backwards step, giving a much greater share of EI benefits to high-income workers, who can supplement their (often already significant) incomes with EI.

It will also make seasonal, blue-collar occupations more attractive to young people entering the labour market. This could contribute to a new generation of young people being caught in a trap of working just enough weeks to qualify for their EI benefits, rather than encouraging them to add to their human capital and move into good jobs that offer year-round employment. The change to fishermen's EI has already encouraged more young Atlantic Canadians to enter an already overcrowded fishery.

The 1994-1996 reforms, along with the other reforms of the 1990s, encourage positive adjustments in the Atlantic Canadian labour market. It appears to have done so with minimal hardship for those truly needing benefits. Based on the data presented here, there were few (if any) compelling arguments to justify the re-liberalisation of EI.

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Introduction

The Policy Problem and Organization of the Study

Given recent federal government surpluses, there have been a number of proposals to increase federal spending. Recently, for example, some federal Liberals have advocated relaxing rules for Employment Insurance (EI). On 18 March 2000 Prime Minister Jean Chretien, at a speech to delegates at a federal Liberal policy convention, stated that his government would “fix the EI problem”¹. Given Chretien’s remarks – and given continued lobbying from the Atlantic region delegates – the federal Liberal party passed a resolution to remove the intensity provisions (which reduce benefits to seasonal workers) and clawback provisions (which reduce payments to high-income recipients). On September 28, HRDC Minister Jane Stewart tabled amending legislation in the House of Commons.

These proposals signal a reversal of EI reforms undertaken during the past decade. In 1994 as part of the federal budget, the number of weeks needed to qualify for unemployment insurance rose from ten to twelve, reducing the number of beneficiaries. In 1996 a new Employment Insurance Act was passed, tightening up EI rules in a number of different ways. The intention and the result of these measures was to reduce Atlantic Canada’s overall dependence on EI and to induce changes to its labour market structures.

This study describes the effect of tightening EI rules on Atlantic Canada’s EI dependence and labour-market adjustment. We argue that a number of improvements in the region’s labour market (albeit modest in scope) have taken place. In particular, we find that there is reduced EI dependency, improved fairness in EI payouts, and improved economic efficiency in how EI is disbursed. Our findings suggest that, if EI reforms are discarded, there is a real danger that the modest equity and efficiency gains could be jeopardized. Our report uses three chief data sources to back up our main findings. First, we use public domain statistics from Statistics Canada’s Labour Force Survey. Second, we use data and findings from HRDC’s own Employment Insurance assessment reports, of which three have been released². Third, we present tables of statistics from two cohorts of Statistics Canada Survey of Consumer Finances micro data file. Throughout our discussion, we follow the hard questions and analysis undertaken in the 1995 C.D. Howe study, *The Rock in a Hard Place: Atlantic Canada and the UI Trap*, by Doug May and Alton Hollett. This important study raised serious questions about the dominance of UI spending in Atlantic Canada. Our report essentially updates their data for the post EI-reform period, and makes comparisons to the pre-reform period.

It is worth stressing what this report does not do. We do not attempt to describe or analyse in detail the different HRDC spending programs begun in 1996 to “compensate” for EI cuts. We do not, therefore, attempt a critique of the three HRDC annual reports, akin, for example, to the Canadian Tax Federation’s recent

¹ St. John Sunday Herald, March 19, 2000, pp. A1, A2; Halifax Chronicle-Herald, p. A3.

² Two reports – the 1997 Monitoring Assessment Report and the 1997 Monitoring and Assessment Report – are available in print form. The associated 1998 report is available on-line from the HRDC web page.

critique of the Atlantic Canada Opportunities Agency (ACOA)³. Any cost-benefit analysis of, say, the Targeted Wage Subsidy program, go beyond the scope of this short paper. Nor do we attempt any rigorous econometric testing of well-known EI/labour market relationships. We take as given, for example, that any serious tightening of EI rules will reduce unemployment rates, as has been largely verified in the labour economics literature. We simply describe labour market changes after the 1996 EI reforms and relate these to the 1996 EI policy changes, for instance examining how rates of employment, education participation and occupational choice have changed. Finally, we offer no comment on the on-going Employment Insurance surplus, with the concomitant high EI taxes to workers and businesses. While controversial, this issue goes beyond the scope of this paper.

In the remaining part of this introduction, we give an overview of Atlantic Canada's reduced EI dependency. In Section II, we discuss the exact federal government EI reforms undertaken, opposition to such reforms, and federal plans to re-liberalise EI. In Section III, we discuss equity considerations given the 1994-1996 changes. In particular, we discuss EI use for various income classes and family types, comparing EI use to other social assistance. In Section IV, we look at economic efficiency gains given the EI rule changes, particularly for young people in Atlantic Canada. We stress the gains made by the young towards human capital investment, and toward occupations that are less seasonal and blue-collar in nature. Section V concludes the discussion. Here we summarize the impact of EI reform for our region, and speculate what will happen if two of the key reforms – the “intensity rule” and the “clawback provisions” – are in fact revoked, especially if the new EI family supplement were to remain in place. We find that such policies would end the modest fairness and efficiency gains achieved through EI reform.

The Lessening Dependency on Employment Insurance in Atlantic Canada

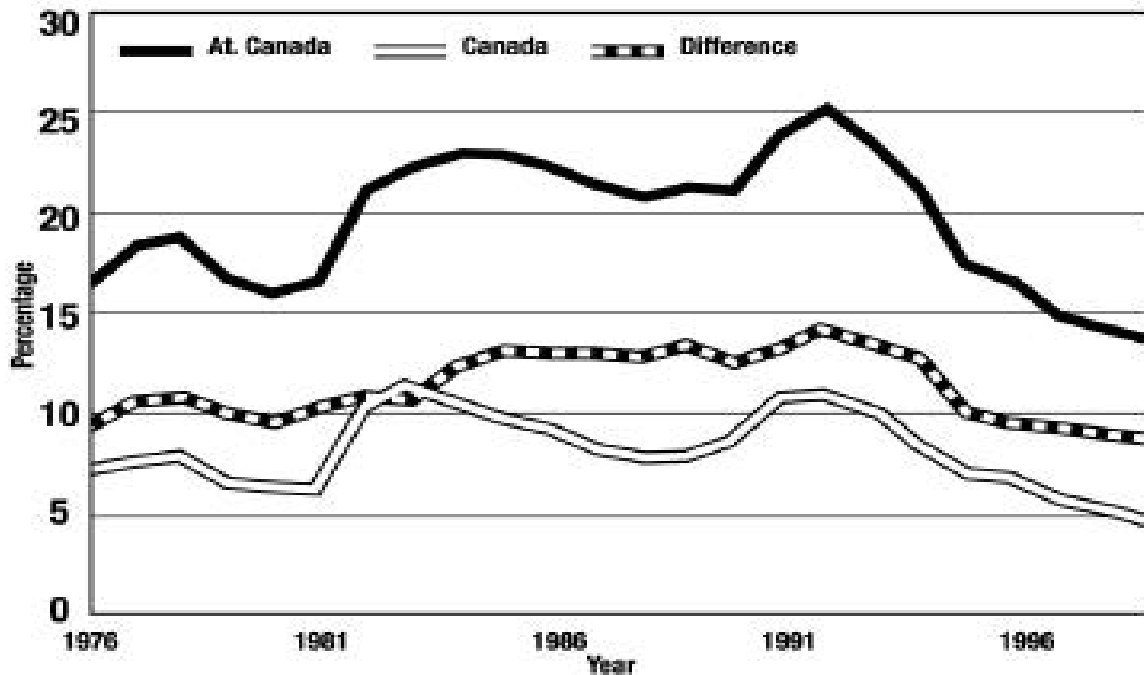
In this section, we extend the analysis of Chapter 4 in *The Rock in a Hard Place* to more recent years. That earlier study, using a number of graphs, stated that Atlantic Canada through the 1970s and 1980s had become increasingly dependent on unemployment insurance as an income supplement. Data for Atlantic Canada – expressed as: 1) UI benefits as a percentage of total federal transfers, 2) the number of UI recipients as a percentage of total employed persons, 3) UI benefits as a percentage of total personal income, 4) real per-capita UI benefits – show a strong upwards trend from 1971 to 1992, the last year of available data for their study.

We first replicate three graphs from Chapter 4 of their study, extending the data to 1999, the last full year of available labour-force statistics for our present study. Graph 1⁴ shows the total number of EI recipients as a percentage of the employed, in Atlantic Canada and Canada. As can be seen in the graph, up to 1992 there was a long-run upward trend in both series, broken up by cyclical deviations. The two peaks in each series show the 1981-82 and 1991-92 national economic recessions. Note, however, that in the economic expansion following the 1981-82 recession, the percentage value for Atlantic Canada rose to slightly over 21 per cent by 1990, a level far higher than the

³ Ten Years of ACOA, Truly a Lost Decade, May 2000.

⁴ This extends the data from Figure 5, p. 93 in the May/Hollett study.

**Graph 1: EI Recipients as a Percentage of Employed
Atlantic Canada and Canada, 1976 – 1999**



corresponding level of 16 per cent in 1980, at the outset of the 1981-82 recession. Comparing the same corresponding years for the Canada-wide percentage, we see that the 8 1/2 per cent in 1990 is only modestly higher than the 6 1/2 per cent for 1980. Likewise for Atlantic Canada the percentage-share “peak” during the 1991-92 recession is higher than the corresponding 1981-82 recession peak. This is not true for Canada taken as a whole. We share the analysis of May/Hollett: that the downsizing of employment in resource-based industries in Atlantic Canada was replaced by community-based work-sharing, where relatively more workers (in contrast to elsewhere in the country) used UI as a vital income support.

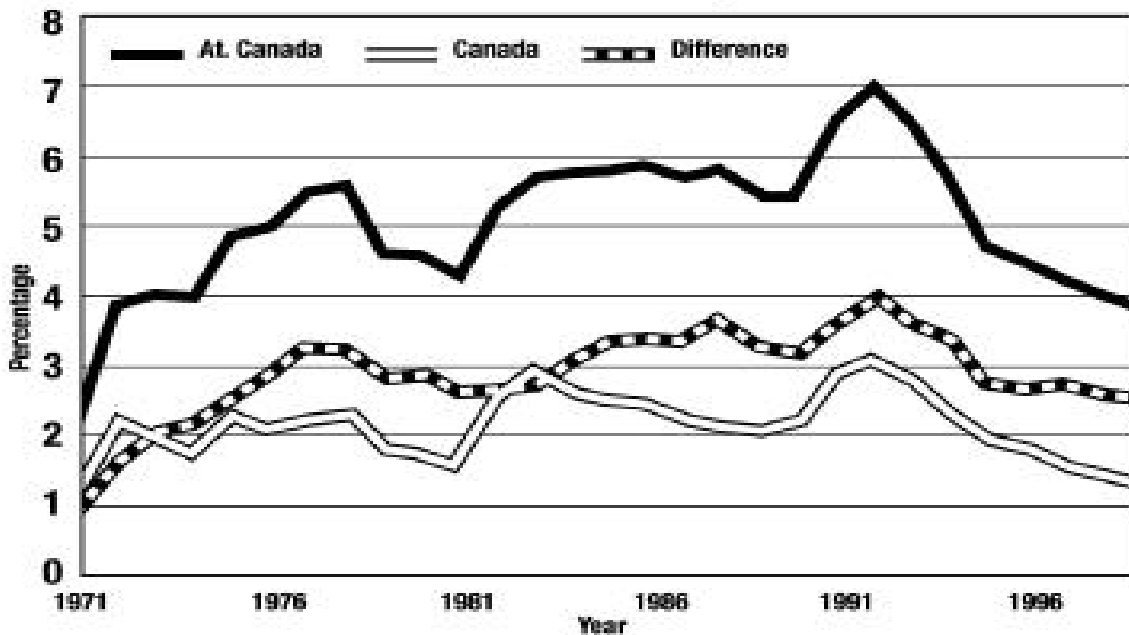
By 1999 however, the percentage of total employed persons drawing EI during the year had fallen dramatically, for both the Atlantic provinces and for Canada taken as a whole. In fact the percentage-point decline for the Atlantic region was greater than that for the nation taken as a whole. Some of the decline - and this is a point that we will emphasise throughout this study - has been due to the long, strong economic expansion enjoyed by both the region and the country. But, as can be seen in the graph, by 1999 the percentage of EI recipients as a share of total employment had dropped to a level below the 1980 and 1990 economic boom percentages. We suggest that part of the decline is explained by the economic expansion, and part by the tightening of EI since 1994.

As well, in their 1995 study May/Hollett report that the EI recipient/number of employed percentage has been highest for Newfoundland; the next highest has been Prince Edward Island, then New Brunswick, with Nova Scotia having the lowest rate in the region. Our more recent data shows no change in that order, with all provinces showing a decline. For 1999 the percentages are: Newfoundland (22.3 per cent),

Prince Edward Island (18.1 per cent), New Brunswick (12.7 per cent) and Nova Scotia (9 per cent). As well, just as the absolute percentage point difference between Atlantic Canada and Canada has narrowed, there has been a corresponding narrowing in the percentage share among the four provinces.

Graphs 2 and 3⁵ tell the same story in different ways. Graph 2 indicates the ratio of EI payments to personal income, Atlantic Canada and Canada. Again this ratio shows a clear upward trend (with cyclical variations) to 1992. We draw in a third line showing the difference in percentage points (Atlantic Canada minus Canada), and this line too rises steadily to 1992. Since 1992 there is a sharp fall in the percentage figures. By 1999, the percentage of personal income that EI represents had dropped to around the respective 1971 levels in Canada. For Atlantic Canada, the ratio had declined to 1973 levels. Graph 3 depicts real, per-capita EI income for Atlantic Canada and Canada as a whole. This graph shows analogous trends and cyclical variations as Graphs 1 and 2. But notice that during the 1982-90 expansion period, real per-person EI rose steadily for the Atlantic provinces. Since 1994 however, there has been a noticeable decline for both the region and the nation. For Atlantic Canada, real EI payments per capita have fallen to almost the level of 1980 (the last year of the late 1970s expansion); for Canada the corresponding figure in 1999 is almost at the 1974 level. Finally, although it is not shown in the graphs, there is a similar provincial ordering as to the amount of constant-dollar EI payment for each person. Using 1992-based constant dollar data, the per-person payouts are as follows: Newfoundland (\$1,138), Prince Edward Island (\$1,026), New Brunswick (\$646), and Nova Scotia (\$496). This averages out to \$721 per capita for Atlantic Canada, in contrast to \$292 for Canada as a whole.

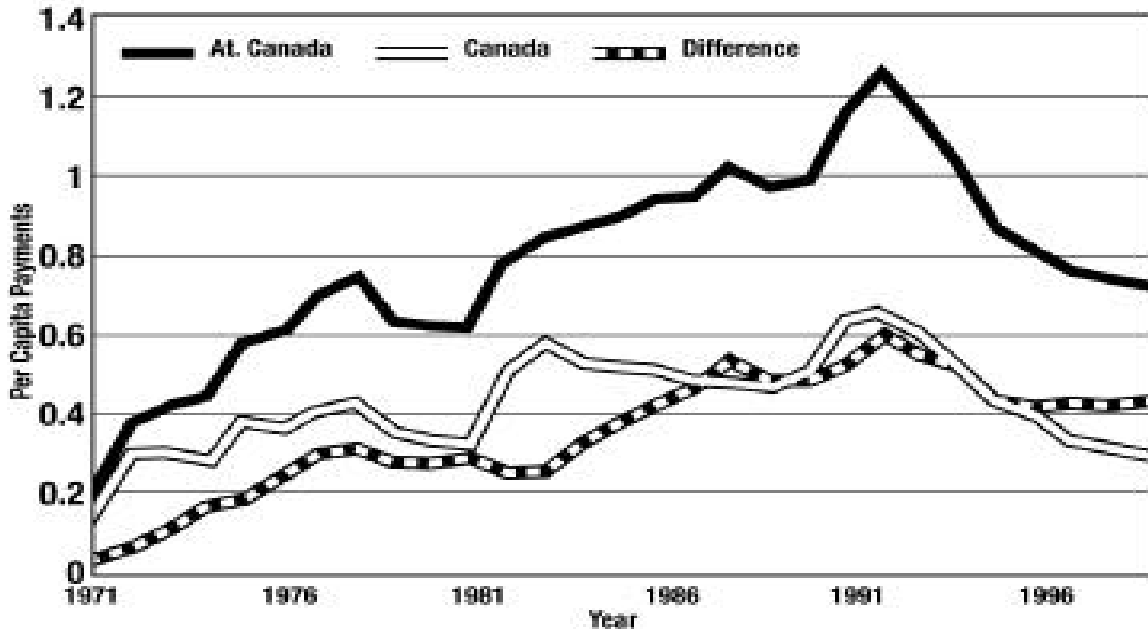
**Graph 2: EI payments as a Percentage of Personal Income
Atlantic Canada and Canada, 1971 – 1999**



⁵ These, respectively, are an extension of Figures 6 and 7 in May/Hollett, pages 94 and 95.

In summary, dependence, as presented by these statistics, has fallen noticeably from 1992 on. Although some of this sharp decline can be attributed to Canada's recent strong economic expansion, we suggest that some of the decrease can be explained by EI policy changes after 1994. Overall, we observe improved education participation, more employment and higher incomes over this decade.

**Graph 3: Per capita Employment Insurance Payments (\$000s), 1971 – 1999
Atlantic Canada and Canada, 1971 – 1999**



Unemployment Insurance Policy: the Reforms and Criticisms

The policy literature calling for reforms to tighten up Canada's unemployment insurance system is too large to discuss in detail. It is sufficient to mention the Macdonald Commission, the Forget Commission, and a number of C.D. Howe Institute and AIMS studies⁶. Each called for a rather broad-based reform of the then unemployment insurance program, to make it harder for applicants to receive benefits, and to reduce the duration and amount of benefits for those who qualify.

Liberal Government Reforms

The opposition federal Liberal party, in their red book leading up to the 1993 election campaign, did not include any proposals to change unemployment insurance. But in the first federal budget, tabled in February 1994, the new Chretien government (1) reduced the duration of benefits for new claimants, and (2) increased the minimum entrance requirement for claims from ten weeks to twelve weeks⁷. The government estimated that these measures would reduce UI expenditures by \$725 million in the 1994/95 fiscal year and \$2.4 billion thereafter. In a House of Commons speech defending these measures Human Resources Minister Lloyd Axworthy stated that the current UI system had been "killing jobs" and was "destroying the incentives to work"⁸. In the speech he promised further UI reforms, to be introduced in September 1994. Finance Minister Paul Martin stated at the time that he saw the UI payroll tax as a tax that prevented the creation of new jobs.

Mr. Axworthy later stated that the federal government wanted to target frequent UI users, suggesting that frequent users would have to undertake more schooling or receive additional job retraining. On October 5, 1994 the federal government tabled its seminal social policy white paper *Jobs and Growth: Improving Social Security in Canada*⁹. It proposed two alternative sets of reforms to UI. One would redesign the entire program, calling it Employment Insurance, and would consist of a two-tiered program to separate occasional users (who would receive a basic benefit) from frequent users (who would receive an amount less than the basic benefit). This reform track would adjust benefits as to benefit-duration and amount received and would introduce income testing, to claw back EI benefits to higher-income families. The second reform proposal would simply reduce benefits to claimants, and increase the number of weeks worked for eligibility. Both sets of proposals would also offer comprehensive worker training, schooling, and other adjustment programs (pp. 29-41).

Facing criticism from his own Liberal caucus and a special unemployment insurance task force, Human Resources Minister Axworthy dropped the idea of a

⁶ See the Report: Vol. 3, (1985) Royal Commission on the Economic Union and Development Prospects for Canada, pp. 444-445; Report, Commission of Inquiry on Unemployment Insurance (1986). For the latter, see in particular May and Hollett (1995), Green, et al (1994), Courchene (1994), Nakamura (1996), Crowley and May (1996) and May and Gunderson (1996).

⁷ See The Budget Plan (1994), pp. 36-37.

⁸ The Globe and Mail, February 26, 1994, p. A6; Maclean's, April 18, 1994, p. 27.

⁹ Human Resource Development Canada (1994). See in particular pages 42-52.

full-fledged two-tier EI system. This latter proposal had been heavily criticized in that it would stigmatise frequent seasonal workers¹⁰. But later in reform options to the federal cabinet Axworthy instead proposed a graduated payments system; benefits would depend on an applicant's past work history and the number of times EI had been drawn. These proposals stated that benefit eligibility would depend on the following factors: 1) the number of hours worked (and not weeks); 2) the amount of benefit payments would depend on the average earnings over a fixed 22-week period; 3) the minimum work-qualifying period would be increased from 12 to 15 weeks; 4) the maximum number of weeks of benefits payments would be reduced from 50 to 40 weeks; and 5) the benefit rate would remain at 55 per cent for most families, but could increase for families with low income. The savings were estimated to be about \$1.4 billion a year, with some of that to be reinvested in skills upgrading¹¹. After strong criticism from the 31-member Atlantic Liberal caucus, Mr. Axworthy proposed softening the cuts by including increased tax credits for low-income families receiving EI¹². Later the federal government announced that EI premiums would be cut¹³. The EI cuts in high-unemployment areas would be phased in, and cushioned with a job-creation fund¹⁴. Despite protests from the Atlantic premiers, organized labour and others (see below), the EI reform proposals were officially made public on December 1, 1995, and given to a House of Commons committee in January 1996¹⁵.

At the beginning of 1996 - and before a long series of orchestrated (and often violent) EI protests in Atlantic Canada got under way - Mr. Axworthy was transferred out of Human Resources and replaced by New Brunswick Liberal Doug Young¹⁶. Young promised to lobby for greater labour-adjustment spending, and a softening of cuts to seasonal workers. After the Liberal House of Commons majority stopped a Bloc Quebecois filibuster, the EI reform bill passed final reading on May 14, 1996¹⁷. The bill was a somewhat softer version than that proposed to cabinet and passed at second reading. The average earnings used to calculate benefits (measured over the 26-week period before EI is to be claimed), would be computed using only those weeks when the worker was actually working. The minimum number of weeks used to calculate benefits would be set at two weeks above the minimum period for EI in each region. If a claimant worked 14 weeks, and the minimum period to qualify was 14 weeks, total earnings would be divided by 16 to calculate benefits. The "intensity rule" would not apply to low-income EI-receiving families¹⁸. Finally, the federal government promised to budget \$2.4 billion to be cost-shared over three years with participating provinces on labour-adjustment programs, with an additional \$2 billion spent in total per year after the first year¹⁹. The new EI system took effect on July 1,

10 See The Globe and Mail: April 14, 1995, p. A4; April 16, 1995, pp. A1, A3; May 19, 1995, pp. A1, A11; June 10, 1995, pp. A1, A10.

11 The Globe and Mail, August 10, 1995, pp. A1, A10.

12 Halifax Chronicle-Herald, September 21, 1995, p. B3; The Globe and Mail, September 28, 1995, p. A10.

13 The Globe and Mail, November 23, 1995, p. B1.

14 The Globe and Mail, November 25, p. A2; The Montreal Gazette, November 27, 1995, p. A8.

15 Halifax Chronicle-Herald, January 16, 1996, p. A11; The Globe and Mail, January 19, 1996, pp. A1, A7.

16 Montreal Gazette, January 26, 1996, p. A12; Halifax Chronicle-Herald, February 10, 1996, p. A1.

17 Montreal Gazette, May 9, 1996, p. A9; Halifax Chronicle-Herald, May 14, 1996, p. A1 and May 15, 1999, p. B1.

18 The Globe and Mail, April 19, 1996, p. A4.

19 Halifax Chronicle-Herald, May 31, 1996, p. D16.

1996, with the “hours worked” computations starting January 1, 1997²⁰. We can summarize the full set of EI reforms as follows:²¹

1. The “intensity rule”: For repeat users, the benefit rate (the ratio of benefits collected as a percentage of prior earnings) is reduced by one percentage point for every 20 weeks of benefits in the past five years, up to five percentage points.
2. The “clawback rule”: Benefits are clawed back through the income tax system, over a \$48,750 threshold for infrequent users, and above a \$39,000 threshold for frequent users. The clawback rate can go as high as 100 per cent for high-income EI recipients.
3. “Reduction in benefits”: Benefits have been reduced, given a reduction in maximum insurable earnings (to \$750 per week) and in the maximum duration of benefits (to 45 weeks).
4. “Tougher new entrance requirements”: For new entrants and re-entrants to the labour force, 910 hours of work are needed in the previous year for a person to qualify for EI. For other workers with prior attachment to the labour force, 420 to 700 hours at a minimum are needed.
5. “The divisor rule”: Over the last 26-week period preceding the date of the claim, the “average total earnings” are calculated using a divisor rule, the rule put in place to encourage workers to work more than the minimum number of weeks allowed.
6. “Allowable earnings while on claim”: Claimants can earn \$50 a week or 25 per cent of previous earnings, whichever is higher.
7. “Family supplement”: Low-income families with children now receive additional EI benefits.
8. Fishermen would receive EI based on the net value of their landed catch, (total catch minus 25 per cent) with no minimum period of time required to qualify.
9. Finally, HRDC instituted a number of what they call “active programs” – targeted wage subsidies, targeted wage supplements, skills development, job-creation programs, and the like – programs undertaken through federal/provincial co-operation to assist workers.

We note that the first five changes represent cuts to EI benefits to possible claimants; the latter four changes represent increased income flows to claimants or people on HRDC-created jobs. The reforms, consequently, were not all towards reducing benefits.

²⁰ Halifax Chronicle-Herald, July 3, 1996, p. A11 and July 24, 1996, p. A, A2; Montreal Gazette, January 5, 1997, p. A5.

²¹ We draw heavily from Lin (1998) and Employment Insurance: 1999 Monitoring and Assessment Report (1999), Annex 1, to which the reader is guided for a more complete discussion.

The Debate Over EI Reforms

During the policy debate, from the time possible EI reforms were first discussed in 1994, the criticisms of federal policy divided into two camps: the side that felt the EI proposals were useful (or even too soft), and the side that felt the proposed policies were too harsh. We discuss each in turn.

A. Supporters of the EI reform bill

By and large most of the pro-EI reform advocacy rested with the federal government and successive ministers at HRDC. Former minister Lloyd Axworthy, from his first comments in early 1994 and through 1995, was the main driving force for reform. He tabled the Jobs and Growth discussion paper; and shepherded the reforms through first reading in the House. Shortly after the tabling of the discussion paper, Axworthy stressed the gains from lower EI premiums. In one speech²² he stated that lower EI premiums would "...give the private sector more incentive to hire and develop its resources...", and that savings from lower EI benefits could be re-channeled into worker training initiatives. Despite strenuous complaining from Atlantic MPs (see below), the new HRDC minister Doug Young²³ and the federal cabinet refused to liberalise the announced reforms to any significant extent. The reforms as passed in 1996 are considered significant by those commenting in the media.

As well the reforms received support from business lobby groups and some economists. The Canadian Chamber of Commerce, in a submission to the House of Commons Finance committee studying the EI reform bill, stated that the then-current UI system was mis-directed into income-support purposes (such as giving income assistance to expectant mothers), instead of functioning as a true insurance system²⁴. The C.D. Howe Institute released a short but well-publicized study by Alice Nakamura²⁵ supporting the government's reforms. In particular she supported the intensity rule and the clawback provisions, warning that businesses would have to go through job restructuring before any reductions in EI contributions could take place²⁶. The Atlantic Provinces Economic Council (APEC) published a number of studies outlining the problem of UI dependency and support for EI reforms²⁷. Finally, the then-Reform Party supported the EI reform bill, but called for drastic changes to employment insurance, advocating individual savings plans to self-finance future unemployment spells. This view was supported by two AIMS studies²⁸, although the AIMS studies argued that the proposed reforms were still too timid.

22 He gave the speech to a business audience at the Montreal Canadian Club. *The Globe and Mail*, October 25, 1994, p. A1.

23 As is discussed below, then HRDC Minister Doug Young took much of the political heat during the large and sometimes violent anti-reform demonstrations throughout Atlantic Canada. Young spoke out strongly against the demonstrations, and wrote one opinion column, countering previously-written op-ed pieces by Canadian Labour Congress spokespersons. See: "Nobody is Making a Grab for the UI Surplus" (Young), *The Globe and Mail*, April 2, 1996.

24 *The Globe and Mail*, November 25, 1996(?).

25 *Employment Insurance: A Framework for Real Reform*, C.D. Howe Institute, 1996

26 *The Globe and Mail*, October 16, 1996, p. B8.

27 See 'On the Seasonal Economy', Report Canada, APEC, September 1995; 'The EI Program: Its Impact on Atlantic Canada', Spring 1996; 'The Dual Nature of Labour Market Adjustment in Atlantic Canada.'

28 "Beyond Good Intentions" by Brian Lee Crowley and Doug May, 1996 and "Towards Sustainable Development in Atlantic Canada: A Case for UI Reform" Doug May and Morley Gunderson, 1996. *The Globe and Mail*, March 25, 1994, p. A5; *The Chronicle-Herald*, March 21, 1994, p. B8.

B. Critics of the EI Reform Bill

By and large opponents of bill C-12 dominated the debate. We can divide the critics into two groups: (1) labour unions, particularly the Canadian Labour Congress (CLC), the New Democratic Party (NDP) and Bloc Quebecois, and (2) Liberal politicians in Atlantic Canada.

Big labour strongly opposed EI reforms from the start. Even before the tabling of the Jobs and Growth discussion paper (and following the 1994 federal budget), union-led demonstrations took place in Quebec and northern New Brunswick²⁹. Demonstrations continued on in late 1995 (after the tabling of Bill C-12), reaching their peak in early 1996. The demonstrations were large and boisterous, including effigies, tire burnings, occupied offices, and such. When the demonstrations reached their peak in early 1996, the activity was visible to all Canadians on late-night TV, earning a major story in Maclean's magazine³⁰. CLC spokespersons wrote opinion columns attacking EI reform, defending UI as an important income assistance tool³¹. NDP Leader Alexa McDonough attacked the EI reforms, going so far as to compare the reforms to the Westray mine disaster³². Quebec Premier Lucien Bouchard criticized EI reforms after the 1996 EI bill was enacted, stating that contributions should be reduced, and benefits raised³³. As well his Bloc Quebecois partners were effective in delaying the bill, filibustering it during committee hearings³⁴. As well, left-leaning periodicals³⁵ published advocacy pieces calling for a generous UI system.

Liberal politicians from Atlantic Canada lobbied strongly for a relaxation of EI rules³⁶. All four Liberal Atlantic premiers at the time – Premiers Tobin, Savage, McKenna³⁷ and Callbeck – criticised the UI cutbacks as forcing Atlantic Canada to bear a disproportionate share of the federal deficit fighting at the time. The premiers met with Prime Minister Chretien just before the EI reforms were introduced into the House, and then again in mid-1996, right before the final reform package was passed into law. The 31-member Atlantic Liberal caucus also lobbied for milder reforms. They objected to the full-fledged “two-tier” EI system proposed in the 1994 discussion paper (and got that idea shelved), and through the House finance committee achieved some minor reductions to the general tone of the final EI reform bill³⁸. New Brunswick Liberal Doug Young was installed as HRDC minister in the January 1996 cabinet shuffle, replacing Lloyd Axworthy, and promised to support gentler EI cuts. But when the EI bill left the House finance committee the original EI reform package was largely intact³⁹.

29 The Globe and Mail, March 25, 1994, p. A5; The Chronicle-Herald, March 21, 1994, p. B8.

30 See “The Angry Backlash in the East”, Maclean's, February 19, 1996, pp. 22 and 23.

31 “The Proposed UI Cuts Would Devastate the Unemployed”, The Globe and Mail, June 29, 1995; p. A19 (by Bob White), then president of the CLC; “In Defence of Unemployment Insurance”, The Globe and Mail, December 18, 1995, p. A13.

32 The Chronicle-Herald, May 6, 1996, p. A3.

33 The Globe and Mail, October 24, 1997, p. A6.

34 The Halifax Chronicle-Herald, April 25, 1996.

35 See in particular articles in two federally-funded publications, the New Maritimes and the Canadian Forum: Cox (1996), Cox and DeRoche (1996), Rau (1997), and Weinburg (1997).

36 The Chronicle-Herald, November 30, 1995, p. A18; The Globe and Mail, November 30, 1995, p. A11; Montreal Gazette, May 5, 1996. See also The Chronicle-Herald, September 21, 1995 and September 26, 1996, p. A12.

37 Strangely, at the time of the release of the 1994 Jobs and Growth discussion paper then Premier Frank McKenna supported Axworthy's philosophy of tightening up benefits, and increasing worker retraining and adjustment. The Globe and Mail, October 8, 1994.

38 The Globe and Mail, April 19, 1996. Liberals Andy Scott and Doug Young claimed to have pushed through three measures to soften EI cuts, including one measure to waive the “consecutive weeks” rule, in favour of calculating total numbers of hours worked in a previous 26-week period, for EI applicants.

39 See also Frank McKenna's comments in Courchene's Social Canada in the New Millennium.

The Current Federal Liberal proposals

In 1999 the EI regime came under attack from a number of quarters. The NDP, after releasing a study on EI, called for increased benefits and a streamlined application system for the newly unemployed⁴⁰. Later in 1999 the Canadian Labour Congress tabled a study showing that, for EI recipients, women received far fewer benefits than men⁴¹. As such the CLC called for higher benefits for the unemployed with part-time employment experience. As well, following the release of the 1998 EI monitoring report, many called for increased maternity benefits for women. A spate of protests, particularly within the federal Liberal caucus, led to a liberalization of benefits for women on maternity leave⁴². Mid-1999 also saw some media discussion advocating the loosening of EI rules for frequent users and higher income families.

In the year 2000 – given an estimated \$6 billion EI surplus in 1999 and mindful of an upcoming federal election – the federal Liberals announced that they were considering plans to liberalise EI even more. Prime Minister Chretien's three speeches to the March 2000 policy convention gave vague promises towards this direction. In a revealing *Globe and Mail* article⁴³, the newspaper quotes unnamed sources that the government planned to reverse the 1996 EI reforms, given the upcoming election and given high EI surpluses. In particular, the government wanted to end the intensity rule and the clawback provision, two measures Liberals say cost them politically in the Atlantic region. According to a later *National Post* article⁴⁴, internal Cabinet opposition delayed the announcement to loosen EI. But since at least one of three major opponents to liberalisation – Lloyd Axworthy is not running in the upcoming election, and Paul Martin and John Manley lost the EI battle in Cabinet – chances are that the Liberal election platform will promise relaxed EI rules. A recent *National Post*⁴⁵ article, that speculated on Axworthy not running, mentioned an upcoming Cabinet shuffle to replace retiring Cabinet members.

40 "The Human Face: Unemployment Insurance", by NDP MP Yvon Godin. See *The Chronicle-herald*, February 16, 1999, p. B7.

41 *The Globe and Mail*, October 18, 1999, pp. A1, A4.

42 *The Globe and Mail* ran a string of advocacy articles supporting EI liberalization of this type. See the following: March 24, 1999, p. A12; April 23, 1999, p. A6; July 5, 1999, pp. A1, A4; July 6, 1999; and October 18, 1999. See also the *National Post*, June 30, 1999, p. A6.

43 "Liberals Planning to Restore Money to UI Program", *The Globe and Mail*, March 20, 2000, p. A4.

44 "Cabinet Split Stays PM's Hand on EI changes", *The National Post*, June 29, 2000.

45 *National Post*, July 27, 2000, p. A6.

Equity Concerns: Are the Worse Off Really Helped?

The study *The Rock in a Hard Place* stressed the inequity problems with the old UI program⁴⁶. In particular, the study stressed that UI was vertically inequitable, in that richer income groups received relatively more UI benefits than the lower income groups, in contrast to social welfare payments. The study also found that UI was horizontally inequitable, in that similarly situated individuals and families receive differing UI treatment. We treat these key points below in this section, but first we discuss the question of EI benefit spending in the Atlantic provinces.

Vertical Equity to the Provinces: the Case of Atlantic Canada

We look at EI spending in Atlantic Canada, treating the region as a have-not region with lower incomes and fewer job opportunities. We repeat that, of the seven main EI changes made in 1996, the Liberal government is proposing revoking the “intensity” and “clawback” provisions, while keeping the other five EI changes intact. The question then is: How has total EI spending changed in the Atlantic region since 1997, given the implementation of the two cutback rules, and given the introduction of increased spending through the Family Support and through increased spending in Part II programs?

To check this, we undertake a rather rough exercise, quantifying selected EI policy changes since 1996 and adding these up (see Table 1 below). To do this, we use data taken directly from the 1998 and 1999 editions of *Employment Insurance: Monitoring and Assessment Report* (the last two of the three issues released so far). In the reports, HRDC quantifies expenditure savings from having the clawback and intensity provisions. The report also publishes statistics as to the Family Support top-up and Part II spending. Here, we treat the top-up as a completely new program. Part II spending refers to the many programs directed to the Employment Training and Support Measures (ETSM), such as Targeted Wage Subsidies, Job Creation Partnerships, and the like. In Table 1 we also calculate the increase in Part II spending, since increased spending on such employment assistance programs was an announced part of the 1996 EI policy change. Note further that the data, with the exception of the “clawback” data, are on a July 1 to July 1 basis. The clawback statistics are from Revenue Canada’s taxation statistics, and are for the calendar year. The 1997 calendar year has been arbitrarily put with the 1996/97 data. As well, the last available year is 1997, so we arbitrarily insert the same 1997 data into the bottom table. We sum up the four policy changes to arrive at “totals” for the four Atlantic provinces, the region, and for Canada as a whole.

Looking at the table for both 1997/98 and 1998/99, it is seen that, for the policy changes, spending flows to individuals connected to Employment Insurance actually increased. Looking at the Canada totals, the extra cash spending for the family supplement top-up taken by itself is larger than the spending cuts for the “clawback” and “intensity” rules. Add to this the increased spending on Part II programs, spending by HRDC on

⁴⁶ See in particular, pp. 28-39 in Chapter 2 “Evaluating Income Security Programs in Atlantic Canada”.

employment insurance, for these four policy changes only, has actually increased. And the same holds true for the four Atlantic provinces, for the 1998/99 year. The basic point here is that, for these four changes, individuals received more money from HRDC, not less.

**Table 1: Changes to HRDC Spending Flows:
by Selected Employment Insurance Component*
1997/98 from 1995/96
(thousands - not adjusted for inflation)**

	Nfld.	P.E.I.	N.S.	N.B.	A.C.	Canada
"clawback"	-1,074	-162	-1,784	-223	-3,243	-18,667
"intensity rule"	-5,505	-1,458	-3,093	-4,770	-14,828	-37,575
family supplement	6,493	2,005	5,806	7,144	21,518	104,842
Part II spending	24,248	6,560	8,596	-11,631	27,773	157,667
total changes	24,162	6,945	9,595	-9,480	31,222	80,028

**1998/99 from 1995/96
(thousands - not adjusted for inflation)**

	Nfld.	P.E.I.	N.S.	N.B.	A.C.	Canada
"clawback"	-1,074	-162	-1,784	-223	-3,253	-18,667
"intensity rule"	-12,512	-3,325	-1,417	-10,158	-33,412	-86,254
family supplement	10,552	2,987	7,858	10,754	32,151	146,606
Part II spending	43,302	8,548	13,911	14,355	80,116	429,458
total changes	40,268	8,048	18,568	14,728	75,602	471,143

* Source: calculated from data contained in Employment Insurance: Monitoring and Assessment Report (1998 and 1999 issues).

This table is constructed as follows: the "clawback" and "intensity rule" data come from Tables 2.16 and 2.17 respectively. The Family Supplement data comes from Table 2.14. The Part II spending includes all programs under Employment Benefits and Support Measures (EBSM). This row is calculated by computing first-difference changes from 1995/96, i.e. the changes from the level of spending under the old Unemployment Insurance Development Uses program (UIDU).

We emphasize that the figures in Table 1 are very rough-hewn, and should be treated with caution. First, the data from the HRDC EI annual reports are from official files, and do not represent any economic analysis estimating individuals drawn into or out of EI, through policy incentives. For example, the "clawback" statistics are taken directly from tax data. Second, HRDC does not publish "savings" data for other policy measures not included in the table, such as the tightened rules for new entrants into the labour force or the reduction in maximum benefit levels. The four policy changes in the table represent only a sub-set of the full package of EI changes listed above. Finally, the Part II spending information represents cost-shared data with the respective provincial governments, such that line amounts and the totals do not reflect pure federal spending injections into the Atlantic region. They represent funds flowing directly to individuals in EI programs.

Vertical and Horizontal Equity Implications of the 1996 EI Changes

There are a number of aspects of equity we explore in this section. Tables 2a through 6b use the Statistics Canada Survey of Consumer Finances to show various demographic breakdowns of the receipt of EI and UI benefits, as well as other related statistics for 1987 and 1997. Throughout this analysis we will focus on comparing results from 1987 and 1997 as these years represent similar phases of the business cycle pre- and post-reform. While we recognize that this is a rather crude methodology, it does highlight how reliance on EI/UI has changed over the past decade and provides some scope to analyse the effects of the 1994-1996 policy reforms.

Table 2a
Percentage of cohort receiving UI/EI benefits - Age 18 to 29

Urban				Rural			
	Males	Females	All		Males	Females	All
NFLD				NFLD			
1987	36.2	25.3	30.5	1987	62.0	44.4	53.2
1997	20.7	14.7	17.5	1997	35.9	17.9	27.4
Difference	-15.5	-10.6	-13.0	Difference	-26.1	-26.5	-25.8
PEI				PEI			
1987	19.2	27.2	23.7	1987	44.0	40.8	42.4
1997	36.1	26.5	30.9	1997	35.5	24.1	30.1
Difference	16.9	-0.7	7.2	Difference	-8.5	-16.7	-12.3
NS				NS			
1987	24.8	21.1	22.9	1987	34.1	21.9	27.8
1997	16.6	12.2	14.3	1997	25.3	14.3	19.8
Difference	-8.2	-8.9	-8.6	Difference	-8.8	-7.6	-8.0
NB				NB			
1987	24.2	17.4	20.7	1987	45.3	34.3	40.0
1997	16.5	15.3	15.8	1997	34.9	17.3	25.6
Difference	-7.7	-2.1	-4.9	Difference	-10.4	-17.0	-14.4
Atlantic Can				Atlantic Can			
1987	28.5	22.4	25.3	1987	48.8	37.1	43.0
1997	20.2	15.7	17.8	1997	32.2	17.5	24.9
Difference	-8.3	-6.7	-7.5	Difference	-16.6	-19.6	-18.1
Canada				Canada			
1987	20.8	17.4	19.0	1987	37.8	28.4	33.2
1997	12.5	9.9	11.1	1997	22.7	13.6	18.3
Difference	-8.3	-7.5	-7.9	Difference	-15.1	-14.8	-14.9

A. Changes in Access to Benefits

Tables 2a and 2b show the proportion of each cohort (by age) receiving any benefits in 1987 and 1997⁴⁷. One of the striking features of these tables is the strong decline in overall use of benefits. For both younger and older individuals in both urban and rural areas the decline in use of EI/UI is sizeable. Particularly impressive is the decline in benefit use among young rural females in Atlantic Canada. In fact, across the board, the declining use of benefits is much more striking for young individuals, suggesting that the policy reforms have had some effect of getting young people out of the EI/UI trap. Among urban individuals the decline in use of benefits has not been as rapid in Atlantic Canada as it has in the nation as a whole. Despite the decline, there remains a significant gap between Atlantic

Table 2b
Percentage of cohort receiving UI/EI benefits - Age 30-64

Urban				Rural			
	Male	Female	Total		Male	Female	Total
NFLD				NFLD			
1987	32.0	22.9	27.4	1987	59.7	35.2	47.5
1997	20.7	13.5	17.0	1997	47.8	24.3	36.4
Difference	-11.3	-9.4	-10.4	Difference	-11.9	-10.9	-11.1
PEI				PEI			
1987	20.7	16.2	18.2	1987	33.8	30.4	32.1
1997	26.7	18.2	22.1	1997	39.8	32.4	36.1
Difference	6.0	2.0	3.9	Difference	6.0	2.0	4.0
NS				NS			
1987	15.4	13.0	14.2	1987	28.2	15.8	22.0
1997	13.6	12.5	13.1	1997	25.9	17.3	21.6
Difference	-1.8	-0.5	-1.1	Difference	-2.3	1.5	-0.4
NB				NB			
1987	17.7	13.4	15.4	1987	36.0	22.3	29.4
1997	18.4	10.6	14.3	1997	30.3	24.4	27.4
Difference	0.7	-2.8	-1.1	Difference	-5.7	2.1	-2.0
Atlantic Can				Atlantic Can			
1987	23.1	17.3	20.1	1987	40.8	26.9	33.9
1997	18.3	12.8	15.4	1997	33.9	23.4	28.7
Difference	-4.8	-4.5	-4.7	Difference	-6.9	-3.5	-5.2
Canada				Canada			
1987	14.8	12.2	13.5	1987	25.7	18.0	21.9
1997	10.3	8.7	9.5	1997	21.1	14.9	18.1
Difference	-4.5	-3.5	-4.0	Difference	-4.6	-3.1	-3.8

47 Note that 1997 is the last year of Survey of Consumer Finances data available through the Data Liberation Initiative.

Canada and Canada as a whole in use of benefits, as Atlantic Canadians are appreciably more likely to use EI. Finally, despite the sharp drop in benefit use in rural areas, the number of individuals accessing benefits remains very high with almost one-third of males and one-fifth of females drawing at least some portion of their income from EI. Although there is a rather significant drop in the number of EI recipients among Newfoundlanders, the 1997 data is contaminated by a large number of workers on the TAGS program, a special income support program that was not considered income nor was it considered EI. The 30-64 year-old group of Newfoundlanders on EI drops by over 11 per cent, something that was not replicated in the other provinces where TAGS was not as large an influence.

B. Market and Total Incomes for Young People

One of the key aims of this report is to examine how changes in policy governing access to EI has affected young people, as they are the individuals for whom adjustment is most important and for whom adjustment in their career paths is most feasible. Tables 3a and 3b examine market and total incomes for 18-29 year olds. A clear pattern emerges: young people over the period who receive

Table 3 a & b
Total Market Income 18-29 Year Olds - by Benefit Status and Province

Received UI Benefits				Did not Received UI Benefits			
		Total Income	Market Income			Total Income	Market Income
Nfld	1987	\$9,813	\$5,625	Nfld	1987	\$4,924	\$4,565
	1997	\$12,955	\$8,225		1997	\$4,535	\$3,761
	Diff.	\$3,142	\$2,600		Diff.	-\$389	-\$804
PEI	1987	\$11,406	\$7,594	PEI	1987	\$7,289	\$6,996
	1997	\$13,154	\$8,674		1997	\$9,292	\$8,665
	Diff.	\$1,748	\$1,080		Diff.	\$2,003	\$1,669
NS	1987	\$12,067	\$8,392	NS	1987	\$7,786	\$7,429
	1997	\$14,384	\$9,668		1997	\$7,226	\$6,270
	Diff.	\$2,317	\$1,276		Diff.	-\$560	-\$1,159
NB	1987	\$10,297	\$6,314	NB	1987	\$7,296	\$6,731
	1997	\$13,308	\$8,476		1997	\$7,178	\$6,518
	Diff.	\$3,011	\$2,162		Diff.	-\$118	-\$213
Atl. Can	1987	\$10,613	\$6,598	Atl. Can	1987	\$6,618	\$6,219
	1997	\$13,501	\$8,797		1997	\$6,878	\$6,101
	Diff.	\$2,888	\$2,199		Diff.	\$260	-\$118
Can.	1987	\$11,742	\$8,295	Can.	1987	\$8,796	\$8,357
	1997	\$16,230	\$11,874		1997	\$9,915	\$8,977
	Diff.	\$4,488	\$3,579		Diff.	\$1,119	\$620

benefits have much higher market and total incomes than young who do not receive benefits (who presumably are more likely to be in education). In addition, incomes for young people not receiving benefits have remained flat, while there has been some (nominal) growth in earnings for individuals receiving EI. It is also interesting to note that, for young people in receipt of benefits, their market incomes also tend to be higher than those individuals who do not receive benefits. Presumably this is due to most individuals receiving EI/UI having made a “full-time” commitment to the labour market (either being employed or unemployed and receiving benefits). Those individuals who are not in receipt of benefits are much more likely to be in full-time education and, as such, only earning wages for perhaps a few summer months and not qualifying for benefits. The “flat” earnings for those not receiving benefits are most likely attributable to increased education participation.

C. Access and Amount of Benefits by Income Class

Table 4 examines access and use of EI/UI benefits through various income classes. The most striking observation is the decline in benefits access at the bottom of the income distribution. In 1987, 31.4 per cent of Atlantic Canadians earning \$15,000 or less received benefits; however, by 1997 this figure had fallen to 19.1 per cent. This decline is comparable to what has happened in Canada as a whole, with the number of low-income Canadians (i.e. less than \$15,000) receiving benefits falling from 20.3 per cent in 1987 to 10.4 per cent in 1997. For individuals with incomes between \$15,000 and \$45,000 access to benefits appears to

Table 4 – Proportion of Individuals Receiving Benefits and Average Benefits by Income Levels 1987 and 1997

	Percentage receiving Benefits			Average Benefits		
	1987	1997	Diff.	1987	1997	Increase
Atlantic Canada						
Less than \$15,000	31%	19%	-12%	\$3,971	\$3,872	-\$99
\$15,000 to \$29,999	33%	33%	0%	\$5,409	\$6,346	\$937
\$30,000 to \$44,999	11%	17%	6%	\$5,094	\$6,693	\$1,599
\$45,000 to \$59,999	15%	11%	-4%	\$5,475	\$6,757	\$1,282
\$60,000 to \$79,999	7%	11%	4%	\$7,117	\$7,801	\$684
\$80,000 or more	9%	20%	11%	\$4,021	\$8,669	\$4,648
Canada						
Less than \$15,000	20%	10%	-10%	\$3,495	\$3,689	\$194
\$15,000 to \$29,999	22%	20%	-2%	\$4,499	\$5,469	\$970
\$30,000 to \$44,999	9%	11%	2%	\$3,913	\$5,789	\$1,876
\$45,000 to \$59,999	7%	6%	-1%	\$3,750	\$5,601	\$1,851
\$60,000 to \$79,999	4%	4%	0%	\$4,067	\$5,411	\$1,344
\$80,000 or more	5%	4%	-1%	\$4,199	\$6,264	\$2,065

have changed little between 1987 and 1997. For those Atlantic Canadians earning more than \$45,000 there is a modest decline (from 13.2 per cent to 12.0 per cent) in access; however, the proportion of high-income Atlantic Canadians receiving benefits remains more than twice the national average. In terms of amount of benefits received, Atlantic Canadians receiving EI consistently receive more benefits than the national average and this is consistent across income classes. However, in 1997 the differential between Atlantic Canadians and Canada as a whole is considerably smaller than in 1987. One worrying trend that remains is that the individuals who receive the largest benefits are those with the highest incomes. However, as the “clawback” provision became more pronounced, as it would have over time, this pattern would have been less pronounced. High-income EI recipients would have kept less and less of the EI they received. The “clawback” amounts are not shown in the tables, since only before-tax incomes are reported.

D. Access to Benefits by Family Type

Table 5 examines access to benefits by family type. We define six types of families: (1) married without children; (2) married with young children; (3) married with older children; (4) single with young children; (5) single with older children; and (6) single with no children. The findings demonstrate that the tightening of access to benefits has resulted in lower levels of benefit use by all family types, although the decline (12.0 per cent in Atlantic Canada and 9.7 per cent for Canada as a whole) is steepest for single individuals with young children. The family supplement was designed to improve the lot of low-income families with children, but the benefits were phased in over the last five years. It is only in the year 2000 that low-income families are eligible for the full 80 per cent benefit rate.

When looking at the percentage receiving benefits it appears that the decline in Atlantic Canada is quite strong across family types (with the exception of married individuals without children, who tend to fare relatively well). However, if we examine the rate of change, it appears that the decline in access to benefits is actually slower than it is in other parts of the country. Restated, the policy clearly reduces access to benefits, but the decline in access is less severe in Atlantic Canada than it is for Canada as a whole.

When looking at the benefits received, column three demonstrates that single individuals with young children and single individuals with older children tend to get lower benefits than married individuals with children and just slightly more benefit than childless single individuals. The next column shows the proportion of each family type having government transfers as their main source of income. Interestingly we see that between 1987 and 1997, on average, families without children were more likely to have government transfers as their main source of income, while families with children tend to be less likely to have government transfers as their main source of income. However, the decline in individuals having transfers as their main source of income is not as severe as the decline in the individuals accessing EI/UI benefits. This suggests that other forms of transfers are picking up some of the families who previously would have relied on UI.

**Table 5 – Proportion of Individuals Receiving EI/UI
Average Benefits and Percent with Transfers as a main source of Income**

Atlantic Canada 1987-1997

Family Type	% Receiving EI			Average Benefit			% with transfers as main income		
	1987	1997	Diff	1987	1997	Diff	1987	1997	Diff
Married									
No children	24	21	-3	\$4,389	\$5,615	\$1,226	20	20	0
Young children	37	26	-11	\$4,511	\$5,800	\$1,289	21	14	-7
Older children	28	24	-4	\$4,791	\$5,653	\$862	17	14	-3
Single									
No children	20	14	-6	\$4,004	\$4,775	\$771	17	23	6
Young children	32	20	-12	\$3,753	\$4,719	\$966	64	57	-7
Older children	25	17	-8	\$4,158	\$4,556	\$398	48	43	-5

Canada 1987-1997

Family Type	% Receiving EI			Average Benefit			% with transfers as main income		
	1987	1997	Diff	1987	1997	Diff	1987	1997	Diff
Married									
No children	16	11	-5	\$3,756	\$5,007	\$1,321	13	13	0
Young children	23	16	-7	\$3,919	\$4,970	\$1,051	13	9	-4
Older children	17	12	-5	\$4,165	\$5,161	\$996	10	7	-3
Single									
No children	14	9	-5	\$3,526	\$4,502	\$976	12	17	5
Young children	22	13	-9	\$3,512	\$4,590	\$1,078	57	51	-6
Older children	16	10	-6	\$3,635	\$5,089	\$1,454	35	28	-7

Families headed by single parents rely much less on EI in 1997 (for young families the drop is from 32 per cent to 20 per cent) but since there has also been a drop in the number that rely on transfers as their main income (from 64 per cent to 57 per cent), more single parent families must be relying on market incomes rather than social assistance. Single individuals with children are tending to work throughout the year, rather than working a number of weeks and relying on EI to supplement their income.

E. Access to Social Assistance

Table 6 examines the proportion of individuals receiving social assistance by a variety of different demographic groups. Overall, we observe that more individuals are receiving social assistance in 1997 as compared to 1987, therefore as access to EI/UI declines, other forms of social assistance appear to be stepping in to take their place. One area of possible concern is that single parents with young children also appear to be less likely to be in receipt of social assistance in 1997 as compared to 1987. This is an area that may need to be examined further to ensure that this is because the particularly vulnerable are in fact being more successful in the labour market rather than being the most adversely effected by the reforms to

Table 6 – Social Assistance Recipients and Benefits Received

Atlantic Canada						
Family Type	% in Receipt of Social Assistance			Average Benefits		
	1987	1997	Diff	1987	1997	Diff
Married						
No children	2.9	3.7	0.8	\$4,114	\$6,395	\$2,281
Young children	3.5	4.6	1.1	\$3,990	\$6,898	\$2,908
Older children	2.6	3.2	0.6	\$4,639	\$7,439	\$2,800
Single						
No children	12.9	16.2	3.3	\$4,076	\$5,507	\$1,431
Young children	56.4	49.7	-6.7	\$5,203	\$8,458	\$3,255
Older children	31.7	31.5	-0.2	\$5,164	\$8,241	\$3,077
Age						
18-29	6.7	11.3	4.6	\$4,145	\$6,837	\$2,692
30-64	5.4	6.6	1.2	\$4,654	\$6,917	\$2,263
Urban						
Urban	6.3	8.1	1.8	\$4,693	\$7,144	\$2,451
Rural	4.9	6.3	1.4	\$4,316	\$6,555	\$2,239

Canada						
Family Type	% in Receipt of Social Assistance			Average Benefits		
	1987	1997	Diff	1987	1997	Diff
Married						
No children	3.1	3.2	0.1	\$3,511	\$6,617	\$3,106
Young children	3.1	4.4	1.3	\$4,717	\$7,250	\$2,533
Older children	2.2	2.7	0.5	\$4,948	\$7,444	\$2,496
Single						
No children	10.9	14.4	3.5	\$4,255	\$6,071	\$1,816
Young children	51.5	49.0	-2.5	\$6,409	\$8,579	\$2,170
Older children	25.6	24.3	-1.3	\$5,845	\$8,177	\$2,332
Age						
18-29	6.5	10.3	3.8	\$4,723	\$6,969	\$2,246
30-64	4.9	6.3	1.4	\$4,993	\$7,118	\$2,125
Urban						
Urban	5.5	7.3	1.8	\$5,125	\$7,194	\$2,069
Rural	4.8	5.5	0.7	\$4,417	\$6,651	\$2,234

El.Social assistance appears to be increasingly common among young people and more prevalent in urban areas. However, there has been a moderate rise in the proportion of rural individuals in Atlantic Canada receiving social assistance between 1987 and 1997.

F. Conclusion

Overall, the reforms appear to have reshaped the demographics of EI. Clearly significantly fewer individuals are receiving benefits. While the decline in access to benefits has been sizeable in Atlantic Canada, the difference between this region and the rest of the country remains significant. There appears to be some evidence of convergence in rates of unemployment, with rural Atlantic Canadians making up somewhat more ground than their urban counterparts. In addition, the pattern of redistribution of EI access remains of some concern, with single families with young children possibly the most affected by the reforms for reasons that require more research. At the same time, these individuals also appear to be less likely to be receiving other forms of government transfers such as social assistance. There is evidence suggesting that these individuals are moving into employment or upgrading their skills by increasing education. However these numbers do not appear to fully capture all individuals moving off the EI register.

Efficiency Concerns: Are the Incentives to Find Productive, Full-Year Work Enhanced?

This section is divided into two parts. First, we look at unemployment rates, to see how they have changed across demographic and occupational groups, from the pre- and post-EI policy periods. Second, we present additional tables from the Survey of Consumer Finances, and look at human capital investment and labour force adjustment during the pre- and post policy periods. We discuss each in turn.

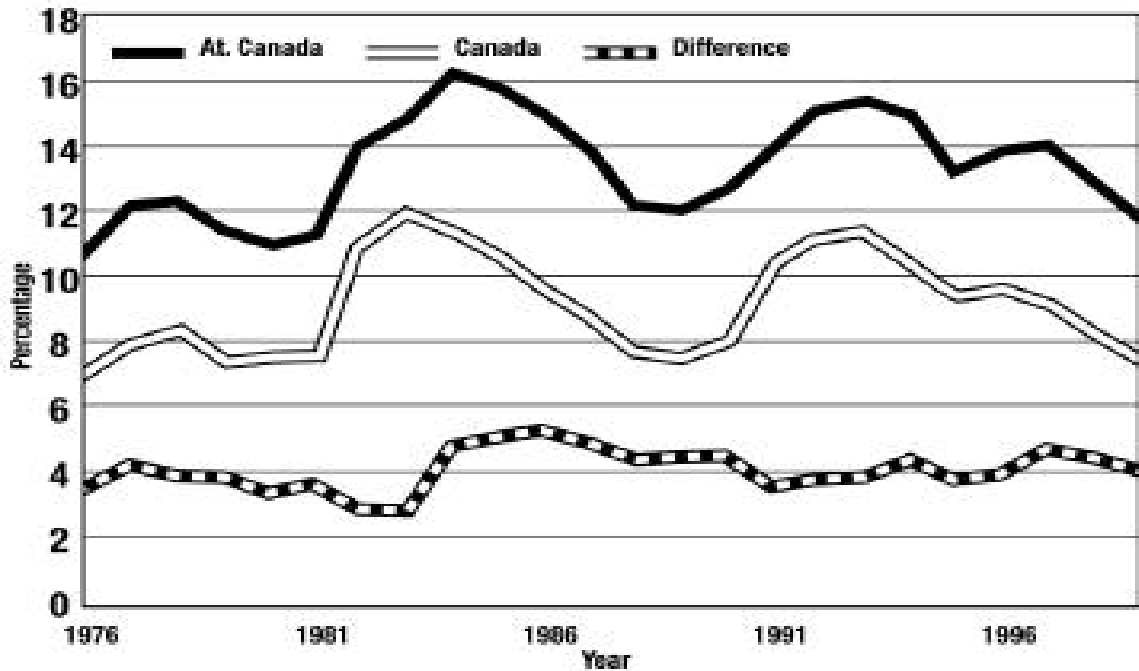
1. Labour Market Efficiency Gains from EI Reform: A Look at Provincial Unemployment Rates

Unemployment rates are one class of statistics measuring labour market efficiency. For the remainder of this section we present two sets of unemployment rates - unemployment rates by age/sex composition and by occupational class - to measure any possible effect of EI tightening on rates of joblessness. Given EI reform, we would expect that at the margin some individuals loosely attached to the labour market would give up job searches in favour of school, retraining, or commitments outside the work force. Across age and sex groups, we expect lower jobless rates among the young, one key target of EI reform. Across regions, we would expect comparatively larger drops in unemployment rates in the Atlantic provinces as compared to the nation as a whole, since the region has historically relied heavily on seasonal work and unemployment benefits to augment income. Given much higher seasonal and structural joblessness in the region, and given that, especially before reforms, dependence on EI is much stronger in the region, one would imagine that cutbacks to Employment Insurance would affect the unemployment rates in the Atlantic provinces in a more profound way than the nation as a whole.

Graph 4 shows the aggregate unemployment rates for the Atlantic region, Canada as a whole, and the difference between the two. At first glance, total unemployment rates for Atlantic Canada and Canada seems to move parallel to each other. Both lines show the two economic recessions as upwards spikes in the jobless rates; both lines show the much-discussed long-term upwards trend in the rates up to 1992; and both lines show the rather strong decline in unemployment following the 1991-92 recession.

But a closer examination of the unemployment rate difference between the Atlantic region and the nation reveals two points. First, during the two most recent cyclical downturns, in 1981-82 and 1991-92, the unemployment rate difference falls slightly. This is due to the comparatively large pro-cyclical manufacturing industries, industries more heavily represented in central Canada. Second, there had been a fairly noticeable rise in the unemployment-rate difference during the recovery following the 1981-82 national recession, up to 1986. But by contrast the unemployment-rate difference followed a different post-recession pattern in the nineties. It did not rise appreciably, and hovered around the 4 per cent mark. It is this difference which we want to address more closely.

Graph 4: Unemployment Rates: Atlantic Canada and Canada, 1976 – 1999



First, we wish to examine two comparative periods, the “post-EI” reform period of 1997 to 1999, inclusive, and the 1987 to 1989 period. These figures are presented in Table 7. We choose the 1997 as the first complete year following the introduction of EI reforms in July 1996. And 1999 is the last complete year of available labour market data from Statistics Canada’s Labour Force Survey. We choose the 1987-1989 period as a reasonably good benchmark of comparison. From 1987 to 1989 was a period of economic recovery, at roughly the same time from the 1981-82 recession as 1997-99 was from the 1991-92 recession. Using these three-year periods and calculating unemployment rate averages, we note that the national jobless rate averaged 8 per cent during the 1987-89 period and 8.3 per cent during the 1997-99 period, a slight rise of .3 per cent from one recovery period to the other. Atlantic Canada’s aggregate jobless rate averaged 12.7 per cent during 1987-89, and 12.8 per cent during 1997-99, a very slight rise of .1 per cent. Consequently, using the two three-year periods as benchmarks, the average unemployment rate differential between Atlantic Canada and Canada narrowed only slightly.

Human Resources Development Canada (HRDC), in its latest annual review of its revised EI program⁴⁸, states that “With each succeeding year, it is becoming more difficult to isolate the independent impact of EI reforms on the economy” (p. 65), but then goes on to mention the strong employment growth during 1998 and 1999. Without saying so explicitly, the report leaves the reader with the optimistic conclusion that EI reforms have had a noticeable effect on labour market adjustment. It is true that during the latter

⁴⁸ Employment Insurance: 1999 Monitoring and Assessment Report, Human Resources Development Canada, December 20, 1999.

Table 7: Percentage Point Changes In Unemployment Rates –By Age/Sex Groups, Province, Region and Canada – from 1987-89 to 1997-99*

	NF.	P.E.I.	N.S.	N.B.	A.C.	Canada
men 15-19	+5.24	+5.83	+7.05	-1.16	+3.52	+6.36
men 20-24	+1.48	-1.92	+3.23	-1.69	+ .79	+1.38
men 25-54	+4.61	+3.57	+ .90	+ .52	+1.72	+ .65
men 55+	+3.89	+7.04	+3.31	+2.55	+3.45	+ .41
women 15-19	+2.71	+3.04	+2.67	+2.17	+2.18	+6.40
women 20-24	-1.25	-2.58	+ .86	- .43	- .42	+ .98
women 25-54	-1.23	- .63	-1.89	-1.59	-1.61	- .92
women 55+	+2.47	+5.08	+ .29	+ .75	+1.18	- .02
total	+1.24	+1.69	+ .12	- .71	+ .13	- .28

* Source: Statistics Canada, Labour Force Survey, CANSIM, and calculations by the authors.

This table shows the changes in average unemployment rates, by province, region and Canada, for the designated age/sex cohort. For example, the .13 figure for Atlantic Canada, "total" says that the aggregate unemployment rate for the region increased by slightly over .1 percentage point, from 1987-89 to 1997-99.

months of 1999 and the beginning of the year 2000, the overall jobless rate reached new record lows. But comparing the three-year intervals as we have done, at the national level any discernible improvement in the aggregate national unemployment rate appears minimal.

Although it is true that the total unemployment rate for Atlantic Canada stayed roughly the same from 1987-89 to 1997-99, the change in joblessness varied sharply across provinces. Table 7 shows the changes in the average unemployment rates, by province and by provincial age/sex cohort, from the 1987-89 period to 1997-99. The bottom row shows that aggregate unemployment rates rose in Newfoundland and Prince Edward Island, remained about the same in Nova Scotia, and declined in New Brunswick. We stress that if the EI-reform package is to have a noteworthy impact on unemployment rates, it ought to have similar effects across provinces. We speculate that differing economic shocks on the demand side of the labour market at least dominate any policy-driven supply-side effects. For example, strong job-creation in New Brunswick due to the "McKenna miracle"⁴⁹ may have been responsible for the relatively good performance of that province's unemployment rate.

Looking at age/sex groups, note that each number in the table measures the change in the unemployment rate for the designated age/sex cohort for each province, the Atlantic region, and for Canada, from 1987-89 to 1997-99. Looking at the entire Atlantic region first, we note that the change in unemployment rates for younger people aged 15-19 years and 20-24 years recorded

⁴⁹ See McMahon (1999) and Murrell (1999) for a discussion of the Nova Scotia and New Brunswick economies during this period.

better performances in Atlantic Canada to the nation as a whole. The jobless rates for young people aged 15 to 19 rose quite substantially (by about 62 per cent) for both sexes. In the Atlantic region the rise was still severe, but smaller. The same holds true for young people aged 20 to 24 years, and in Atlantic Canada the jobless rate for women in this age group actually fell. The rate of joblessness for women aged 25 to 54, a rather large group, fell by a larger rate of change in Atlantic Canada than the decline in Canada taken as a whole. But for older men, aged 25-54 and over 55, the reverse is true. Their unemployment rates rose quite substantially at rates considerably higher than that for the nation as a whole, except for Nova Scotia (where it rose only slightly higher than the country as a whole) and in New Brunswick (where it rose slightly lower than Canada as a whole). Women aged 25-54 did reasonably well relative to their counterparts across the nation, over the two periods, except in Prince Edward Island. Women aged 55 and over fared relatively poorly over the two periods. We note here that, in contrast to the sharp unemployment-rate differential changes across provinces, the differences within age/sex groups across provinces are not as noticeable. Since the EI-reforms did target young people (to try to induce them to re-adjust and to get them off of EI rolls), we suggest that there might be some modest success. But we also note the relatively poorer performances of older men, a point to which we will return.

Table 8 shows the average percentage point change in joblessness, from 1987-89 to 1997-99, by occupational class. Looking at the right-hand column of numbers first, we notice an anomaly. The total unemployment rate for Canada rose slightly, but for nearly all occupational groups save "primary industries", the respective rates of joblessness fell. This can be explained by the residual of individuals in the labour force not declaring an occupation (i.e. new entrants and re-entrants entering the labour force after a period of inactivity). Virtually all of these people are considered by Statistics Canada to be unemployed. And for Canada as a whole, this key group rose by 246,000 in 1987-89 to about 460,000 (or about 36 per cent of all unemployed in the latter time period). We suspect that this large increase is mostly made up of young people.

The slight rise in the national unemployment rate disguises the effect of EI tightening. We suspect that the effect of the EI-rule changes was to lower the national jobless rate, but that because growth in real output was sluggish in 1996 (Canada's unemployment rate rose slightly in 1996), soft demand earlier in the 1990s recovery led to the .28 rise in Canada's rate of unemployment. We point to a fairly large literature⁵⁰ that states that UI-loosening raises unemployment rates (with the converse true of UI-tightening). Over and above any softness in the Canadian economy in the mid-1990s, we note from Table 3 that, for Canada, the rate of joblessness fell for every occupational class except for the "primary occupation" group.

50 See Fortin (1984), Myatt (1992) and Myatt (1996) for the use of Fortin's "index of unemployment generosity" in econometric applications. As this index rises, it exerts a positive force on national and provincial unemployment rates.

Table 8: Percentage Point Changes In Unemployment Rates – Occupation Class, Province, Region and Canada – from 1987-89 to 1997-99*.

	NF.	P.E.I	N.S.	N.B.	A.C.	Canada
management	+ .33	- .41	- .85	- .38	- .53	- .59
business/finance	-1.96	-1.30	- .81	-1.17	-1.22	- .97
applied science	-1.26	- .68	- .07	+ .32	- .39	- .46
health/medicine	- .40	-2.20	-1.25	- .60	- .84	- .48
education/govt	+ .63	-1.15	- .40	+1.55	+ .43	- .50
culture/recreation	+ .48	-1.74	+1.62	+5.69	+1.18	-1.25
sales/service	-3.48	+ .68	- 1.91	+ .91	- 1.12	- 1.24
trades/trans.	+1.23	+2.17	- 1.22	- .33	+ .19	- .57
primary occup.	+10.83	+10.71	+3.42	-2.14	+2.13	+ .81
manufacturing	+ 1.52	- 1.27	+ .10	+ .30	+ .20	- .85
total	+ 1.24	+1.69	+ .12	- .71	+ .13	- .28

* Source: Statistics Canada, Labour Force Survey, CANSIM, and calculations by the authors.

This table shows changes in average unemployment rates, by province, region and Canada, by a ten-occupational breakdown. For example, the + .19 figure for the “trades and transportation” group under the Atlantic Canada column means that the unemployment rate for this occupation class moved up by about .2 per cent in the Atlantic region, from 1987-89 to 1997-99.

For the Atlantic provinces, however, jobless rates grew for the three occupational groups with the highest unemployment rates, and groups with disproportionately male representation: trades/transportation, primary occupations, and manufacturing. Joblessness also grew in the “education/government” and “culture/recreation” groups, occupations with traditionally lower unemployment rates and with higher education attainment. The individual provinces reflect this occupational jobless pattern, although both Newfoundland and Prince Edward Island reveal worrisome rises in “primary” and “trades/transportation” occupational unemployment. We will make further comments on these troubling jobless increases below.

In summary, unemployment rate changes suggest that Atlantic Canada has witnessed labour market adjustments in line with or slightly better than that for Canada as a whole. But the improvements are not taking place among all provinces, demographic groups and occupations. Nova Scotia and New Brunswick unemployment rates have improved more than that for the region as a whole; Newfoundland and Prince Edward Island’s unemployed are lagging behind. Among demographic groups, unemployed women are adjusting better than unemployed men. In Atlantic Canada the jobless young are adjusting better than those at the national level, whereas those over 55 years of age are not. And among occupational classes, the joblessness among the traditional blue-collar occupations has risen. These statistics suggest that while Employment Insurance revisions might have had some success in lowering overall unemployment rates, they have largely failed to improve labour force adjustment among older, predominately male, blue-collar workers.

Statistics from the Survey of Consumer Finances

In this section we again use micro-data from the 1987 and 1997 Survey of Consumer Finances to examine the extent to which there has been an adjustment in labour market behaviour over this decade. We are particularly interested in the adjustment patterns of young people as these are the individuals for whom changing labour market behaviour is most crucial. In our view, it will be a shocking oversight of policy if a new generation of young people is allowed to fall into a cycle of seasonal work and reliance on EI.

A. Labour Force Status by Age

Tables 9a and 9b show labour force status and education participation for urban and rural areas, dividing the sample into 18-29 year olds and 30-64 year olds. In 1997 young urban Atlantic Canadians were somewhat more likely to be employed and somewhat less likely to be unemployed than the same age cohort in 1987. However, the most striking feature of this demographic group is their increased participation in education, as the proportion of 18-29 year olds in education jumped from 20.9 to 32.7 between 1987 and 1997. This suggests that young Atlantic Canadians from urban areas are adjusting to the new economy and adding

**Table 9a - Labour Force Status And Education Participation
By Age 1987 -1997 Atlantic Canada
Urban**

		Employed	Unemployed	Not in Labour Force	Education Participation
18-29	1987	57.3	12.4	30.3	20.9
18-29	1997	57.7	10.9	31.4	32.7
	Difference	0.4	-1.5	1.1	11.8
30-64	1987	61.4	7.2	31.4	2.0
30-64	1997	63.6	8.0	28.5	2.6
	Difference	2.2	0.8	-2.9	0.6
Rural					
		Employed	Unemployed	Not in Labour Force	Education Participation
18-29	1987	43.2	17.6	39.2	16.1
18-29	1997	45.8	18.0	36.2	24.5
	Difference	2.6	0.4	-3.0	8.4
30-64	1987	53.0	10.4	36.7	0.9
30-64	1997	55.3	11.8	32.9	1.4
	Difference	2.3	1.4	-3.8	0.5

new skills to their portfolios. Indeed, participation in education is now higher for young, urban Atlantic Canadians than it is for the young, urban individuals from the rest of Canada.

The pattern for young rural Canadians is somewhat different, with a much sharper rise in employment, but also exhibited an increase in unemployment over this same period. Similar to their urban counterparts, young rural Atlantic Canadians were much more likely to participate in education in 1997 as compared with 1987. Over this period, the proportion participating in education jumped from 16.1 to 24.5 per cent. As impressive as this may sound, this actually dropped young rural Atlantic Canadians below the Canadian average for education participation in 1997. In 1987 this group had been marginally above the national average. In comparison to the national average, both urban and rural Atlantic Canadians were less likely to be employed and more likely to be unemployed in 1997 than in 1987.

Turning to older workers, we observe that changes are less dramatic than those observed for young people - which is to be expected, since they are much more entrenched in their labour market positions. Both urban and rural Atlantic Canadians were more likely to be employed, but they were also more likely to be unemployed as well, suggesting a sharp decline in the number of individuals not in the labour force (which is likely attributable to increased female labour force par-

**Table 9 b - Labour Force Status And Education Participation
By Age 1987 -1997 Canada
Urban**

		Employed	Unemployed	Not in Labour Force	Education Participation
18-29	1987	67.4	9.3	23.3	21.6
18-29	1997	65.7	8.5	25.8	31.8
	Difference	-1.7	-0.8	2.5	10.2
30-64	1987	68.9	5.6	25.5	2.8
30-64	1997	71.2	5.6	23.3	2.9
	Difference	2.3	0.0	-2.2	0.1

		Employed	Unemployed	Not in Labour Force	Education Participation
18-29	1987	53.1	14.6	32.3	15.7
18-29	1997	56.8	12.7	30.5	25.1
	Difference	3.7	-1.9	-1.8	9.4
30-64	1987	63.5	7.4	29.1	1.2
30-64	1997	64.5	8.0	27.2	1.5
	Difference	1.0	0.6	-1.9	0.3

participation). There have been some gains in terms of participation in education, although these are modest. Comparisons to the Canadian average reveal a similar pattern to that of the 18-29 year-old cohort: Older Atlantic Canadians remain much less likely to be employed and much more likely to be unemployed. Participation in education is also lower for both urban and rural Atlantic Canadians of the older age cohort, as compared to the national average.

B. Labour Force Status by Family Type

Tables 10a and 10b examine labour force status by family type for 1987 and 1997. For Atlantic Canada, with the exception of single families with no children, individuals from each family type are more likely to be in employment in 1997 as compared to 1987. The gains are particularly large for single parents with young children and married individuals with young children. Less impressive are the employment gains for married families with no children and single parents with older children. Unemployment changes across families differed greatly over the two time

Table 10a
Labour Force Status by Family Type - Atlantic Canada

		Employed	Unemployed	Not in Labour Force	Education Participation
Married	1987	52.3	7.5	40.1	1.9
no children	1997	52.9	8.7	38.4	2.7
	diff	0.6	1.2	-1.7	0.8
Married	1987	58.5	12.9	28.7	3.0
Young children	1997	66.9	10.7	22.4	6.7
	diff	8.4	-2.2	-6.3	3.7
Married	1987	59.8	9.2	31.0	1.8
Older children	1997	66.1	9.8	24.1	3.9
	diff	6.3	0.6	-6.9	2.1
Single	1987	34.9	15.1	50.0	11.1
Young children	1997	45.0	13.0	42.0	14.1
	diff	10.1	-2.1	-8.0	3.0
Single	1987	52.6	8.6	38.8	5.5
Older children	1997	53.3	11.4	35.4	12.0
	diff	0.7	2.8	-3.4	6.5
Single	1987	56.1	7.4	36.5	14.4
no children	1997	53.8	11.1	35.1	12.4
	diff	-2.3	3.7	-1.4	-2.0

periods. Both single parents with young children and married individuals with children were less likely to be unemployed in 1997 as compared to 1987. However, individuals from each other family type were more likely to be unemployed in 1997 than they were in 1987.

Next we examine the proportion of individuals within each family type who are not in the labour force and who participate in education. With the exception of single individuals without children, individuals from all family types were much more likely to participate in education in 1997 as compared to 1987. Particularly impressive are the gains among single parents, both with young and especially those with older children. Although the Canadian averages (in terms of education participation) remain higher across all family types, when compared to Atlantic Canada, the gains from 1987 are much less impressive nationally than they are in the Atlantic region.

Table 10b
Labour Force Status by Family Type - Canada

		Employed	Unemployed	Not in Labour Force	Education Participation
Married	1987	61.5	5.9	32.6	3.6
no children	1997	62.5	4.9	32.6	3.5
	diff	1.0	-1.0	0.0	-0.1
Married	1987	68.5	8.1	23.4	5.8
Young children	1997	74.3	6.4	19.3	10.0
	diff	5.8	-1.7	-4.1	4.2
Married	1987	71.2	6.1	22.7	3.1
Older children	1997	77.4	5.7	17.0	5.0
	diff	6.2	-0.4	-5.7	1.9
Single	1987	42.8	11.3	45.9	22.1
Young children	1997	48.3	12.3	39.5	19.9
	diff	5.5	1.0	-6.4	-2.2
Single	1987	63.0	7.6	29.5	9.0
Older children	1997	69.4	8.8	21.8	13.6
	diff	6.4	1.2	-7.7	4.6
Single	1987	67.1	7.7	25.2	18.2
no children	1997	64.4	8.6	27.1	18.9
	diff	-2.7	0.9	1.9	0.7



C. Educational Attainment for Young People

Tables 11a and 11b show how educational attainment among young people (aged 18-24) has changed between 1987 and 1997. For Atlantic Canada as a whole, the increase in attainment is particularly impressive with the strongest pattern emerging being that of young people in rural communities accumulating considerably more education in 1997 than they had in 1987. What is perhaps most impressive, in the distribution of improved educational attainment, is the dramatic rise of educational attainment of those receiving EI benefits. There are (at least) three interpretations of this fact. The first is that increased education (particularly to levels below a university degree) does not insulate young people from spells of unemployment. The second is that young people are observing that access to EI is diminishing, thus providing an incentive to augment their skills and obtain more qualifications. A third is that much of the Part II funding from the EI fund is being

Table 11a
Highest Educational Attainment
18-24 Year Olds - Atlantic Canada

		Urban		Rural	
		No UI	Receive UI	No UI	Receive UI
Elementary	1987	6.0	13.2	10.9	17.1
	1997	1.5	3.1	1.8	5.8
	diff	-4.5	-10.1	-9.1	-11.3
9 or 10 years	1987	10.0	15.4	12.5	20.5
	1997	5.4	2.1	7.4	8.3
	diff	-4.6	-13.3	-5.1	-12.2
11 to 13 years	1987	42.5	36.4	47.4	36.1
	1997	38.5	25.0	46.0	45.8
	diff	-4.0	-11.4	-1.4	9.7
Some Post Secondary	1987	26.2	15.2	18.0	6.6
	1997	34.3	26.0	23.1	15.0
	diff	8.1	10.8	5.1	8.4
Diploma	1987	10.2	15.6	7.9	9.2
	1997	15.8	37.5	18.8	23.3
	diff	5.6	21.9	10.9	14.1
Degree	1987	5.2	4.2	3.3	0.6
	1997	4.6	6.3	2.9	1.7
	diff	-0.6	2.1	-0.4	1.1

used to send Atlantic Canadians through retraining. In comparing these increases in educational attainment with the national average, it appears that the gains in Atlantic Canada are most impressive at the bottom end of the distribution, with fewer young people having less than high school qualifications. By contrast the most striking gains at the national level are at the top end of the distribution, with young people obtaining considerably more diplomas and degrees than they did a decade earlier.

Table 11b
Highest Educational Attainment
18-24 Year Olds - Canada

		Urban		Rural	
		No UI	Receive UI	No UI	Receive UI
Elementary	1987	3.5	6.7	10.2	14.6
	1997	1.8	2.8	2.9	6.1
	diff	-1.7	-3.9	-7.3	-8.5
9 or 10 years	1987	9.0	13.8	11.6	18.7
	1997	7.3	8.9	9.5	10.6
	diff	-1.7	-4.9	-2.1	-8.1
11 to 13 years	1987	44.1	48.7	48.3	48.4
	1997	40.0	40.9	43.5	46.0
	diff	-4.1	-7.8	-4.8	-2.4
Some Post Secondary	1987	28.5	15.8	20.4	8.6
	1997	30.3	17.0	23.5	11.6
	diff	1.8	1.2	3.1	3.0
Post Secondary Diploma	1987	11.6	12.1	7.4	9.3
	1997	17.6	26.5	18.5	23.7
	diff	6.0	14.4		11.1 14.4
Degree	1987	3.3	2.9	2.1	0.7
	1997	3.0	3.9	2.2	2.0
	diff	-0.3	1.0	0.1	1.3

D. Occupational Choice of Young People

Tables 12a and 12b examine how the occupational choices of young people aged 18-29 entering the labour market have changed between 1987 and 1997. We believe these are key tables in our report. One of the key features of the reform of EI/UI is that it sought to make these benefits sufficiently unattractive that workers (and in particular young people) would not choose occupations that are highly seasonal and reliant on EI/UI as a significant supplement to their market income.

For Atlantic Canada, we observe a large increase in the proportion of young workers going into Managerial, Natural Sciences and Sales occupations. By contrast we observe a decline in workers going into Clerical, Service and Construction occupations. There is also a sizeable decline in young people going into Mining, Processing and Machining. Farming, Fishing, Forestry and Logging also show a small decline but, given that these are probably the most seasonally volatile occupations, a greater decline might have been expected.

Part of the reason could have been the spurt of young Atlantic Canadians going into the fishery spurred on by the relaxed entrance requirements and the ease of qualifying for EI (see Appendix A). In fact if we examine this province by province, we actually see a large decline only in Prince Edward Island, with a smaller decline in Nova Scotia, hardly any change in Newfoundland and an increase in New Brunswick. Participation in this sector is nearly double the Canadian average, with 8.5 per cent of young Atlantic Canadians belonging to these occupations, compared to 4.5 per cent nationally. For the most part, the change in Atlantic Canadian distribution of occupations follows closely the national average. However, it should be reported that the gains in Managerial and Professional Occupations, as well as those in the Natural Sciences, grew faster in this region than they did in the nation as a whole. However, Atlantic Canada still lags behind the national average in these latter occupations.

E. Weeks Worked

A final area we wish to examine is the number of weeks worked by young people in rural and urban areas. One of the key changes in qualification for EI benefits was an increase in the weeks of work required to be eligible. Table 13 shows the figures for 1987 and 1997. We observe a clear increase in weeks worked between 1987 and 1997, with a gain of 3.9 weeks per year in rural Atlantic Canada and a gain of 1.5 weeks in urban Atlantic Canada. In both cases the gains are larger than observed for Canada as a whole, although Atlantic Canada still lags far behind the national average. There is thus some evidence that Atlantic Canada is improving its position in weeks worked compared with the rest of Canada.

Table 12a: Occupational Choice of 18–29 Year Olds, Atlantic Canada

Occupation	Proportion 1987	Proportion 1997	Difference
Managerial and Administrative	4.72	6.86	2.14
Natural Sciences	7.56	9.62	2.06
Teaching	2.24	2.7	0.46
Clerical	14.49	11.42	-3.07
Sales	7.51	8.72	1.21
Service	17.63	15.69	-1.94
Farming, Fishing, Forestry and Logging	9.61	8.44	-1.17
Mining, Processing and Machining	9.43	5.4	-4.03
Product Fabricating, Assembling and Repair	5.8	5.12	-0.68
Construction Trades	7.25	5.23	-2.02
Transport, Material Handling, Other Craft Occupations	7.2	6.41	-0.79
Never worked before	4.08	5.85	1.77
Last worked more than 5 years ago	2.48	8.55	6.07

Table 12b: Occupational Choice of 18–29 Year Olds, Canada

Occupation	Proportion 1987	Proportion 1997	Difference
Managerial and Administrative	6.24	7.64	1.4
Natural Sciences	9.13	10.9	1.77
Teaching	2.36	3.21	0.85
Clerical	17.05	11.79	-5.26
Sales	7.81	9.03	1.22
Service	16.95	15.8	-1.15
Farming, Fishing, Forestry and Logging	6.34	4.46	-1.88
Mining, Processing and Machining	6.97	5.97	-1
Product Fabricating, Assembling and Repair	7.47	7.32	-0.15
Construction Trades	6.91	4.94	-1.97
Transport, Material Handling, Other Craft Occupations	7.76	6.61	-1.15
Never worked before	2.82	4.79	1.97
Last worked more than 5 years ago	2.2	7.53	5.33

Table 13
Weeks Worked for 18-29 Year Olds

Average Weeks Worked		1987	1997	Difference
Atlantic Canada	Urban	38.4	39.9	1.5
	Rural	31	34.9	3.9
Canada	Urban	41.7	42.8	1.1
	Rural	35.8	39.3	3.5

CONCLUSIONS

The proposed re-liberalisation of Employment Insurance focuses on two key aspects of the 1996 reforms: the “clawback” provision and the intensity rule. The evidence presented in this paper shows that there is little justification for liberalising either of these reforms. Indeed the evidence presented suggests that the reform may be better placed if they tighten, rather than ease, access to EI benefits.

There are a number of concerns with EI as it is currently configured stemming from this analysis. These include the following:

- Although there has been a significant decline in use of EI, Atlantic Canada remains disproportionately reliant on these transfers. Although there has been a slight movement down towards the national average, most “economic dependency” indicators remain unacceptably high.
- Too many “high-income” Atlantic Canadians receive EI benefits. In addition the dollar value of the benefits they receive tends to be much higher than benefits received by low-income Atlantic Canadian benefit recipients. In fact, real per capita EI remains far above the Canadian average, partly due to this vertical equity problem.
- Young Atlantic Canadians continue to go into highly seasonal occupations at a rate significantly higher than the national average. One of the aims of the reforms to UI/EI was to make these occupations (which tend to rely too heavily on EI as an income supplement) sufficiently unattractive that they would not appeal to young people. Yet it is the seasonal, blue-collar occupations (construction, primary industries) which have seen jobless rates soar.
- Rural Atlantic Canadians tend to remain behind their urban counterparts in terms of employment and educational attainment. This is a common result, especially urban-rural differences in educational attainment where there is a large gap across North America. In addition rural individuals continue to be much heavier users of EI than urban Atlantic Canadians.
- There is some concern that single parent families, and in particular those with young children, may have been particularly adversely affected by the reforms, although this requires further research.

While the reforms have not been completely successful, they do represent an improvement from previous configurations of the EI/UI system. Atlantic Canadians are making adjustments to their labour market behaviour by accumulating more education and moving into lower unemployment occupations. They are working more weeks and they are far less reliant on benefits. The re-liberalisation of the clawback provision and the intensity clause would be a regressive reform, giving a greater share of EI benefits to high-income workers, who can supplement their (already significant) incomes with EI. It will also make seasonal, blue-collar occupations more attractive to young people entering the labour market. This could contribute to a new generation of young people being caught in a trap of working enough weeks to qualify for their EI benefits. Instead they need to be encouraged to add to their human capital and move into good jobs that offer year-round employment and contribute to a more stable economy.

The 1994-1996 reforms have gone some way in encouraging positive adjustment in the Atlantic Canadian labour market. It appears to have done so with minimal hardship for those truly needing benefits. Based on the data presented here, there are few (if any) compelling arguments to justify the re-liberalisation of EI.

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Appendix A

The Effect of the 1996 EI Reform on Fish Harvesters

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Fish harvesters are the only self-employed workers in Canada to be covered by the Employment Insurance program. Being self-employed, and in charge of basic management decisions, has allowed fishermen much more flexibility in qualifying for Employment Insurance benefits.

Fishermen decide, subject to available licences, quotas and seasons, what fish to pursue, when to pursue them, and to whom the fish is marketed. Under the old Unemployment Insurance system that flexibility was often abused. Fishermen would hold back fish (such as lobster that could be held in pounds) from a buyer in order to claim benefits in an additional week, and often would arrange to include additional family members in the fishing enterprise as the regular crew qualified for benefits. Often fishermen would catch and cure fish products such as salt cod and squid, products that were sold when an additional week of UI was needed. Fishermen could readily manipulate the old Unemployment Insurance system.

Since the system was open to abuse, The Task Force on Incomes and Adjustment in the Atlantic Fishery recommended going to an income-based system that would base eligibility for benefits on the value of product sold. As the Canada Employment Insurance Commission reported in its 1999 annual report: “[P]ayments (earnings) they received from the buyers of their catch can be readily verified.”

But the reforms produced another unexpected result. Despite projected spending of \$350 million to buy out licences and retire fishermen, the fishery has seen even more apprentice and first-time fishermen enter the industry while the older fishermen were being bought out by licence buy outs and early retirement schemes that averaged over \$100,000 per licence.

Efforts to reduce fishing effort by buying back licences have failed to reduce the number of fishermen in the industry. The new entrants, attracted by high shellfish landings and extraordinarily generous employment insurance benefits, have actually increased the number of fishermen in the industry.

The Other Changes

Fishermen were also subject to most of the other changes in the transition from UI to EI. As seasonal workers they would soon see their benefit levels drop from 55 per cent of their Maximum Insurable Earnings (MIE) to 50 per cent of MIE after

five consecutive years of drawing benefits. They were also subject to the lowering in the Maximum Insurable Earnings ceiling. The highest benefits paid in the first half of 1996 were \$465 a week. Under the reduction the new maximum was \$413 a week, a maximum that remains in effect today.

Many highly paid fishermen would also see much, if not all, their benefits disappear under the new clawback provisions. Those clawback provisions deduct EI payments from seasonal workers making over \$39,000 a year. The clawback was not a new provision, but prior to the reforms it only cut in at annual income levels above \$63,000, and it only clawed back 30 per cent of EI benefits. The new clawback cut in at lower income levels, and after a number of years of drawing seasonal benefits, better-off workers could see their benefits reduced to zero. Under the most recent reforms even high-income fishermen will lose no more than 30 per cent of their EI benefits.

But fishermen would also benefit by the new reforms. The family supplement would prove to be a great benefit to low-income fishermen with children. Prior to the reforms low-income families could receive additional benefits - up to 60 per cent of earned income - but under the EI reforms that benefit level can be as high as 80 per cent of earnings.

Cash-Based Benefits

The most fundamental change to fishing benefits has been the switch in eligibility requirements from weeks of work and earnings to insured earnings over the entire fishing season. In areas with unemployment rates above 13.1 per cent the minimum amount of fish sold to qualify for benefits is \$2500, plus an overhead allowance of 25 per cent. In areas of low unemployment this rises to \$4200. Benefits are calculated by dividing the total value of the catch by a "divisor" that also varies by rate of unemployment. The benefits are then paid out for up to 26 weeks. All fishermen qualify for the maximum benefit period, unlike regular EI recipients whose benefit period is dependent on the number of weeks worked. New entrants to the fishery have to earn a net total of \$5,000 in fish landings in order to qualify.

To illustrate how the new EI system works, consider the fishermen in a high unemployment region, who catches \$12,000 worth of fish. His catch total is divided by 16, the divisor for his region, to give him his weekly earnings of \$750. At 55 per cent he would then be entitled to \$413 a week, the maximum under the program. Over 26 weeks that would total about \$10,000 worth of benefits. If he draws EI year after year, his rate drops one percentage point a year until it bottoms out at 50 per cent in the year 2002. His benefits would drop by 10 per cent, to about \$375 a week, and his annual EI benefit would drop to about \$9,000. With the most recent changes, his EI benefits will not be reduced.

The strength of this system is its administrative simplicity, and the elimination of the possibility of cheating on one's benefit application. But the cash value of the catch required to qualify for EI is extremely low for the present fishery. Many shell-

fish harvesters can catch enough fish in a week to give benefits to the entire crew.

Indeed the Commission's own 1999 annual report shows most fishermen qualifying for extremely high benefit levels. Only 5 per cent qualified with the minimum earnings, while 93 per cent had over \$5000 in insured earnings and 68 per cent had over \$10,000 in earnings. Average weekly EI benefits for fishermen in Atlantic Canada ranged from \$337 in Newfoundland to \$380 in New Brunswick. This is \$100 a week above the average benefit for all EI claimants.⁵¹

The Family Supplement

The family supplement provides higher levels of benefits to fishermen whose family income is less than \$25,000 a year. The benefit level has been rising since the implementation of EI reforms in 1996, and rose to a maximum of 80 per cent of earnings in the year 2000. For fishermen to receive the additional benefits they must be in receipt of the child tax credit, and the maximum is only paid out to fishermen in families with a number of children. In 1998 twelve per cent of all fisheries claimants received the family supplement. This is up from a four per cent take up under the old UI provision.

To illustrate how the family supplement works consider a fisherman with \$8,000 worth of net fish sales who qualifies for the maximum family supplement. If he were in a high unemployment area, his catch would be divided by 16 to get his weekly catch of \$500, which would then be multiplied by 80 per cent to get his benefit of \$400 per week. In his 26-week benefit period he could receive just under \$10,000. A low-income fisherman with a family could actually make more from EI than fishing. As a low-income fisherman he would not have any of his benefits reduced by the intensity rule no matter how often he drew benefits. Thus the recent changes to EI to eliminate the intensity rule were of no benefit to low income fishermen with families.

The High-Income Clawback

The High-Income Clawback has affected those fishermen whose annual net income exceeds \$39,000 a year. Prior to the 1996 reforms only individuals earning over \$63,000 a year had their UI benefits clawed back. At that level they lost 30 per cent of their benefits.

Under EI the threshold has been lowered to \$48,750 for all workers, and to \$39,000 for seasonal workers. The immediate clawback is 30 per cent, rising to 50 per cent if the client has drawn EI for more than 20 weeks in the last five years. From then on the benefit is clawed back by another ten per cent for every 20 week block of benefits the seasonal worker draws. If the worker draws for over 120 weeks in a five-year period, the clawback is 100 per cent. While fishermen falling in any of these categories will still continue to receive benefits, they will be clawed back when their income tax is filed.

There is a large number of fishermen who are affected by this provision. In Atlantic Canada 6,500 claimants were clawed back at income tax time. How many of the 20,000 fishermen who filed claims in Atlantic Canada in 1998/99 were clawed back is impossible to tell. Since only the income tax returns for 1997 are available the full effects of the clawback are not yet apparent. A total of \$8.5 million was clawed back in Atlantic Canada in 1997.

Fishermen who have EI clawed back are often deck hands on shrimp trawlers, the crews of crab boats, and skippers of long liners with good catches. In the past if their income exceeded \$39,000 a year, they would receive an additional amount in UI of approximately \$10,000, but that income would face an extremely high marginal taxation rate. Up to 50 per cent would disappear in provincial and federal income taxes. Although the clawback will reduce gross incomes for highly paid fishermen, income taxes had already reduced the benefit considerably. With the recent reforms fishermen will only face a 30% clawback, and that will only cut in after the first year of income above \$48,750 per annum.

Effects of the 1996 Reforms

The EI reforms of 1996 had a number of objectives. One was to reduce outlays under the program in an attempt to reduce the federal deficit. Other reforms were designed to address the seasonal worker problem. The UI system was originally designed to address the needs of employees who would, after a number of years, find themselves out of work unexpectedly. The UI program would then support them for up to a year in their search for a new job. However, it was never designed as a support program for seasonal workers. Indeed as the UI program expanded its benefits in the early 1970s, it became possible to qualify for UI benefits after a minimal eight-week attachment to the work force. Combined with the seasonal nature of fishing, the UI/fishery combination could provide a subsistence lifestyle in many rural areas of Canada.

However, this social benefit came at a cost. The number of fisheries workers in both the processing and harvesting sector had been steadily declining up until the early seventies. Now the trend reversed and grew until the number of fishermen and plant workers doubled. In the process seasonal workers worked fewer and fewer weeks, and the number of workers on EI rose.

As the rest of this paper shows, the reforms of the mid-nineties have accomplished some of what was intended. There is evidence that young people are choosing to stay in school longer and are choosing occupations with a brighter future. In the processing side of the industry, the divisor, the intensity rule, the longer time needed to qualify, and the lower benefits are all increasing the length of time fish plant workers work, and have shortened the time spent on EI. The processing industry is slowly moving to the full-time professional workforce that the industry and government leaders are calling for.

However, this is not the case in the harvesting sector. Here is what the Employment Insurance Commission says in its 1999 annual report:

It was expected that the reform would help contribute to adjustment in the fishery and reduce the extent of reliance on EI fishing benefits. However our analysis has shown that there has been very little change in terms of numbers of new claims and total benefits paid since the EI changes were implemented. The analysis also indicates that a number of factors have contributed to maintaining fishing benefits at relatively high level. Among these are the increase in multiple claims, slightly longer duration spent on benefits and the relatively high levels of fishing revenues, since the reform. *However the most significant aspect of the reform affecting benefit levels is the lowering of the eligibility requirement under the dollar based system. The lower eligibility requirement seems to be encouraging new entrants into the fishery as indicated by the increase in first-time and occasional claimants.*⁵²

The numbers bear out the commission. In 1998/99, 3,220 claims were filed by new entrants to the fishery, while 5,750 claims were filed by individuals returning to the fishery. Although those numbers were for all of Canada, Atlantic Canada is home to 75 per cent of fishermen who have filed claims in 1998/99. Some of these returnees were fishermen who had received income from the Atlantic Groundfish Strategy (TAGS). The program ended in the summer of 1998 and those leaving the program were part of the influx of fishermen back into the fishery in the 1998/99 fiscal year.

Even more telling is the almost 2000 young fishermen under the age of 25 who filed claims in the year. Ineligible for TAGS, they are the cutting edge of a wave of new fishermen the industry does not need.

Reports in the Newfoundland media tend to confirm the numbers as well. A school principal reported that four of his students had to leave school in order to draw EI benefits earned on a relative's fishing boat that summer. While they then enrolled part time, their education was disrupted.

Officials in the industry report that often a fisherman can qualify for EI benefits from one day's work on a shrimp or crab boat. For most fishermen the very high-income that accrues from these boats will result in most, if not all of it being clawed back under the new clawback provisions. But if the clawback is eliminated, or the threshold is raised, even very well paid fishermen will start receiving and keeping EI benefits. And there is nothing to prevent any fisherman from employing his son or daughter on the boat for a trip or two to "stamp them up" for 26 weeks⁵³.

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53 "Stamps" is the old term for employment insurance. It harkens back to the books and the actual stamps that were used to record insurable weeks of work decades ago. It has been replaced by a record of employment form.

Restoring Equity to the EI Program

It is clear that the reforms to the EI program enacted in 1996 have not restored equity to the program. True, the clawback of benefits (even if temporary) to those with income above \$39,000 had removed a considerable element of vertical inequity. Similarly the family supplement has directed more income to lower income families, another move in the direction of improving vertical equity. But fishermen continue to receive benefits from the program at an even more inequitable rate when compared to other workers in Canada, either permanent or seasonal.

The move to the cash-based system has made fishermen a privileged class when it comes to EI. They alone can earn enough to qualify for EI in a few short days in a good fishery. They alone can manipulate the system so that they can quite legally obtain benefits for their wives, sons, daughters, and other relatives by allowing them to spend several days on their fishing boats. For the full-time employee working 52 weeks a year at minimum wage whose premiums pay for the fishing benefits, this is the worst kind of horizontal inequity.

The terms are so generous that the effects of the \$350 million strategy to buy back licences from fishermen is being thwarted by the cash-based EI system. As fishermen are having their licences bought out for hundreds of thousands of dollars, their sons and daughters are entering the fishery in order to qualify for generous EI payments.

Worse still, there is evidence that some young people are quitting school in order to qualify for EI benefits. This means that fishery-dependent communities in Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick are not making the adjustment to the new economy as they should.

Conclusions

While the 1996 reforms to the EI program have generally accomplished their objectives, the move to a cash-based system in the harvesting sector of the fishery has proven to be a big mistake. Prior to 1996 fishermen had to fish for 12 weeks before qualifying for unemployment insurance benefits. With the 1996 move to a cash-based system, fishermen could, and did, qualify for benefits with as little as one day's work in the fishery. As a result the number of fishermen is rising steadily and the average income of fishermen while on benefits is \$100 a week above the national average for all EI claimants. As difficult as it was to enforce, it is imperative that EI for fishermen revert to the former weeks-based rule that, with all the difficulty it entailed, at least ensured that the fishermen fished for more than a day.

There is also a concern that the family supplement will become a support that will deter people from leaving a marginal fishery. Of course this is a concern for other non-fishery claimants as well. But since rural communities can allocate and share work more readily in the fishery, aiming for an income level that provides 80 per cent benefits is more easily done in the harvesting sector of the fishery. If the per-

centage of claimants receiving the family supplement increases from the 12 per cent it was in 1998, then it may be having that unintended consequence.

There is also an argument to be made that self-employed fish harvesters should not be covered by Employment Insurance. As long as a marginal fisherman can catch \$8000 worth of fish and then qualify for \$10,000 worth of benefits, extremely marginal fishing enterprises are kept afloat. It would be better that these workers retrained for work that would make better use of their talents. It would also be better for the industry. Part of the cause of the enormous decline in groundfish stocks that has decimated the industry in the last ten years was due to the increased fishing effort and the demand on politicians to keep open fisheries even when they were in danger. Drawing more fishermen into an already crowded industry is an invitation to repeat this disaster.

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