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Employment Insurance for the future of work, right now

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Employment Insurance has been found wanting.

It has been found wanting for decades.

It was slow to respond to the Great Recession of 2008, and left many Canadians, particularly in central Canada, with poor and inadequate income insurance.

It was slow to respond to the collapse of commodity prices in 2014 that devastated the jobs and livelihoods of many Canadians, particularly in Alberta, leaving them with poor and inadequate income insurance.

And of course, it was slow to respond, indeed stalled almost completely, to the COVID pandemic, leaving all working Canadians, almost without regard to their station in life, with poor and inadequate income insurance.

But many Canadians have long been shut out or at best under-served by this crucial pillar of our social insurance system, a program that is solely under federal responsibility.

Workers in the arts and culture industries; self-employed workers; lower paid workers with intermittent jobs; quitters, new labour market entrants, the young as well as those in mid or late careers.

Employment Insurance has been found wanting, many Canadians have experienced that for decades, and now is well beyond the time to do something about it.

The government can proceed immediately with a series of important changes that are well within its administrative capacity, but it also must proceed with an eye to more fundamental changes in the near term that may require more consultation.

But before I outline these immediate-term and near-term possibilities, let me tell you what Canadians don't need more of.

They don't need more platitudes about getting a better education, getting more training. The EI program already transfers almost \$3 billion to the provinces for programs of this sort, some are effective, some less so.

But the government doesn't need to spend more money on training through EI, and putting more responsibility on individuals to adjust to the storms of a turbulent job market.

Canadians, in the first instance, need better and more complete income insurance. My suggestions are directed to this need.

Policies in the short term

Qualifying for benefits with the last ROE

Consider the reason for separation from only the last Record of Employment in a series used to support a new claim.

That is to say, the administration of the program should ignore the reasons in previous ROEs, and allow qualification if shortage of work was the reason for job separation in the most recent ROE.

Currently many workers in a precarious situation, trying to piece together jobs and incomes, find themselves falling into an administrative rabbit hole because past ROEs have been incorrectly completed by employers, or separations were worker-initiated.

Focusing on the reason for separation in just the last ROE used to support a claim will simplify a needlessly complicated process and offer real-time benefits.

Offer a "close to" uniform entrance requirement

There are 62 EI regions with the number of hours of work required to qualify for benefits determined by a region-specific unemployment rate: 420 hours of insured work, what would amount to 10 and a half weeks of full-time employment, are needed if the unemployment rate is more than 13% in your EI region, but 700 hours if it is 6% or lower, there being a total nine bands with unemployment rates ranging from under 6% to over 13% determining the required hours of work.

We tie narrowly defined regional unemployment rates so finely to EI eligibility because we treat the program as a regionally-based program of income support with some work conditions attached. This amounts to a Basic Income for many people living in regions east of the Ottawa River.

Laudable as this goal is, it has distorted the insurance function of Employment Insurance, it has excluded many Canadians from coverage, and it has slowed the response to big labour market shocks.

It means that a 0.1 percentage point change in the unemployment rate can change eligibility for the program. This level of precision amounts to letting statistical fog, not actual labor market changes, influence eligibility.

It also means that to reduce the statistical fog Statistics Canada relies on an average of the regional unemployment rates in the past three months. This further corrupts the ability of the program to respond quickly to sudden changes in the jobs market. Eligibility rules are hard-wired to be backward looking.

There have been long-standing calls for a uniform entrance requirement, and currently that is the case. A reasonable alternative is to reduce the current nine bands to just three bands, say: less than 6 percent, 6 to 10 percent, and greater than 10%.

Increase the benefit rate and the maximum insurable earnings

The benefit rate is currently 55%, meaning that an EI claimant receives 55 cents for every dollar of insurable earnings. Historically this rate was 66 2/3rds %, but has varied from as high as 80% for certain categories of claimants to the current low.

Successive reforms during the 1980s and 1990s significantly cut the benefit rate. These cuts were often done in the name of deficit fighting and work incentives.

These past priorities don't serve our present and future well.

It is both feasible and timely to raise the benefit rate and offer workers better insurance by covering more of their past earnings.

All this said, having roughly half of previous earnings covered is not the support that long-time contributors to the program facing the challenges of the future of work will expect.

To suggest that claimants have roughly half of their previous earnings replaced by EI benefits is to overstate things. Earnings are replaced by benefits up to the "Maximum Insurable Earnings," which is currently an annual income of \$56,300. Earnings above this threshold are not covered by EI.

Many employers have made dramatic changes in the hard and soft technology of how they manage, monitor, and motivate their workers, learning that working at home may disrupt productivity, but in many cases may do just the opposite if done right.

If that is the case, then how long before your boss starts asking, as *The Financial Times* recently put it: "If you can do your job anywhere, can anyone do your job?"

Advances in communication technology may well lead to another wave of globalisation and contracting out, but this time moving past manufacturing into the service sector, impacting many white-collar workers. Many of them are relatively well-paid but they will likely be brought into head-to-head competition with equally skilled

programmers, accountants, purchasing agents in other countries happy to work for a much lower wage.

Higher paid workers in service jobs will be confronted with the disruptions that workers in manufacturing jobs had to deal with during the first wave of globalization during the 1990s.

Increasing the maximum insurable earnings significantly above the average, and raising the benefit rate will offer workers more complete insurance and foster their sense of security in a more and more uncertain future.

These are quick and easy legislative changes the government can make without fuss, but others are needed to offer, as The Speech from the Throne promises, an Employment Insurance program for the 21st century.

Policies in the near term

Enhance coverage and step toward a basic income by integrating the Canada Workers Benefit with the EI program

The fact that only 40% of the unemployed qualify for Employment Insurance in the best of times, and the perception that the future of work will involve more contingency and precarity in work arrangements has led many to both question the eligibility rules of EI and its limited capacity to cover the self-employed, as well as to call for a basic income of some sort.

Not all of the self-employed should be covered by EI, and dividend income surely should not. Further, the gig economy is not, nor will it be, a terrible reality for many. But both self-employment and employment as an independent worker will increasingly become last ditch or supplemental means of support for many workers in precarious situations.

There is certainly a role for changes in regulatory policies and clarification of the class of workers, but income support and insurance policies can respond by focusing more on insuring incomes, rather than jobs, or particular classes of jobs.

The Canada Workers Benefit, in spite of recent enhancements, remains a relatively modest program. Individuals living on their own must have at least \$3,000 in earned income to qualify for a maximum benefit of about \$1,400 that is tied to their earnings, disappearing at net income above about \$24,000.

The jobs used to earn this income, including self-employment do not necessarily lead to qualifying hours under EI.

I suggest that any income used to support receipt of the CWB be converted to EI eligible hours without regard to the nature of the job used to obtain that income. This will bring the self-employed that we might legitimately worry about into EI coverage, as well as others in contingent work.

If this committee were to consider recommending a considerable enhancement in the generosity of the Canada Workers Benefit, with an unconditional payment of \$12,000 to \$15,000 equivalent to the Deep Income Poverty Line, and a maximum benefit that would lift workers to the Official Poverty Line, then it will have taken two considerable steps forward.

It will offer a way of a significantly increasing the coverage of Employment Insurance for workers who need the insurance.

But it will also take a significant step in establishing a Basic Income for single workers and those without children who need the support, much in the way that the Canada Child Benefit and the OAS/GIS offer a basic income to families with children and older Canadians.

This is what I mean by integrating the Canada Workers Benefit with EI to enhance eligibility for groups that do not have insurable earnings.

Offer wage insurance to long seniority workers who are permanently laid off

An important change has in fact already been promised by the government in its election platform, and figures in Minister Qualtrough's original mandate letter:

Create a new Career Insurance Benefit for workers who have worked for the same employer for five or more years and have lost their job as their employer ceases operation.

In fact, a version of this exists in Part II of the current EI program as the Targeted Wage Subsidy, but because it is poorly designed and directed to provinces, not to individuals, it has been terribly underused.

The Career Insurance Benefit is an important and very relevant change to Employment Insurance to address the future of work, enhancing regular benefits in a way that will offer insurance not just for the time spent in the search of a new job, but also for the income loss from taking a lower paying job.

This is a mild form of “wage insurance,” and will take an innovative step in making Employment Insurance more relevant for many workers, who may never have collected benefits in the past and are laid off from jobs that they have held for at least five years.

It involves paying benefits to laid-off workers after they have accepted a job. The benefit would cover some significant fraction of the difference between their current and past incomes, for some significant period of time.

The government should proceed with this reform, and indeed even enhance it and make it more significant than originally imagined.

Giving some workers strong wage insurance for an extended duration will offer them income security and help many long-tenure mid-career workers adjust to a future of lower pay.

Offer special benefits through individual accounts with maternity and parental benefits in a complementary family insurance program under the EI act

More than one out of every three dollars distributed through the Employment Insurance program are for so-called Special Benefits, those parts of the program associated with maternity and parental leave, with caregiving, and with sickness.

Constructive reform will require rationalization of coverage for demographic and family risks and should proceed in a way that recognizes both their collective and individual nature, with a delivery design that gives citizens agency in an incentive compatible way.

Governments have incrementally expanded coverage of special benefits according to perceived need, bad publicity, or political expediency, all the while layering on rules and regulations to ensure the public purse is not abused.

The most egregious example of the paternalism involved is the requirement that citizens – during one of the most stressful periods in their lives – produce a doctor's note to attest to the fact that their loved one is on their deathbed.

All of this can be made more effective, more dignified, more simple by using personal accounts, designed in a way inspired by the three tiers of Canada's retirement income system.

This can be best accomplished by delivering Special Benefits through individual accounts, while at the same time devising a new program for maternity and parental benefits outside Employment Insurance.

There is nothing revolutionary in any of these suggestions, they all build on past precedents that have been part of Employment Insurance, on current underused aspects of the program, or on proposals that have long been discussed.

I invite your questions, comments, and concerns.