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*Financial Post*
November 2, 1989

# UI BILL RAISES LABOUR SUPPLY, CUTS DEMAND

Bill C-21 on Unemployment Insurance is a mixed bag of tightening and loosening with the tightening predominating. When adopted, the minimum number of weeks worked before qualifying for unemployment insurance will be increased and the duration of benefits shortened. Those who quit a job and apply for unemployment insurance will face stiffened penalties - resulting in lower UI payments.

On the other hand, Bill C-21 eliminates the so-called repeater clause, whereby people frequently in and out of jobs have their benefits reduced. It also enriches maternity, parental and sickness benefits and extends UI benefits to those over 65 years of age.

The net result of all these changes is savings in UI payments of some $800 million annually. But don't expect these savings to result in lower premiums for UI contributors. Bill C-21 provides for these funds to be used for job training and other labour market development purposes.

Toughening up the provisions respecting "regular" benefits will help reduce the disincentive to work associated with an overly liberal UI system. The current system raises the Non-Accelerating Inflation Rate of Unemployment (NAIRU), which is the rate of unemployment the economy can operate at without giving rise to inflationary pressures. The fact that unemployment insurance benefits account for some 2 per cent of GNP in Canada compared to less than 1/2 per cent in the United States helps to explain why the unemployment rate in Canada at 7.3 per cent is 2 percentage points higher than in the United States. The proposed changes to regular benefits could reduce the NAIRU rate (estimated to be in the 7-8 percent range) by 1/2 to 1 percentage point.

Those disqualified or who experience lower benefits can be expected to make greater efforts either to retain a job or to find another. Self reliance will be encouraged and the problem of lost production from under-utilized labour resources will be at least partially addressed.

A simpler single-phase benefit structure will replace the current complicated three-phase benefit system. This will go some way to increasing public understanding of how UI works.

The proposed revision in the current system of maternity, parental and sickness benefits to make them longer lasting and to make parental benefits available to fathers as well as mothers will curb labour force participation by those benefitting. This revision, which is expected by the government to cost $450 million, is tantamount to the introduction of a costly new social program to be financed out of the UI account.

The de Grandpre Advisory Committee on Adjustment argued that the Government should take major steps to improve the training provided to Canadian workers. It recommended a form of levy/grant system, whereby firms that fail to provide training would incur an extra tax. The proceeds would finance publicly determined investments in training. This proposal was made in the spirit of strengthening Canada's competitiveness.

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The Government has crafted a clever response to the de Grandpre report. Rejecting the levy/grant proposal, as the business community hoped, it managed to find a way to introduce a variation of the measure through the back door via the UI system. By making the system self-financing by raising the premiums, and by freeing up some $800 million through the proposed reductions in benefits, the Government is essentially applying an extra tax on all employers and employees. Like the levy/grant proposal, the Government will mastermind (with the advice of big business and big labour) how the funds earmarked for training will be allocated. The result is a levy/grant scheme in a disguised form.

Employment and Immigration Canada appears to have secured a lucrative source of revenue barred to other departments, in effect making E&I less subject to expenditure restraint than other departments. Using the UI Fund to finance training and other labour market adjustment programs will cloud further fiscal accountability, making it easier for the government to shift other labour market program spending to the UI account in the future.

Payroll taxes such as UI premiums are not as progressive as the income tax. Moreover, since they make labour more expensive to employers they discourage employment.

In the April 1989 budget the government announced an increase in the premium rate from $1.95 per $100 of earnings up to $2.25 in 1990. This increase, which was designed to pay for the transfer of the costs of regionally extended benefits to the UI account and to make a contribution to the resolution of the country's deficit problem, is expected to raise $1.9 billion.

But even this substantial increase in UI contributions may not be enough to prevent a large deficit from emerging in the UI account over the next few years. Additional pressures for further increases in UI contributions should be limited. One way to do this is to keep a tight lid on further expenditures on labour market and other social programs out of the UI account.