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**THE REGIONALIZATION OF THE
UNEMPLOYMENT INSURANCE PROGRAMME
IN CANADA:
ITS EFFECT ON INCOME REDISTRIBUTION,
NEWFOUNDLAND AND ONTARIO
1980 - 1988**

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Abstract

The evolution of the Unemployment Insurance Programme since 1940 has led to the abandonment of the intended insurance nature of the programme. As a result, it can no longer be considered solely an income protection scheme. Rather, it has evolved into an income maintenance plan aimed at supplementing the income of seasonal workers in high unemployment regions. As a consequence, there has been an interprovincial transfer of unemployment insurance funds from low to high unemployment regions. The regional characteristics of the programme have also distorted the structure of labour markets in high unemployment regions by attracting workers in seasonal industries therefore maintaining unemployment rates high.

Précis

Le programme d'assurance chômage a subi de nombreux changements depuis 1940 ce qui a eu pour résultat de transformer le but original du programme. Quoiqu'il demeure pour de nombreux travailleurs une assurance légitime contre la possibilité de perte d'emploi, il est devenu pour une majorité d'entre eux un programme d'assistance sociale. Le but d'un tel programme est de maintenir le revenu des travailleurs d'industries saisonnières dans les régions à taux de chômage élevé. Par conséquent il y a eu un transfert interprovincial des fonds d'assurance chômage dont bénéficient les régions à haut taux de chômage. De plus les caractéristiques régionales du programme ont certainement poussé les travailleurs dans ces mêmes régions à chercher des emplois dans les industries saisonnières, ce qui encouragerait les disparités régionales dans le marché du travail et contribuerait à maintenir le taux de chômage élevé.

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Introduction

Federal countries such as Canada are naturally preoccupied with regional development. Examination of the level of economic well-being and the prospects for economic development in the different regions of this country are timeless issues.

Economic disparities between Canadian provinces have become a fact. The literature on the subject is vast ranging from probable causes to hopeful solutions. Whether the measure is income, employment opportunities or unemployment, or various social indicators, the typical pattern of Ontario at the top and the Atlantic provinces at the bottom is repeated. What makes the Canadian regional disparity problem particularly serious is its persistence and its magnitude. Over the years, the federal government has attempted to reduce (income) disparities but there appears to be general agreement that these are already too wide and that the rate of convergence is too slow.¹ Nonetheless, the federal government has attempted to narrow the income gap between provinces by adopting a variety of transfer or redistributive programmes. The idea that economically disadvantage provinces in Canada should receive a disproportionate share of income out of transfer programmes was recognized as early as 1940 in the Royal Commission of Dominion-Provincial Relations (Rowell-Sirois Commission).

There are many income maintenance programmes operated by the federal government but none are as costly as the Unemployment Insurance Programme except Old Age Security Payments. In 1988, the Unemployment Insurance Programme accounted for almost 30% of all government maintenance programmes and cost some eleven billion dollars (See Appendix 1A). Few programmes affect as many people or elicit as wide an array of reactions and criticism as does unemployment insurance.

This thesis will examine the evolution of the Unemployment Insurance Programme from 1940 to 1977. During those years, the programme underwent such fundamental changes that it can no longer be deemed a national insurance programme. In an effort to alleviate the hardship of all sources of unemployment it has become a regional scheme used to redistribute income from Canada's richest provinces (such as Ontario) to poorer provinces, where

¹ It has been shown that convergence of income levels between regions often tends to accompany increases in levels of national income. For more details, see Williamson (1963).

the economy is based in large part on seasonal industries (such as Newfoundland) By becoming a regional programme, the goal of insurance against unemployment is abandoned and replaced by one of maintaining the income of seasonal workers By doing this, the redistributive role becomes inevitable In this regard, income maintenance and redistribution become the goals of a regionalized unemployment insurance programme

The first chapter will examine the evolution of the programme. We propose three phases which contributed to the regionalization process. The first was the coverage of seasonal workers during that part of the year where workers were certain to be unemployed (the off-season) The second phase was the introduction in 1971 of a system which gave longer benefits to workers in high unemployment regions. The third phase was the introduction in 1977 of a system which permitted workers in high unemployment regions to qualify for benefits with less employment than workers in low unemployment regions. Criteria in these two last phases were based on the unemployment rate prevalent in each respective unemployment insurance region.

The second chapter will examine in more details the last two phases of the regionalization process. We will present statistics such as the average duration of unemployment spells, the incidence of unemployment as well as the average duration of a spell of employment. We will look at the case of Newfoundland while comparing the results to those of Ontario Although it will be shown that where the rate of unemployment is high (Newfoundland) there would be a greater risk of losing employment as well as greater difficulty of keeping a job, this should not be looked at independently of the Unemployment Insurance Programme itself. In the last part of the chapter, we will present arguments which suggest that a regionalized programme is a possible explanation for the continued difference in unemployment rates which would, in turn, explain why indeed the statistics (as described above) show large variations among provinces Simply stated, the programme would not only benefit workers in more seasonal employment but would also encourage them to leave employment sooner and remain unemployed longer A regional programme benefits seasonal workers as well as the region or province in which they work.

The third chapter will be devoted to the economic consequences of a regionalized programme. The 1971 and 1977 amendments had a significant impact on the distribution of unemployment insurance payments amongst provinces. Using special data provided by the Unemployment Insurance Commission, we will present the total income transfer out of unemployment insurance benefits for Newfoundland and Ontario for the years 1980-1988.

As predicted, Newfoundland will receive more funds out of the programme than it contributes. In the case of Ontario, it pays far more in the form of contributions than it actually receives in benefits. The financing role for the federal government will be examined as well. Furthermore, we will take a closer look at the specific impact of the 1971 and 1977 amendments on the redistribution of unemployment insurance funds.

We will end the chapter by discussing the possible aggregate demand and stabilization effects of a regionalized programme. It will be argued that according to some studies, the added income injected in high unemployment regions actually prevents further economic deterioration and higher unemployment, an argument which clearly contradicts the above statements.

In the conclusion, we will summarize the findings of this thesis and will suggest that beneficiaries and seasonal workers should not be held responsible for taking advantage of the programme. Rather, they react logically to the generous provisions of the Unemployment Insurance Programme. Finally, we will discuss why reform seems difficult.

Chapter One:

A Chronological Development of the Unemployment Insurance Programme

This chapter will examine the evolution of the Unemployment Insurance Programme from 1940, the year in which the Canadian Parliament passed legislation adopting the programme, until 1977 when an amendment was made to the Act which modified entrance requirements and benefit entitlements. It is the contention of this thesis that during these years the original intent upon which the programme was based was abandoned. It can no longer be considered a truly national programme serving the interests of every Canadian in a similar manner in the unforeseen event of a loss of employment. Instead, the changes which occurred transformed the programme into a scheme no longer solely aimed at alleviating the hardship of unemployment in Canada as a whole but, in addition, attempted to soften or dampen the effect of unemployment in specific provinces and even smaller geographical regions. The result was to treat unemployment insurance claimants differently depending on where they lived. These changes have raised questions concerning the nature of the programme. Many have claimed that the 'insurance' aspect of the programme had been sacrificed in an attempt to maintain the income of seasonal workers in high unemployment regions. This resulted in interregional transfers of unemployment insurance funds from low unemployment regions to others where the rate of unemployment is higher; transfers greater than those that would have occurred if the same national criteria had been used in all regions. These transfers have important macro-stabilization effects, which raise the level of aggregate demand in high unemployment regions at the cost of lowering it in low unemployment regions.

The 'regionalization' of the programme was carried out in three major stages. The first stage started as early as 1950 with the introduction of supplementary benefits. The second stage was the adoption of the Act of 1971 whereby the length of the period during which unemployment benefits could be received was linked directly to regional economic conditions as represented by the regional unemployment rate. The last phase came about with the enactment of Bill C-27 in 1977 that made the length of the work period before benefits could be claimed dependent on regional unemployment rates. With the third phase, the evolution of the Unemployment Insurance Programme into a regional programme was completed.

1.1 Definitions and Concepts

Before we start, it is imperative that definitions be presented for terms and concepts which will be used throughout this thesis. A 'national' programme is defined as an unemployment insurance programme aimed at alleviating the hardship of industrial unemployment caused by economic cycles influenced by national and international trends. Such a programme will therefore treat all insured workers equally since the probability of such unemployment was believed to be shared by all workers equally. Benefits and eligibility conditions are uniform for all claimants. Its goal is to offer income protection to workers who lose their jobs.

By 'insurable' worker, we mean workers who fulfil all requirements in regards to coverage and eligibility. As it will be seen later, these workers were those who essentially work under a contract of service in the industrial or commercial sectors. When the Act was approved in 1940, seasonal and casual workers were not covered for they did not fulfil the requirements of work under contract and industrial and commercial employment. This, in fact, was a logical exclusion since the Act of 1940 was introduced primarily to deal with industrial unemployment. Seasonal unemployment was not seen as a result of fluctuations in the industrial sector but rather by circumstances localized in specific regions, independent of national trends.

The heavy dependency of many regions on seasonal industries and their foreseeable inactivity during certain months of the year is an unpreventable source of unemployment. A 'regional' programme is therefore defined as a programme which although maintains its protection for the industrially unemployed, will also protect insured workers against all sources of unemployment, especially those caused by regional and seasonal circumstances. In the case of seasonal workers, their coverage during the period of the year that they are inactive is a sign of these changes. In order to take into consideration regional economic conditions, a regional programme will vary its eligibility and benefit requirements. As a result, the goal of the programme has shifted as well. Whereas the goal of a national programme is to offer temporary assistance to the unemployed, the goal of a regional programme is to maintain or supplement the income of unemployed workers in high unemployment regions, especially the income of seasonal workers. By 'regionalization', we refer to the process through which the scheme evolved from a 'national' programme as defined above to a 'regional' plan.

It should be noted that the regionalization process did not affect the way the programme was financed, that is, a tripartite system of employee, employer and government financing. However, we will see how a surplus of unemployment insurance funds made the federal government susceptible to pressure to extend coverage to seasonal industries and how, over the years, the federal government increased its contribution in an effort of redistributing unemployment insurance funds.

One last distinction to make is that which concerns the words 'region' and 'regional'. For the purpose of this thesis, a 'region' refers to the administrative regions of the Unemployment Insurance Programme and is intended to reflect labour market activity within these specific administrative areas. Although not identified in this chapter as one of the stages of regionalization, it will be discussed in the second chapter that the disaggregation of the regions in 1977 (from sixteen to forty-eight) was done so as to increase the programme's recognition of intraprovincial labour market conditions. It permitted the programme to respond more effectively to changes in regional economic conditions. Once again, the focus is on regional economies rather than on the national economy. The disaggregation of these regions has also had an impact on the redistribution of funds, allowing workers in high unemployment regions to generally collect more benefits. This argument will be discussed as well in chapter two.

The words 'Unemployment Insurance Programme', 'programme', 'scheme' and 'plan' are used interchangeably.

Before we start looking at the regionalization process, we find it useful to present an overview of the historical events which led to the adoption of a national unemployment insurance programme in Canada. This will make clear the reasons for which the programme was adopted and why, in fact, it was a national programme.

1.2 Social and Historical Environment

Unemployment, in the modern sense, is a relatively recent feature of Canadian history. Permanent reserves of labour emerged only after 1840 as a consequence of immigration, population increase, and the growth of a domestic market for manufactured products (Fentland, 1981). The depression of the 1870's saw thousands of workers out of work and unable to receive any form of assistance due to the limited scope of public or private assistance

programmes (Pal, 1988). By tradition, municipalities were responsible for relief programmes or aid to the poor and the unemployed. The early history of Canadian efforts to aid the unemployed was a history of local institutions, voluntary charitable groups, some religious organizations (especially in Québec) and occasional emergency assistance from provincial and federal governments. The eventual acceptance of unemployment insurance saw the centralizing of assistance for the unemployed at the federal level while making it a regular and normal entitlement.

Although enacted through legislation only in 1940, the concept of unemployment insurance in Canada had been on the agenda of various social, political and labour groups for more than three decades. In fact, ever since Britain adopted her National Insurance Act in 1911, scattered suggestions had been made in Canada to adopt a social programme which would deal with those individuals who had lost their jobs through no fault of their own. The 1913-14 depression saw unemployment rise dramatically, but the Canadian government argued that responsibility for relief should remain with municipalities. The war, however, induced Ottawa to establish a national system of employment offices, while Ontario appointed, in 1914, a Royal Commission to study the issue. The Ontario Commission on Unemployment presented its report in 1916 and supported the principle of unemployment insurance suggesting it be introduced through public subsidy of trade union benefit plans (the Ghent system)². This was preferred to a compulsory scheme administered by the province. The recommendations were quickly forgotten and disappeared under the circumstances of wartime production and recruitment. A few years later, in 1919, the Royal Commission on Industrial Relations (the Mather Commission), appointed by the Dominion Government to survey labour questions of the day, made public its recommendations. In its report, the Commission suggested an unemployment insurance plan based on the participation of the Dominion State aimed at appeasing and lessening growing labour unrest. The Liberal Party of William Lyon McKenzie King adopted, at its 1919 leadership convention, a resolution calling for "an adequate system of insurance against unemployment, sickness, dependence in old age, and other disability" (Cassidy, 1931b, p.306), to be instituted by the federal government in order to deal with the growing societal problem of

² In order to encourage insurance against unemployment in Belgium, grants were made from the communal unemployment fund to unemployed members of trade unions affiliated to the communal fund. This system of subsidies from public funds towards provisions made by workmen against unemployment is known as the 'Ghent Scheme', from the name of the town where it was successfully operated in 1901. Although such an arrangement existed in the province of Liège in 1898, it was not until Ghent adopted the plan that the idea started to spread.

unemployment. As well, the National Industrial Conference in 1919, a joint meeting of business and labour representatives, strongly recommended the federal government look into the feasibility of state-administered unemployment insurance. The concept of such insurance was believed to be preferable to certain forms of charity or relief efforts in as much as the programme would be subsidized in part by the workers themselves through past contributions and that, in this way, they would have earned their benefits. Relief programmes were thought to encourage pauperism and to erode individuals' self-respect.

At the end of World War I, the rising unemployment rate was due, in a large measure, to the returning soldiers which created a situation in which a large increase in the labour force could not readily be met by a sufficient increase in employment. Canada was heading into a recession. Ottawa's main concern now was the threat of jobless returned men. The tradition of the Elizabethan Poor Laws legally made unemployment a municipal responsibility.

In a broader sense, the provinces, with their jurisdiction over the 'property and civil rights' of their citizens, were held responsible for the conditions of employment and the welfare of their citizens as well as the debt of local governments. There were calls once again for an unemployment insurance programme, but the federal government resisted. However, realizing that the soldiers were recruited by federal authorities and served a national interest, Parliament felt it had an obligation towards these men. In an attempt to meet this obligation, Ottawa adopted two new programmes. The first was the 'Soldier Settlement Scheme' which provided land and financial assistance to veterans willing to take up farming. As Struthers (1983) argues, Ottawa did not see this as much of an intrusion in direct unemployment relief efforts, since by tying its responsibilities to agricultural activities the 'Soldier Settlement' actually embodied the least departure from previous federal policies. Ottawa had always played a prominent role in the settling of the West and Struthers argues that by tying unemployment to land settlement, Ottawa was deliberately preventing itself from getting involved in direct unemployment relief programmes. This settlement scheme was viewed as the principal solution to unemployment. The second programme was the creation of the Employment Service of Canada (ESC), a cost-shared programme in which the federal government subsidized provincial employment offices and coordinated their activities on a national basis. Before the war, employment offices were a provincial responsibility and the 1918 Employment Offices Co-ordination Act, which established the programme, still recognized provincial authority over the operation. Struthers (1983) views the ESC as a turning point since it represented a first indication that the government viewed unemployment as no longer a

temporary and essentially provincial problem but an industrial problem, national in scope.

The recession was becoming too severe and its effects would linger on into 1925. The government's initiatives were too restrictive. The ESC could only find jobs, not create them and the Soldier Settlement Plan was not much use to soldiers who did not want to take up farming. Realizing there may be difficulties for many returned soldiers to find jobs in the middle of winter, the Borden government announced that in addition to the existing programmes, it would pay the total cost of supporting unemployed veterans during the winter of 1919-20. The following year, Ottawa decided there would be no special funds for unemployed veterans but would instead subsidize one-third of the total cost of direct municipal relief.

With the expectation that the summer months would bring an end to the post-war slump, the federal government terminated all relief funds only to reinstate them when economic conditions grew worse. It then authorized another one-third subsidy for unemployment relief for the upcoming winter of 1921-22 and would cover an additional one-third of any added costs incurred by municipalities which undertook winter public works as a means for unemployment relief. The government made it clear that its intervention should not be interpreted as a permanent role in relief assistance. In fact, with the return of relative prosperity in 1923, the federal government believed that it was time to withdraw its involvement in unemployment relief. In the previous year, the government had called the provinces to a national conference in which the purpose was to discuss the dismantling of Ottawa's relief efforts. The theme was an old one. to go back to the old-fashioned doctrine of self-reliance. The war was long over and economic prosperity had returned. The time had come to reverse the centralizing tendency which had developed since the war. Unemployment should only become a federal problem when both the municipalities and the provinces find it impossible to cope with such a situation. The federal government argued that unemployment was of a temporary nature and only required temporary relief. The needs for an unemployment insurance programme were diminishing, they argued, and the issue was quickly forgotten.

By 1928, the subject was again revived with two official reports favourable to unemployment insurance. The first was a provincial report by the Commission on Seasonal Unemployment, appointed by the Manitoba legislature. The second was from the Industrial Relations Committee of the House of Commons. In this last report, the Committee accepted and endorsed the principle of unemployment insurance, based on contributions derived from the

State, the employer and the employee. The Committee's proposal was unanimously approved by the House of Commons. Although the federal government was ready to implement legislation on a national unemployment insurance programme, the provinces were barely interested, claiming that the legislation was an intrusion in their jurisdiction. The approval of the provinces was vital for the British North America Act did not confer on Parliament exclusive constitutional powers to enact legislation in this area.

The arrival of severe unemployment at the end of 1929 quickly shattered the prevailing apathy towards the idea of unemployment insurance. In fact, a considerable number of influential organizations were calling for the adoption of a national unemployment insurance system. In the spring of 1930, sensing the urgency of the problem, the governments of Alberta and Manitoba called upon the federal government to organize a Dominion-Provincial conference on the issue of unemployment insurance. Other provincial officials as well as civic officials, church leaders, social and service organizations and labour groups, such as the Trades and Labour Congress of Canada and the All-Canadian Congress of Labour, soon joined the chorus.

As the depression continued, more provinces echoed the demand for federal assistance; soon Saskatchewan, British Columbia and Ontario were demanding action on the part of the Dominion.

During this time, the Labour and the Progressive members of the House of Commons united to strongly urge the adoption of a national insurance programme. Faced with mounting pressure from within and outside his government, Bennett announced on April 29, 1931, his government's promise to introduce such legislation before the end of his term in office in 1935. But as soon as July 1931, Bennett was already hinting at the constitutional difficulties facing the proposed legislation. In fact, on January 17, 1933, at a federal-provincial conference, neither of the parties involved could agree on legislation and constitutional reform. Once again, federal-provincial jurisdictional difficulties slowed progress in developing an unemployment insurance programme in Canada.

Until the federal government could resolve the constitutional dilemma, it introduced in 1930, The Relief Act aimed at giving temporary relief to unemployed individuals. It promised twenty million dollars in direct municipal relief funds provided that municipalities paid 50% of the cost and the provinces 25% of relief costs. The act was to be a temporary

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response to a brief surge in unemployment and was designed to deal with an accentuated seasonal unemployment problem, not with a cyclical depression (Struthers, 1983). Convinced the depression would end soon, the government resisted the idea of implementing a national relief board which would administer the relief funds: " .. it appeared both easier and cheaper in the short run to give the money needed for relief directly to the provinces and municipalities rather than try to create some sort of new ad hoc federal structure" (Struthers, 1983, p. 54).

With the depression continuing and an election to be faced in 1935, Bennett announced in 1934 that legislation on unemployment insurance would be introduced. A succession of relief acts (from 1930 to 1938) were proving to be inefficient in dealing with the needs of depression-era unemployment.

As Struthers (1983) argues

Only Canada seemed committed to fighting the worst industrial depression in modern times with an antiquated system of poor relief whose inherent contradictions, tolerable on a short-term basis, were becoming increasingly irrational after four years of collapse (p. 105).

Furthermore, many now regarded the concept of relief efforts as eroding individuals' self-respect. As Cassidy (1934, p. 132) wrote: "... there is a fundamental objection to direct relief...For it breeds the very conditions it seeks to relieve - it generates poverty and pauperism".

The federal government turned against municipal relief because it considered that direct relief had become a 'racket'. It believed that the relief effort was used more as a wage subsidy for seasonal and casual workers. Abuses to the system were becoming apparent and intolerable; relief expenditures "went not to the genuinely unemployed but to the 'partially employed' workers" (Struthers, 1983, p. 116) whose wages were now as high as before the depression. Almost everybody, it would seem, was calling for an end to the Relief Acts, in their present form, although no one agreed on an adequate replacement. There was the occasional voice such as that of Charlotte Whitton³, arguing against a national insurance

³ See: Whitton, C. (1934a). The Challenge of Relief Control. Ottawa: Canadian Council on Social Development; as well as Whitton, C. (1934b). The Essential of a Relief Program for Canada 1934-35. Ottawa: Canadian Council on Social Development.

programme and in favour of retaining municipalities' jurisdiction in unemployment relief. Her essential message was that relief administration should be placed in the hands of social workers and that the federal government should contribute to relief costs only when unemployment became too high. Such an argument was shared by few individuals however and most were calling once again for a national unemployment insurance programme.

In the middle of the depression, Bennett was claiming that the capitalist system had failed and that a new order in society was necessary. As a result, he introduced in January 1935 in the Canadian Parliament legislation on unemployment insurance as part of a broad and general plan of social reform: The Employment and Social Security Act. Even without constitutional approval from the provinces, Bennett eventually justified the federal government's case for legal authority in this field in two ways. First, by claiming that unemployment was now a national emergency, unemployment insurance fell within Ottawa's residual authority to ensure 'peace, order and good government'. Second, Bennett argued that Ottawa's right to raise money by 'any mode of taxation' gave it the right to give money away directly to Canadian citizens even in areas of provincial jurisdiction.

Originally, each man was expected to look after himself and to provide his own insurance against unemployment as best he could. During the 1930's, however, when hundreds of thousands were out of work, it became clear that this individualistic philosophy, which had grown out of the pioneering days, was no longer sufficient for an industrial era. It was "only then that the precarious nature of industrial society became glaringly apparent." (Neatby, 1972, p. 46). Unemployment became a serious problem no longer seen as a short-run, passing and temporary affair but rather as a persistent problem inherent to an industrial-capitalist system. Bennett, however, promised nothing original in regards to unemployment insurance. Everything he advocated existed already either in Great Britain or in the United States. In fact, the proposed bill was largely based on Britain's 1911 Insurance Plan. What caught the public's attention however was the language and tone of Bennett's rhetoric.

In the House of Commons, the Opposition, led by King, supported the principle of an unemployment insurance scheme but opposed this particular piece of legislation for a variety of reasons. Amongst these views was that the Act was too limited because of its restrictions and did not reflect the depression-related unemployment. Furthermore King maintained, as he had for years, that unemployment insurance was within provincial

jurisdiction. Despite these reservations, however, King endorsed the legislation on grounds that his opposition would "protract or delay proceedings" (Forster and Read, 1979, p. 343). Moreover, King was concerned that if his party opposed the proposed legislation, the Liberal Party could be portrayed and perceived as the opponent of reform. When King won the 1935 general elections, however, he referred his predecessor's statute to the Supreme Court of Canada. His objections were constitutional. Since unemployment insurance was a provincial responsibility, the federal government could not unilaterally impose it. The Court agreed and ruled, in 1936, that the matter ultra-virés the Dominion government and referred the 1935 Act to the Judicial Committee of the Privy Council in England. There, in 1937, the Committee upheld the Supreme Court's decision. The Judicial Committee concluded that insurance of this kind fell within the area of property and civil rights and this was an exclusive provincial domain. The argument that unemployment was a special emergency found no favour with the Court, since the programme was intended to be permanent. Further, the Court denied the argument that Ottawa could implement an unemployment insurance programme based on its spending power, that is the control over public debt and property (section 91.1 of the Constitution), and the raising of money by any mode or system of taxation (section 91.3). These powers could not be permitted to become a basis of federal invasions of provincial jurisdiction. The Social Insurance Act was subsequently withdrawn from Parliament.

The decisions of the Supreme Court and of the Judicial Committee of the Privy Council were in fact welcomed by King. In these last years, federal authorities were desperately trying to attain economic stability by means of a balanced budget. The British North America Act was again a convenient excuse for delaying legislation that would make the task of balancing the budget more difficult.

In 1936, the provinces agreed to cooperate on the creation of the National Employment Commission (NEC) which would supervise relief expenditures and would also administer the relief programme. The Commission was not meant to be a permanent body but rather was viewed as a temporary one created for and by the extraordinary circumstances of the depression. Its origin lay in King's conviction that the provinces were wasting federal relief funds and would continue to do so unless subjected to close supervision. The National Employment Commission was in fact designed to reduce Ottawa's expenditures on relief over the long run by ensuring its administration would become more efficient and economical. It was King's strategy of balancing the federal budget by increasing its control over provincial

expenditure. In the last year of its mandate, 1938, the NEC would recommend to the federal government that it accept full responsibility for the plight of the unemployed.

In 1937, the government appointed the Commission on Dominion-Provincial Relations (Rowell-Sirois Commission) to re-examine the division of powers between the federal and provincial governments. The Commission's report in 1940 recommended the adoption of a federal social insurance programme to deal with unemployment. In 1937, King wrote the provincial premiers to enquire whether their governments would be agreeable to an amendment to the BNA Act, empowering the federal government to adopt unemployment insurance legislation. At first, only six provinces were ready to co-operate. New Brunswick, Alberta and Quebec were unwilling. However, a few factors changed the stance of the three dissenting provinces. First, the depression had left local and provincial governments virtually bankrupt. Moreover, in recent years, the federal government had cut or limited increases in funds intended for relief purposes: the burden of the recession had been thrown on the backs of the provinces. Second, the start of World War II had itself created a compelling new reason for unemployment insurance. The mobilization and demobilization of men were sure to destabilize the labour market as it had been the experience in 1919. The government wanted to prepare for post-war conditions. Unemployment insurance was to create "the need for affording a cushion when we are faced with the problems of demobilization and the cessation of war industry" (Struthers, 1983, p. 197). As well, the war effort would be furthered by unemployment insurance. The contributions made by employers and employees would be a form of national saving which, apart from a small portion reserved for administration, could be immediately invested in the country's war effort (Pal, 1988). The strategy of the federal government was to link the necessity of unemployment insurance to the patriotic needs of the war and post-war conditions. On January 15, 1940, King wrote to the Premiers of Quebec, New Brunswick and Alberta to suggest once again a constitutional amendment. By May, he had received unanimous agreement from all provinces. At the request of the Canadian Parliament, The British Parliament passed on July 12, the necessary amendments to our Constitution. Soon after, an Unemployment Insurance Bill was introduced in the House of Commons. On August 7, 1940, the Bill became law. Canada became one of the last western industrial nations to have a national system of unemployment insurance, ending a period of almost three decades during which local poor relief and private charities provided most of the means of coping with three of the worst industrial depressions of the twentieth century.

The primary factor which led to the adoption of this legislation was first and foremost the years of depression from which there emerged in Canada a new social philosophy. The economic welfare of its citizens had now become a concern of the State. To the familiar social provisions of public protection, education and the maintenance of law and order, is now added concern for the individual as an individual. As Struthers (1983, p. 174) argues,

... the Depression pushed a reluctant federal government even closer toward assuming exclusive responsibility for the jobless. ... [William Lyon MacKenzie] King ... too would find it impossible to resist the demand that Ottawa take over the case of the unemployed.

But Struthers goes yet further. If the depression convinced the government to 'assume exclusive responsibility' it was the outbreak of World War II which convinced the government to adopt a national unemployment programme. "In the final analysis it was war and not depression which destroyed the poor-law heritage" (p. 213). After all, unemployment was low and it would be a good opportunity to build a healthy unemployment insurance fund. However, we would tend to believe that although the war might have convinced the government to adopt a centralist approach to unemployment, this was done more for political reasons. The war was more of an excuse to adopt unemployment insurance than the reason for it. After all, the government was at the end of its mandate and faced an election in the coming year. Furthermore, the government knew that it would certainly be held responsible for post-war unemployment as was the case after World War I. The absence of a national programme would create unrest amongst the unemployed.

In Grayson and Bliss (1971) it is argued that if unemployment is a characteristic of industrial economies then any programme which attempts to deal with it must logically be a result of that same industrialization and consequently of depression. As they point out: "With the introduction of national insurance in 1940 ... the government of Canada was finally ready to fight the Great Depression" (p. XXI).

The use of unemployment insurance to fight unemployment resulting from economic cycles had now been accepted. Throughout the depression, the Dominion had assisted in temporary relief but none of these programmes were as broad or as extensive as the present legislation. The question

of administrative arrangements had been made clear: the federal government would take upon itself the responsibilities and burden of maintaining the programme. Although constitutionally, employment (and unemployment) was of provincial jurisdiction, strong arguments were made for adopting a national system instead of a series of provincial systems. The causes of industrial unemployment were believed to be national or even international in scope rather than localized in the community or the province where unemployment occurred. For this reason, preventive and remedial measures would have to be as broad as possible in order to be effective. Only then could the burden of unemployment be shared equally throughout Canada. After all, national, not provincial economic policies provided the main influence over the level of business and the flow of population in any one part of the country. Other arguments were made as well. It could not have been expected that all the provinces would introduce unemployment insurance programs at the same time. It was argued (Cassidy, 1968) that provinces with insurance would impose a burden of charge upon their industries which might hamper them, to some extent, in competition with those of non-insured provinces and the fear of higher costs might lead to some industries relocating in the latter provinces. Furthermore, some feared that provincial systems might lead some workers to leave one province and find work in provinces which had adopted insurance since the working conditions would be more attractive. The programme of 1940 had limited goals: to provide income support during periods of unemployment for those workers previously employed in industries whose employment fluctuations were due to cyclical factors. Eligibility as well as benefits were based upon a given set of guidelines which were applied uniformly to all applicants. Workers in seasonal industries were ignored: the goal of the Programme was not to deal with seasonal unemployment.

However, in the years which would follow the adoption of the programme, changing views in regards to other types of unemployment would soon alter the original national intent of the plan. The continuing increase in unemployment insurance funds would put pressure on the federal government to deal with other types of unemployment, especially seasonal unemployment.

1.3 The Act of 1940: A National Programme

A new session of Parliament opened in May 1940. The Throne Speech stressed the importance the government would be attaching to social

security through an amendment to the BNA Act to establish unemployment insurance on a national scale. By June of 1940, an agreement was reached with all nine provinces, effective July 10, 1940

The Unemployment Act, 1940 was in many ways based on the Act of 1935. The government of the day made it clear that the fundamental purpose of the present Act was simply to give income protection to those who, having been employed, later lost their job through no fault of their own. The Act was greeted with much support from organized labour and others who considered unemployment insurance an advanced social measure which relieved workers of the fear of want due to temporary layoffs

The use of the word insurance in the title of the Act was a carefully considered description of the intended nature of the plan. As Wolfender (1934) pointed out, insurance should be

the co-operatives association of a large number of persons, who agree to share amongst themselves the burdens resulting from the occurrence of a particular contingency, such as death, sickness, unemployment, etc., by the payment of the necessary contribution into a common fund which benefits, related strictly to those contributions, are distributed in alleviation of the burdens against which the insurance is affected. (p. 1)

Furthermore, as the Unemployment Insurance Commission was to write some years later

A plan of insurance must have an actuarial basis, there must be a definition of the risks insured against and the conditions under which indemnity will be paid; the area of insurance must be limited to contingencies, not situations that are certain to occur; there must be some possibility of estimating the rate of occurrence of the contingency, the amount of the indemnity (under unemployment insurance, the rate and duration of payment) must be determined; and the premiums or contributions must be calculated which is needed to provide a fund sufficient to meet all probable claims.

For an unemployment insurance to be genuine insurance, it follows that 1) the insured person, to have an insurable interest, must be subject to risks of losing something of real value; 2) the actual occurrence of this contingency must be easy of verification and of proof that it falls within the scope of insured contract.

Under unemployment insurance, as regards 1), the contingency in loss of employment and the earnings therefrom. A person not normally in insurable employment to a substantial extent and within a recent period of time has nothing of substantial value to lose and cannot have an insurable interest. As regards 2), there must be a ready means of determining when an insured person is unemployed and whether he meets the minimum conditions for the receipt of benefit. (Dingledine, 1981, pp 7-8)

For these reasons, the Unemployment Insurance Programme did not cover all workers. In fact, in 1940, only 42% of workers were eligible under the plan. Those workers expected to experience recurrent unemployment (high risk workers) and those whose permanent jobs were virtually assured (low risk workers) were not covered. In this way, there would be reasonable certainty that the insurance principles would apply and that the insurance integrity of the plan would not be weakened. As a result, only those employed under a contract of service or apprenticeship in the industrial and commercial sectors were covered. The Unemployment Insurance Commission defined this as meaning the following.

A contract of service is generally understood to be an agreement expressed or implied whereby one person (the employee) agrees to perform services for another (the employer) under the direction of the employer, not only as to the result to be accomplished but also as to the means by which that result is to be accomplished.
(Information for Employers Regarding the Unemployment Insurance Act, 1940, p. 14)

The Act specifically excluded workers in seasonal industries despite the existence of an important seasonal pattern. Its importance was due in large measure to Canada's still significant rural population and the primary sector activities that went with it. In 1941, about half of Canada's population lived in small communities and over thirty percent of the labour force worked in seasonal industries (Canada, 1981b, p.9). This exclusion was due to the belief that seasonal workers consisted of high-risk employment and the fact that seasonal unemployment was not seen as a consequence of an industrial economy for which the Act was tailored. These two notions are interrelated. The relationship which exists between the notions of risk and insured industries imply that low risk workers (teachers, for example) were excluded from coverage because there was little possibility an economic recession or cycle would threaten

employment in these sectors. By that same reasoning, seasonal industries (high risk workers) were excluded from coverage because seasonal workers were certain to be unemployed every year even without the occurrence of a recession.

It was not very long before the Unemployment Insurance Act was amended so as to cover employment in selected seasonal industries. For example, in 1946, workers in the transportation-by-water industry became eligible for benefits and in 1948, coverage was extended to workers in stevedoring at inland ports. Benefits in these industries were not without limitations. Claimants could only receive benefits if unemployment occurred during the on-season; in other words, if unemployment occurred in the off season, they were not allowed to receive benefits. These were referred to as 'seasonal regulations'.

The Commission had the authority to make seasonal regulations as stipulated by the Act which stated that additional terms and conditions for contributions and benefits could be imposed on classes of workers where normal employment was for a part of the year. But this could only occur in seasonal jobs if they would result in anomalies having regard for the benefits of other classes of insured persons. The Commission took this to mean that seasonal workers, accustomed to making their annual wages during part of the year, had no insurable interest in the off-season. It reasoned that the rights of the insurable workers should be protected and assured this by imposing the additional conditions as described above.

The Commission now had to define what consisted a 'seasonal industry' as well as an 'off-season'. The Commission defined the off-season as the average period of the year where the industry reduced its output to less than 50% of its peak production. For the water transportation industry, this was the period between January first and March thirty-first. As for what a seasonal industry was, the Commission stated that any industry with an off-season of at least twenty weeks was considered a seasonal industry.

Claimants were allowed to receive benefits during the off-season provided they had at least twelve days of employment in a non-seasonal industry in the forty-eight days preceding the beginning of a benefit year or if claimants had at least forty days of their insurable employment in each of the two previous off-seasons. A 'benefit year' was defined as a twelve-month period beginning when the claimant met the above conditions.

However, the inclusion of seasonal industries represented in fact very little departure from the original intent of a national Unemployment Insurance Programme. It merely recognized that any unemployment in a seasonal industry which occurred in the on-season was as fully protected as any other jobs. In fact, it was a recognition that workers in seasonal industries could be unemployed during the on-season as a result of economic recessions.

The programme's developments during the first decade was in line with the general philosophy of the program. The insurance principle of the scheme was the main concern in administering the programme which was a major reason for limiting benefits for seasonal workers.

The national characteristic of the programme remained intact. Criteria for eligibility and benefits were uniform and no special provisions were made favoring the unemployed in any specific region.

1.4 The Three Phases of Regionalization

1.4.1 Phase 1: Supplementary Benefits

As the federal government soon realized, the Unemployment Insurance Act of 1940 could only deal with a fraction of the unemployment problem. With the needs of the cyclically unemployed being addressed, the government now had to deal with other types of unemployment, such as that experienced by seasonal workers. For these workers, the coverage of seasonal industries during the on-season was of little comfort. The fact remained that their needs were not addressed during the off-season. The existence of a steady growth in the unemployment insurance fund pressured the government to liberalize the programme and allowed it to meet the concerns of seasonal workers. It was a recognition that there were special conditions in many regions that made unemployment a more difficult problem to handle and that it might persist at high levels even if the average unemployment rate nationally for those covered by the Act is rather low.

A significant departure from the insurance principle occurred in 1950 with the introduction of supplementary benefits that allowed seasonal workers to obtain benefits during the off-season. With the extension of coverage to lumbering and logging and certain jobs in horticulture, the coverage of seasonal workers increased. Given the notion of their employment and

the extension of supplementary benefits, many of these workers would be almost certain to collect benefits each year. All this was formalized in the Unemployment Insurance Act of 1955, which integrated supplementary and normal benefits and were called 'seasonal benefits' and were payable during January first and April fifteen. To pay for these added costs, contributions from all employees, employers as well as the Federal Government were raised.

The coverage of seasonal industries during the off-season was seen as a way to supplement the income of seasonal workers during the winter months. The objection was not so much that persons who work in insured employment only part of the year receive a subsidy during the off-season, but rather that the subsidy is drawn from the insurance plan and is financed by insurance contributions.

Under the new Act, an insured person could qualify for seasonal benefits at the same rate as ordinary benefits if that person had made fifteen weekly contributions since the preceding March thirty-first subject to the general stipulation that seasonal benefits would not extend beyond April fifteen. This would qualify him or her for two weeks worth of benefits for every three such contribution weeks giving a minimum of ten weeks of benefits and a maximum of fifteen weeks. This would enable a seasonal claimant to receive benefits during the entire off-season. In short, seasonal regulations to curtail benefits for employees in seasonal jobs in the off-season, originally tied closely to the expansion of coverage into seasonal employment, became ineffectual with the introduction of seasonal benefits and were eliminated.

By now, two distinct trends were emerging. The first one was the expansion of coverage to include specific seasonal industries in an effort to help sustain the income of seasonal workers. This was particularly true with such industries as forestry and agriculture, but more noticeably yet, in the coverage of fishermen in 1956, clearly aimed at 'encouraging' or sustaining the income of unemployed fishermen in the eastern provinces. It would seem by now, that the programme was no longer a 'national' unemployment insurance programme if by 'national' we mean a programme aimed at relieving industrial unemployment based upon national criteria. Now, the programme seems to have been reoriented towards regional considerations.

The second trend concerned the relaxation of eligibility for claims. Indeed, since its inception in 1940, the Act kept making it easier for

seasonal workers to qualify for benefits. At first, when seasonal workers were allowed to claim benefits, these were limited to the on-season. However, soon after, these were replaced by 'supplementary benefits' for claimants who had exhausted their benefits and were payable in the off-season as well. In 1955, these were replaced by 'seasonal benefits' and were payable to seasonal workers during a certain period of the year. This period, however, kept being extended⁴ and therefore permitted seasonal workers to receive even more benefit weeks. This was again demonstrated in 1957. With the economic downturn, the Commission expressed doubt as to whether seasonal benefits would be of sufficient scope to provide the needed protection in their present form. The government felt that if seasonal benefits were not made more accessible, a large number of seasonal workers who would be unemployed during the winter would not be able to obtain sufficient coverage. For this reason, the Commission extended the seasonal benefit period from December first to May fifteen. With high unemployment in 1958, the period was extended to June twenty ninth for that year only. The rationale was that it was intended to meet an economic situation which was not expected to reoccur. The minimum length of ten weeks of benefits was increased to thirteen weeks and the maximum from sixteen to twenty-four weeks. It was a recognition of the difficulty seasonal workers have in finding work during the winter months.

These two trends had overall implications. The extension of coverage to seasonal industries (particularly fishermen), coupled with the extension of the time seasonal benefits could be claimed, resulted in an increase of thirty-four percent in seasonal benefit claims. This, with the economic downturn which had just ended left the fund somewhat depleted. To give stability to the fund, contributions were raised by thirty percent.

The 1960's was a decade of relative stability in regards to the programme. Fewer changes were made and most of these were necessary adjustments responding to changes in earnings and living costs. There were, however, clear signs of dissatisfaction with the programme. As a result, in 1961 the federal government appointed a committee of inquiry chaired by Ernest C. Gill to review the Unemployment Insurance Act. One of the main areas of study was the provisions needed to deal with seasonal unemployment.

⁴ From March 31 in 1950 to April 15 in 1955.

As for the fund, it suffered continuing decline through the decade. In 1963, it stood at ten million dollars and fell even lower in 1964 where it stood at below one million dollars. The government was now faced with a dilemma because in principle, it had committed itself to extend coverage to as many workers as possible.

The Gill Committee succeeded in bringing to the surface some fundamental problems and inadequacies with the Unemployment Insurance Plan. In 1970, the government appointed a second and more thorough review committee. Its report marked a distinct shift in the role and philosophy of the programme. The 'White Paper' then led to the adoption in 1971, of the Unemployment Insurance Act, 1971.

This ends the first phase of the regionalization of the Unemployment Insurance Programme. Throughout this stage, we have suggested that the Programme evolved from a strictly national programme to one which gave greater consideration to regional economic conditions. This was done by extending coverage to seasonal industries in the off-season in an effort to supplement the income of seasonal workers. The evolution of the Unemployment Insurance Programme since 1940 would continue in the following years and would make the programme more dependent on the needs of seasonal and regional workers. The debates in 1950 and 1955 concerning the insurability of seasonal workers during the off-season would be accentuated, once again, in 1971 with the introduction of regional extended benefits. Although with supplementary or seasonal benefits, regulations were restrictive since benefits were limited to the off-season. The second phase of regionalization will liberalize the programme and will extend benefits according to regional unemployment rates and will make them available at any time during the year and to any insured worker in any industry.

1.4.2 Phase 2: Regional Extended Benefits

The White Paper, 1970

On June 17, 1970, the federal government tabled the 'White Paper' in the House of Commons. Part of its mandate was aimed at eliminating some of the welfare elements such as seasonal benefits which, some believed, had a more appropriate place in other social legislation. The report suggested that coverage be made universal (96% of the labour force) and

that benefits be made taxable. It also recommended benefits be paid when earnings were lost due to sickness and pregnancy.

The fact of expanding coverage to all workers was an explicit recognition that the insurance principle was no longer relevant and that a sound fund based on such a principle was no longer a criteria for an effective programme. Taxes on all employees and employers were to be levied to help maintain income levels of the unemployed.

In regards to seasonal industries, no direct mention was made in the Paper partly because seasonal benefits were eliminated. Instead, benefits would now be universal and linked to the regional unemployment rate. If the regional unemployment rate was above a deemed 'normal' national unemployment rate of 4%, (based on a seasonally unadjusted, twelve month moving average of the unemployment rate prevailing in each region, available on a monthly basis) claimants received additional benefits. If the regional rate exceeded the national rate by 1% to 2%, claimants would receive six additional benefit weeks. If the regional rate exceeded the national rate by 2% but by no more than 3%, claimants received an additional twelve weeks of benefits and received eighteen more weeks of benefits if the regional unemployment rate exceeded the national unemployment rate by more than 3%.

The philosophy behind this approach will be examined in greater detail in the second chapter, but it suffices to say here that it is believed that if the regional unemployment is high, it becomes more difficult for an individual to find employment. The programme was then amended to respond to these concerns by providing longer duration (extended) benefits to higher unemployment areas. However, it will be argued as well that many researchers object to extended benefits claiming that these are used not for the above-mentioned purpose, but rather to maintain the income of seasonal workers. As for eligibility conditions, they would be universal (eight insurable weeks in a qualifying period of fifty-two weeks) and no special provisions were made for seasonal workers.

The Unemployment Act, 1971

Given Royal Assent in June 1971 and embodying the provisions of the White Paper, the Act's purpose was to address the concerns of workers who had insufficient income during unemployment. It constituted the second phase

of the regionalization of the Unemployment Insurance Programme. It allowed benefits to be directly related to regional economic conditions as measured by variations between the national and regional unemployment rates. This was part of a new benefit structure which became payable in phases based upon a combination of work attachment and national and regional unemployment rates.

By work attachment, we mean those individuals who, during a period of fifty-two weeks, contributed to the programme for a given period of weeks. By 'minor' attachment claimants, we refer to those workers who have at least eight weeks of insurable employment but no more than twenty. As for 'major' attachment claimants, we refer to those workers who have more than twenty weeks of insurable employment, within the given fifty-two week period.

Benefits paid in relation to the difference between the national and regional unemployment rates were intended to ensure the probability of re-entering the work force by taking into consideration regional economic conditions. It was believed that as the regional unemployment rate rose in comparison to the national average, individuals would have greater difficulty in finding employment and thus would require more time to do so. In this way, there seems to be a slight difference between the existing system and that of seasonal benefits. The rationale behind seasonal benefits was that during the seasonal benefit period (originally linked to the off-season), unemployed seasonal workers would have greater difficulty in finding employment. However, benefits were restricted to that seasonal period only. The fact that the system was extended several times does not alter the notion that once their period was over, seasonal workers were no longer allowed to collect benefits. Under the new system, claimants were now eligible to receive benefits throughout the year not just during a certain part of the year. Furthermore, these benefits were also made dependent on regional economic conditions. Chapter two will concentrate on this aspect in more detail as we will look more closely at the link between unemployment and regional economic conditions.

The new benefit structure consisted of paying benefits in five phases (see Appendix 1B for detailed table). In phase one, claimants could receive up to a maximum of fifteen weeks of benefits provided they fulfilled entrance requirements (a minimum of eight insurable weeks within the last fifty-two weeks of employment) and was partly based on work attachment. In phase two, once claimants had exhausted their phase one entitlements,

their benefits were automatically re-established for a further ten weeks, provided they were still unemployed.

Phase three in the legislation was the labour force extended benefit period and was available only to major attachment claimants. They received one additional benefit week for every two additional weeks they had contributed to the programme. Claimants who contributed twenty weeks could receive two additional weeks of benefits. The maximum number of weeks they could claim was eighteen per year corresponding to fifty-two weeks of contributions.

In phase four, claimants could receive up to eight additional weeks of benefits provided the national unemployment rate was above a deemed 'normal' rate of 4%. If the national unemployment rate was between 4% and 5%, claimants could receive four additional weeks of benefits. Eight weeks of benefits were paid to claimants provided the national rate was over 5%. This phase provided benefits in recognition of the difficulty in finding employment on the basis of the national unemployment situation. It was believed that a certain minimum amount of frictional unemployment was to be expected in a 'free' economic system corresponding to workers' freedom to change employment, occupation or even his or her place of residence. Any national unemployment rate above the 'normal' rate was seen as being caused by unusual distortions in the labour market as part of the business cycle. Responsibility for the added benefits remained with the federal government as it would assume the financial cost resulting from the extra benefits. A three-month moving average of national unemployment rates, seasonally adjusted, was provided by Statistics Canada and used to determine entitlements to benefit in this phase. Entitlement was changed monthly to reflect changes in the moving average.

It is phase five which contributed to the regionalization of the programme. This phase is in fact the same as described in the White Paper. As outlined before, six, twelve or eighteen weeks of benefits were paid to claimants when their regional rate of unemployment exceeded the national unemployment rate from 1% to over 3%. This phase recognized the difficulty individuals had in finding employment in their respective regions when the regional unemployment rate exceeded national economic conditions. For the programme's purposes, sixteen economic regions were established based on the Statistics Canada's Labour Force Survey boundaries. For Unemployment Insurance purposes, these regions were to reflect local labour markets and would serve to establish the differences

1 between regional and national economic conditions. Twelve-month, unadjusted moving averages of the unemployment rates of these regions were provided by Statistics Canada and entitlement was changed monthly to reflect changes in the moving average. The five phases together yielded a maximum of sixty-nine weeks of benefits in an eighty-three week period. However, legislation specified that a maximum of only fifty-one weeks could be paid.

There was some compatibility between the old Act and the system of extended benefits in the new Act. The salient differences, however, were that under the new Act, the minimum benefit duration would be extended under high unemployment conditions at any time of the year, the period of extension may be longer than the initial duration authorized and benefits were payable to persons who could not have met the minimum seasonal benefit requirement.

The five-phase structure was replaced in 1977 by a new system consisting of three phases. The first phase replaced phases one and two of the old system and allowed one week of benefits for each insurable week of work up to a maximum of twenty-five weeks in a fifty-two week benefit period. The labour force extended benefits were kept as the second phase. They were based on one week of benefits for every two weeks of insurable employment for claimants with at least twenty-seven insurable weeks, for a maximum of thirteen weeks of benefits.

The third phase involved the replacement of the national and regional extended benefit periods with a single, regional extended benefit phase. In this last phase, insured workers would receive two additional weeks of benefits for every half-percentage point difference between the regional and national rate of unemployment, up to a maximum of twenty weeks. Although the combined maximum number of weeks of benefits was fifty-eight, a maximum of fifty in a fifty-two week period (including the two-week waiting period) was proposed.

The new three-phase benefit structure had two main objectives: to overcome certain problems of the previous system such as the formula for calculating extended benefits and to achieve a more effective redistribution of the Unemployment Insurance Programme. This last objective demanded an extended phase more progressively responsive to regional economic conditions as represented by the regional unemployment rate.

The first objective was achieved by dividing the existing sixteen regions into forty-eight smaller regions. The main reason behind this move was that within some larger economic regions there were certain areas of high unemployment which were not eligible for regional extended benefits due to the overall low unemployment rate of the region. Similarly, some areas within regions suffered from low unemployment yet were still eligible for extended benefits. Chapter two will examine this issue more closely. The subdivision attempted to take into consideration the intraregional unemployment differences.

Furthermore, under the new system, benefits were now made to depend directly on the regional unemployment rate. Under the old system, benefits were made to depend on the difference between the regional and the national unemployment rates. However, this system was soon proving inadequate. Chief amongst the reasons was that an economic region could lose some or all regional extended benefits if the national unemployment rate rose faster than the regional rate. However, under the new system, phases four and five of the old system were combined and benefits were now based upon regional unemployment rates directly. The rationale behind this was explained by the notion that as regional economic conditions worsened, so were workers' (especially seasonal workers) ability to find employment. Even though regional extended benefits represented the second phase of the regionalization process, the 1977 amendment was in fact a furthering of the general regional orientation of the programme. The programme's dependency on uniform national standards was eroding as the scheme concerned itself predominantly with economic conditions in individual regions. The subdivision of these regions into smaller and more responsive regions was a testimony to this fact. Regions where seasonal industries contribute greatly to economic activity would benefit a lot during winter months as their unemployment rate would increase due to seasonal layoffs. This issue is debated as well in the following chapter. Overall, however, it is interesting to notice the continued orientation of the programme as new or existing provisions were adopted or adjusted to reflect regional economic concerns as well as the concerns of seasonal workers.

With the introduction of regional extended benefits, the programme continued the process of becoming a regional programme. However, one last aspect is missing to finish the regionalization of the programme. Although benefits were made dependent on regional conditions, entrance

requirements were still universal. This last point will now be discussed in the following section.

1.4.3 Phase 3: Variable Entrance Requirement

In parallel with the need for differentiated regional benefits was that of making entrance requirements dependent upon regional economic conditions as well. This last phase of regionalization occurred only in 1977. From 1971 until 1977, there continued to be resistance to the idea of variable entrance requirements. In the Act of 1971, entrance requirements were still uniform; insured workers had to have had at least eight insurable weeks in a given qualifying period. A qualifying period was the shorter of the period of fifty-two weeks before the establishment of a benefit period or the period since the last benefit period began. However, in 1975, the Canadian Council on Social Development recommended that the entrance requirement be increased so as to encourage insured workers to have longer labour force attachment.

As the federal government's priorities shifted increasingly toward financial restraint, the Comprehensive Review of the Unemployment Insurance Programme in Canada was tabled in Parliament in 1977 and recommended that entrance requirements be increased from eight to either twelve or sixteen weeks. This proposed change was aimed to reduce programme costs and encourage workers to stay in jobs for a longer period of time.

In 1977 the federal government introduced the Employment and Immigration Reorganization Act (Bill C-27) which proposed, amongst other things, an increase in the number of insurable weeks needed to qualify for benefits from eight to twelve weeks. The strong impact the increased entrance requirements would have in potentially denying individuals' entry to unemployment insurance was recognized. This was seen as a disadvantage particularly in regions such as the Atlantic, with its high number of minor attachment claimants. Many Members of Parliament saw this increase as backward and unacceptable in view of prevailing high unemployment. They feared many insured workers would not be able to qualify and would therefore have to resort to welfare. Despite this outcry, other Members of Parliament suggested that entrance requirements be raised still further to twenty weeks.

Following the various views expressed since the introduction of Bill C-27, the government amended the Bill and replaced the proposed twelve week entrance requirement by a new system of variable entrance requirement. Under such a proposal, entrance requirement would range from ten to fourteen weeks and would depend upon the regional unemployment rate. The philosophy behind this change was the belief that in economic depressed regions where the unemployment rate is high, it became increasingly difficult to maintain long' periods of employment.

This amendment was certainly welcomed by seasonal workers with limited work attachment. Regions with a concentration of seasonal workers would certainly benefit from this change. Since extended benefits were meant to maintain the income of seasonal workers, the fact remained that to collect these benefits, seasonal workers had to qualify. This last phase of regionalization made it easier for seasonal workers to qualify for unemployment insurance than if a uniform rate of twelve weeks had been required.

1.5 Conclusion

This last phase completes the regionalization of the Unemployment Insurance Programme. Indeed, since 1940, the programme was changed substantially so as to adjust itself to regional market deficiencies. The period up to the implementation of the 1971 legislation can be described as a period of abandoning the original intention of income protection against frictional and cyclical unemployment. Over the years, it became a programme responding more to seasonal and structural unemployment with premiums being collected from all workers without reference to the likelihood of being unemployed. Indeed, coverage to workers was extended significantly to include seasonal industries resulting in 96% of the work force being covered in 1971 compared to 42% in 1940. For regions where seasonal industries contribute in a significant way to the regional economy, this extension was certainly seen as a welcomed one. For example, May and Hollett (1986) claim that in Newfoundland, all major industries would seem to be affected in one way or another by seasonal unemployment. They further claim that this situation seems to be

' In this context, the word 'long' is defined as the necessary period of employment required to qualify for unemployment insurance. In the case where the qualifying period was a uniform twelve weeks, then, a 'long' period of employment would be twelve weeks.

increasing as more labour is being drawn into the more seasonal industries.

The first significant change to the programme which affected its philosophy was the introduction, in 1950, of supplementary benefits principally to workers in seasonal industries which was aimed at supplementing their income during winter months. Throughout the three last decades, the programme was tailored to become more responsive to unemployment conditions in regional or local economies. However, just as the Unemployment Insurance Programme was a result of the circumstances of its time, so was its evolution. The increasing importance of regional unemployment, as well as the changing public views concerning economic disparities, have contributed to changes in the programme. The idea that economically disadvantaged regions should receive a disproportional share of unemployment relief is well established in the present programme.

The 1971 amendment was the second step. It made allowances for the fact that regional economies have a direct impact on the possibility of finding employment. However, there was one constraint, the condition of the overall national economy. Indeed, extended benefits were made dependent on the difference between national and regional unemployment rates. In 1977, references to national standards were eliminated as extended benefits were made solely dependent on regional economic conditions as represented by the unemployment rate prevailing in each individual unemployment insurance region. Moreover, not only was the possibility of finding employment dependent on regional economies, the possibility of losing a job was made dependent on the same conditions as represented by variable entrance requirements. The regionalization of the programme therefore made it easier for seasonal workers to qualify and collect unemployment insurance benefits.

There was however one additional phase to the regionalization of the programme. This was the sub-division of existing regions into smaller economic regions. This issue will be examined in the second chapter; however, it suffices to mention here that such an amendment was aimed to make the programme more responsive to the economic needs and conditions of smaller local areas.

The regionalization of the Unemployment Insurance Programme was certainly not without consequences. The payment of benefits in concordance with regional conditions led to a greater transfer of funds from low

1
unemployment regions to high unemployment regions. In other words, regions with low unemployment rates pay more in the form of contributions and taxes than they receive in benefits. The opposite is true for regions with high unemployment: they receive more in benefits than they end up paying. The consequences of these transfers will help economically depressed regions to maintain their level of aggregate demand. This will be examined in chapter three. It will also be argued that the abandonment of the insurance principle led to the regionalization of the programme as it was used to supplement income of specific workers, as well as to redistribute income between regions.

The following chapter will examine in greater detail the notions upon which extended benefits and variable entrance requirements are based. If it can be shown that individuals remain unemployed for longer periods of time in regions with high unemployment rates, then an argument could be made to extend benefits so as to allow workers a better possibility of finding suitable employment. Similarly, if it can be proven that individuals remain employed for shorter periods of time in regions with high unemployment rates, then it might be justified to relax entrance requirements to reflect these conditions. However, interpretation of the available statistics must be done in a careful way. The availability of longer benefits in high unemployment regions might in fact encourage workers to take advantage of the generous benefit package and result in higher duration of unemployment. Similarly, if workers are allowed to remain employed for a shorter period before qualifying for benefits, then it might result in shorter employment duration. Some studies have attempted to measure the impact of the 1971 amendment on unemployment rates and they will be looked at as well.

APPENDIX 1A

TABLE 1.1
INCOME MAINTENANCE PROGRAMMES
EXPENDITURES AND PERCENTAGE
1988

	Expenditures (millions of dollars)	Percentage
Family and Youth Allowances	2 595	7,1%
Pensions - World Wars I and II	702	1,9%
War Veterans' Allowances	448	1,1%
Unemployment Insurance Benefits	10 781	29,8%
Pensions to Government Employees	2 560	7,1%
Old Age Security Payments	14 801	40,9%
Others	<u>4 231</u>	<u>12,1%</u>
	36 118	100,0%

Source: Statistics Canada
National Accounts
13.201
Table 56

APPENDIX 1B

BENEFIT DURATION UNDER THE 1971 ACT

Phase One. Initial Benefit Period

Weeks of Insurable Employment in Qualifying Period	Maximum Number of Weeks for which Initial Benefits may be Paid
8 to 15 weeks	8 weeks
16 weeks	9 weeks
17 weeks	10 weeks
18 weeks	11 weeks
19 weeks	12 weeks
20 weeks or more	15 weeks

Phase Two: Re-Establish Initial Benefit Period

Once claimants had drawn their entitlement in phase one, their benefits were automatically re-established for a further ten weeks if they were still unemployed. It was to ensure that all claimants would have enough entitlement to benefits in the two initial benefit phases.

Phase Three: Labour Forces Extended Benefits

Weeks of Insurable Employment in the Qualifying Period	Extended Benefit Period
20 weeks or less	2 weeks
21 or 22 weeks	3 weeks
23 or 24 weeks	4 weeks
25 or 26 weeks	5 weeks
27 or 28 weeks	6 weeks
29 or 30 weeks	7 weeks
31 or 32 weeks	8 weeks
33 or 34 weeks	9 weeks
35 or 36 weeks	10 weeks
37 or 38 weeks	11 weeks
39 or 40 weeks	12 weeks
41 or 42 weeks	13 weeks

43 or 44 weeks	14 weeks
45 or 46 weeks	15 weeks
47 or 48 weeks	16 weeks
49 or 50 weeks	17 weeks
51 or 52 weeks	18 weeks

Phase Four: National Extended Benefit Period

Four weeks of benefits were paid in a four-week period if the national unemployment rates was over four percent and up to five percent. Eight weeks of benefits were paid in an eight-week period if the national unemployment was over five percent.

Phase Five: Regional Extended Benefit Period

As described in the White Paper. From six to eighteen weeks of benefits were paid to claimants provided the regional unemployment rate exceeded the national unemployment rate by one, two, three percent or more.

Chapter Two:

The Three Phases of Regionalization: A Closer Look

Regional differences in employment and unemployment patterns have important implications for the Unemployment Insurance Programme as it stands today. As observed in the previous chapter, the regionalization of the programme entered its last phases in 1971 and 1977 when unemployment insurance benefits and entrance requirements were linked to regional economic conditions as measured by the regional rate of unemployment.

In this chapter, we would like to examine closer these regional characteristics in programme design. Regional dimensions in the Unemployment Insurance Programme stem from the idea that the higher the unemployment rate, the more difficult it is to find employment as well as to keep it. Their use reflect the concern that individuals everywhere in the country should have access to the programme and receive protection from it in a manner which recognizes the different labour market conditions which prevail in the various regions. Such considerations are of particular relevance in a country such as Canada where the labour market is known to show substantial variation amongst regions. It forms the rationale behind the two key features of the present programme: 'Regional Extended Benefits' and 'Variable Entrance Requirements'. Parallel to this issue is a concept which has taken importance in economic literature today. Over the years, the Unemployment Insurance Programme has been used as well as a tool to serve the purposes of redistributing wealth amongst the various regions in Canada. A possible argument for furthering the regionalization of the Unemployment Insurance Programme could in fact be given with the realization that by dispersing monies to higher unemployment regions or provinces, the programme could be used to stabilize the level of aggregate demand in those regions. This represents, of course, a transfer of funds from low to high unemployment regions. Indeed, the coverage of seasonal industries as well as longer weekly benefits and easier eligibility for high unemployment regions (in concordance with regional unemployment rates) had a direct impact upon the redistribution of funds. Data from the Unemployment Insurance Commission show that the 1971 and 1977 changes account for more than 40% of all benefits paid to Newfoundland in 1988. The degree of income redistribution will depend primarily on how the distribution of benefits differs from the collection of premiums, which in fact shifts the cost of unemployment away from high unemployment regions or provinces. As

suggested in concluding remarks in the report by the Task Force on Unemployment Insurance (Canada, 1981b),

Unemployment Insurance thus contributes significantly to income redistribution through its capacity to redistribute income from the employed to the unemployed. This contribution is automatic and maintains the purchasing power of high unemployment income groups and regions which limits further unemployment (p. 33).

The stabilization role of unemployment insurance will be examined in greater detail in chapter three.

In the post-war period, regional unemployment differences have persisted and at times widened. While the Unemployment Insurance Commission recognized this fact as early as 1950, with the implementation of supplementary benefits, it took the Commission until 1971 to fully accept that the Unemployment Insurance Programme should be used to help alleviate regional conditions.

Table 2.1 below shows the unemployment rates for Newfoundland and Ontario from 1966 until 1971.

We can see that in the years prior to the 1971 Act, unemployment rates of the two provinces were quite different. In fact, Newfoundland's rate was often twice that of Ontario's. Even today, unemployment rates in the two provinces are still quite different. (16,4% for Newfoundland, 5,0% for Ontario), a situation which will be examined later in this thesis.

TABLE 2.1

ANNUAL UNEMPLOYMENT RATES
NEWFOUNDLAND AND ONTARIO
1966-1971
 (percentage)

	1966	1967	1968	1969	1970	1971
Newfoundland:	5,8	5,9	7,1	7,4	8,4	9,2
Ontario:	2,6	3,2	3,6	3,2	4,4	4,4

Source: Statistics Canada
Historical Labour Force Statistics
 71.201
 1989 Edition
 pages 235 and 243

While the unemployment rate is the most commonly used indicator of the state of the labour market, unemployment rates reflect the combined impact of several dimensions of unemployment. They are influenced by the number of unemployed individuals as well as the amount of time they remain unemployed. We will return to this argument in the following section.

If the purpose behind regionalization is to take into consideration regional labour market conditions, then the coverage of seasonal industries and especially the introduction of supplementary benefits could prove to be a logical measure provided it can be shown that seasonality accounts for a significant proportion of unemployment rates.

Beaudry (1978) has estimated that for the period of 1966 to 1975, 45% of the difference between the unemployment rate between the Atlantic provinces and Ontario could in fact be attributed directly to seasonal unemployment.⁴

Seasonal employment patterns have been cited as a significant source of interprovincial differences in other sources as well. In particular, recent data (Statistics Canada, 71.529) suggest that seasonal employment

⁴ These results are comparable to findings by Glenday and Alan (1982) who found that 32% of all jobs lost by the unemployed were in sectors which were seasonal in nature.

variations may play a large role in the phenomenon of people withdrawing themselves from the labour force in the belief that there are no jobs available. In 1988, for example, 33% of unemployed workers in Newfoundland withdrew from the labour force while only 5.4% did so in Ontario (Statistics Canada; Labour Force Annual Averages, 71.529; Table 35)

Interprovincial differences in unemployment rates should not be regarded as a phenomenon exogenous to the Unemployment Insurance Programme. Therefore it is important to warn readers to be cautious concerning the interpretation of the statistics presented in this chapter. These statistics are reported by Statistics Canada and are independent of their sources or their causes. In other words, in calculating, for example, the average duration of unemployment prevalent in certain regions, Statistics Canada ignores whether the duration spell is caused by labour market forces or even perhaps the Unemployment Insurance Programme itself. The publication simply offers the average as reported. Indeed, generous benefits and a lower number of weeks needed to qualify might encourage some workers to leave employment sooner and remain unemployed longer therefore keeping unemployment rates higher. As well, a regional programme might encourage many workers to seek employment in seasonal industries. The Unemployment Insurance Programme would therefore be itself a source of continued interregional difference in unemployment rates. In this chapter, we will present certain statistics as they are and will deal with the notion of insurance-induced unemployment at the end of the chapter. Furthermore, although many observers have claimed that the intent of extended benefits might well be to reflect the difficulty seasonal workers have in finding employment in specific regions, others have claimed that extended benefits are merely used to maintain income levels of the seasonally unemployed. This argument will be fully addressed in the following chapter.

Before we look at these features, we will first analyze the concept of a 'region'. Throughout this study, we have referred to 'regions' or to 'regional' aspects without giving a full account of what these terms mean. A definition of these concepts will now be offered.

Next, we will examine the rationale behind 'regional extended benefits' as well as 'variable entrance requirement'. We will present statistics from different sources which estimate the average duration of unemployment, the incidence of unemployment, as well as the average duration of an employment spell.

For the purpose of this thesis, we will concentrate our research on calculating the above mentioned statistics for the province of Newfoundland. In regards to chapter three, we will attempt to calculate the net transfer payment out of unemployment insurance funds for Newfoundland as well. However, for comparison purposes, we will calculate the same statistics for Ontario and then proceed to compare the results. The choice of Newfoundland as our base province is interesting since it contains a high concentration of seasonal workers who depend of unemployment insurance as a source of income.

2.1 On The Concept of Regions

An issue clearly related to unemployment insurance is the concept of 'regions', and focuses on the question of which regions are most appropriate for the programme's purposes. This section examines the major issues surrounding the definitions and identification of regions in the Unemployment Insurance Programme.

As was pointed out in chapter one, an amendment to the programme in 1978 increased the number of economic regions from sixteen to forty-eight. The rationale behind this move was that despite an overall low unemployment rate in a particular region, some areas within that region might suffer from high unemployment rates, therefore preventing residents in those areas from qualifying for benefits.

The Unemployment Insurance Programme's economic regions were originally designed to make the programme more responsive to local or regional economic and labour market situations. The subdivision of larger regions into smaller ones is a further step in this direction. Newfoundland, for example, is now represented by three regions as compared to only one before the subdivision. This change was an integral part of the process of regionalization of the programme. By becoming more responsive to variations in unemployment rates, as it will be seen, the programme became a more effective tool to redistribute funds amongst provinces and regions.

The use of smaller economic regions made it possible for the programme to respond more effectively to intraregional differences in unemployment rates and economic and labour market differences which can be significant. As a result, a more progressive redistribution of benefits occurs.

Notwithstanding the desirability of the objectives of making the programme more locally sensitive, the manner in which this objective has been achieved through the use of smaller unemployment insurance regions has been of concern. Questions have been raised regarding whether these new and smaller regions in fact represent local labour markets, whether problems of statistical reliability of unemployment rates significantly reduce their usefulness as regional differentiators, and whether the consequences of possibly incorrect eligibility and entitlement decisions made on the basis of these new regions result in sufficient inequities to make their use unacceptable for the programme's purposes.

The subdivision of the regions was based on municipal and other administrative boundaries as described by Statistics Canada Labour Force Survey (71.001)¹. The concern was that this classification reflected administrative concerns rather than the needs of regional labour markets. Because of this, these new regions did not identify areas with different labour market conditions and characteristics and they were, therefore, not an appropriate basis for the Unemployment Insurance Programme. As a consequence, labour markets may be artificially split. For example, since provincial boundaries are respected in the design of these regions, this precludes the definition of single labour markets, which straddle provincial boundaries. Many examples exist but a frequently used one is the case of the Ottawa-Hull area. While this area may be considered a distinct labour market of its own, both cities belong in fact to two different unemployment insurance regions. Criticism of the programme's regions on these grounds of course begs the fundamental question of how to define and delineate labour market areas on a practical and generally acceptable basis. While the Ottawa-Hull example may be among the more obvious, it reflects the extremely difficult judgements which would be involved in the establishment of more representative economic regions for unemployment insurance purposes. Such judgements would require the development of criteria for identifying labour market areas and the detailed review and analysis of every existing region to identify necessary changes.

The subdivision of existing unemployment insurance regions into increasingly small and more homogeneous areas as a solution raises yet

¹ Maps and descriptions of the Labour Force Survey economic regions are to be found in the notes to any issue of the catalogue no. 71.001.

more difficulties; namely, on how to base the subdivisions and where to stop the subdivision process itself.

Other concerns arise from the subdivision of these economic regions, although not concerned with the discussion above. The degree to which the Unemployment Insurance Programme can be regionally responsive is constrained by the availability of information that is both timely and statistically reliable. Because the unemployment rate index has a degree of variability, this variation could result in individuals in some areas being excluded from coverage, when in reality they should have been included, or vice versa.

As argued by the Task Force on Unemployment Insurance (Canada, 1981b), if the sample estimate of the unemployment rate was 7,9% with a standard deviation of ± 0.2 then the true estimate of the unemployment rate has a 32% chance of being outside the 7,7% - 8,1% range and a 5% chance of being outside the 7,5% - 8,3% range. Thus, although the measured rate is 7,9%, which under the current programme requires twelve weeks of insurable employment to qualify for benefits, there is a one in six chance (half of 32%) that the true unemployment rate is 8,1% which would require an individual to have worked only eleven weeks. This example illustrates that the moment programme decisions are tied to a measure which has a degree of uncertainty, the participants are, to a greater or lesser extent, subject to the vagaries of chance.

The statistical reliability issue itself is a function of the degree of regional disaggregation that is, it is a function of the economic regions and by implication the number and size of the economic regions chosen.⁸ Thus, while the subdivision from sixteen into forty-eight economic regions increased the responsiveness of the programme to regional labour market conditions, it also increased the problem of statistical reliability. Simply, an unemployment rate with a standard variation of 5% is less likely to lead to an incorrect programme decision than one with a standard deviation of 10%. Prior to the 1978 subdivision process, economic regions had a variability of between 1,1% and 5%. However, smaller and more numerous economic regions have a variability of between 25,1% and 33,3%; the probability of decision errors became greater after the introduction of the new unemployment insurance economic regions (Canada, 1981a). On

⁸ It is, of course, also a function of sample size. Increases in the statistical reliability of the forty-eight regions could occur if the sample size were increased.

balance, the probability that a claimant might be unfairly treated through the statistical variability inherent in smaller regions must be weighed against the probability that he/she will be unfairly treated through fewer but larger regions that are less responsive to regional labour market conditions. A return to sixteen economic regions would increase the reliability of the regional unemployment rates, however, there would be an important cost in terms of the programme's capacity to reflect and respond to local economic conditions. For example, under the old system of sixteen regions, New Brunswick and P.E.I. constituted a single economic region. Under the forty-eight region system, these two provinces now account for a total of six regions.

Table 2.2 below shows that with a more disaggregated system, regional extended benefits vary considerably therefore reflecting, to a greater degree, local economic conditions.

The degree of disaggregation, in short, can have major eligibility and entitlement implications for unemployment insurance purposes. Since benefits and entrance requirements are both based on regional unemployment rates, sampling variability at the forty-eight economic regions level will in some cases lead to incorrect programme decisions. The consequences of these errors may vary considerably. For example, for regional extended benefits, statistical errors might lead to some claimants receiving more or less benefit entitlement than they normally would. However, the structure of extended benefits consists of sufficiently numerous and small intervals that the consequences of statistical error might not be all that severe. It might lead a claimant to receive, twenty-two weeks instead of twenty-four weeks of benefits.

TABLE 2.2

UNEMPLOYMENT RATES AND REGIONAL EXTENDED BENEFITS
UNDER THE OLD AND THE NEW REGION SYSTEM
NEW BRUNSWICK AND PEI
1979

	<u>Unemployment Rate</u> (percentage)	<u>Regional Extended Benefits</u> (weeks)
<u>OLD SYSTEM</u>		
New Brunswick - PEI	11,5	30
<u>NEW SYSTEM</u>		
<u>New Brunswick</u>		
Restigouche	13,6	32
Moncton	14,0	32
Saint John	8,8	20
Fredericton	13,2	32
Madawaska	9,0	20
<u>P.E.I.</u>	11,1	30

Source: Canada, 1981a
Regional Differences in the UI Program Design
Background Report, Technical Study 13

For variable entrance requirements, however, the consequences could be more dire. Due to statistical error, a claimant might be required to obtain, twelve weeks of insurable employment instead of, ten or eleven. If such were the case then a claimant could be completely refused and as a result would not receive benefits at all.

Use of the forty-eight economic regions as opposed to the sixteen regions of the old system, is an attempt to make the programme responsive to local or regional economic conditions. This feature is considered to outweigh the definitional and statistical drawbacks of the old system. For example, with the outbreak of the recession in 1980, many Canadian cities witnessed their unemployment rates rise at an unusually fast pace. For example, the city of Windsor, Ontario saw its unemployment rate rise from 7,3 % in September 1979, to 15,3 % in February 1980: a jump of more than one hundred percent in less than five months. Such a change would imply, ceteris paribus, longer benefit entitlements and fewer insured weeks to qualify for unemployment insurance. However, under the old system,

Windsor's situation might not have had a significant impact on the overall economic conditions of a larger region therefore putting the residents of Windsor at a disadvantage. The introduction of smaller economic regions permitted the Unemployment Insurance Programme to become more responsive to Windsor's unemployment problems.

2.2 On the Concept of 'Regional Extended Benefits'

Instead of being viewed in a static nature, the unemployment rate should be looked at as a flow of continuous internal movements. For example, an unemployment rate of ten percent should not be interpreted as merely as a fixed percentage of the labour force which is without work. Instead,

the unemployment rate should be viewed as a function of the proportion of the labour force who become unemployed, i.e., the incidence of unemployment, and the average duration of unemployment.

Regional differences in unemployment patterns have important implications for the Unemployment Insurance Programme. In particular, the impact of these differences on unemployment insurance will largely depend on how much they come from variations in the incidence of unemployment or the average duration of their unemployment spells. It is implied that where a region experiences high unemployment, both the duration and incidence of unemployment would be higher. To the extent that the ability to find and secure employment can be shown to be greater in some regions than in others due to regionally differing labour market conditions, then an argument could be made in favour of regionally extended benefits. Individuals residing in areas or regions with greater job-finding difficulty might require an extended period of benefits to increase their chance of successful job search ("successful" in terms of the best possible matching of their skills with the requirements of relatively scarce job openings). Similarly, inter-regional differences in these components will likely be reflected in differing regional unemployment rates. With the existence of the Unemployment Insurance Programme, this argument becomes somewhat circular. While differentiated unemployment duration might require regional extended benefits, the existence of these might reinforce differences in unemployment duration as well as in the rates of unemployment. This argument will be looked at in greater details at the end of this chapter.

The following sections will examine both the average duration of unemployment and the incidence of unemployment. We should expect to find that where the unemployment rate is higher so should be the average duration of unemployment and the incidence of unemployment. By 'incidence', we refer to the percentage of the labour force who experienced unemployment at least once during the year. In other words, where the incidence is high, this would imply that a larger percentage of the total labour force suffered some unemployment at least once during the year.

During this chapter, we will analyze the incidence and the average duration of unemployment for Newfoundland and Ontario. Although we will use different sources for these statistics, we will refer, in large part, to the statistics available in the Labour Force Survey (Statistics Canada, 71.001 and 71.529).

Using the Labour Force Survey poses a few problems. These have to do with the way the duration of unemployment is measured. The Labour Force Survey conducts monthly sample surveys of approximately 53 000 representative households distributed across the country. The survey is conducted during the week usually containing the 15th day of each month. During surveys, some individuals might be unemployed for a very short period so that these very short spells of unemployment would not be measured since they might start and finish within the monthly survey intervals. As well, if unemployment continues for some time after the 'interview' date (as it will certainly do), then the Labour Force Survey artificially truncates unemployment spells and therefore does not fully take long durations into consideration. These biases work in opposite directions and the estimated duration of an average completed spell of unemployment as measured by the Labour Force Survey will therefore not reflect the true measurement. According to Osberg (1986) "length bias (the short spells which are not captured by the Labour Force Survey) is more important, in practice, than duration bias (the long spells not fully captured)" (p. 7). As a result, the Labour Force Survey will tend to exaggerate the average duration of unemployment and will have an upward bias (Luckett, 1979). This issue will be re-examined in the following section and as well as in Appendix 2B.

2.2.1 The Average Duration of Unemployment Spells

The difficulty an individual has in finding suitable employment is most likely reflected in the average duration of an unemployment spell. This is defined as the average time individuals remain unemployed between the time they leave one job until they find another. Many reports and statistics exist which measure the average duration of an unemployment spell. For example, in the supplementary report of the Commission of Inquiry on Unemployment Insurance (Canada, 1986), Soboda and Munroe state that "unemployment rates do reflect the duration of unemployment" (p. 441). Using data specifically compiled for them by the Canadian Employment and Immigration Commission (C.E.I.C.), they conclude that there would seem to exist strong links between a high unemployment rate and a longer period of unemployment. Although these findings are not broken down by provinces, they claim that in general, wherever the rate of unemployment is high in Canada, there will be longer periods of unemployment, justifying the expected relationship.

Using Statistics Canada catalogues, we report in table 2.2 below the average duration of unemployment in 1988 for Newfoundland and Ontario. The average annual unemployment rate for Newfoundland was 16.4% compared to 5% for Ontario.

As shown in the table below, we find that Newfoundlanders experience longer periods of unemployment than do Ontarians, almost fifty percent longer. (Appendix 2A shows the average duration of unemployment as well as other statistics, for recent years). Table 2.2 offers yet more interesting information. It offers a breakdown of unemployment periods as well as their respective percentages. In 1988, in Ontario, almost forty percent of those claiming they were unemployed remained so for a very short period of time (up to four weeks). Taking into consideration that there is a two week waiting period from the time they leave their job until claimants are allowed to draw benefits, this translates in almost forty percent of claimants receiving at the most two weeks worth of benefits. As stated already, this will have major implications for the discussion in chapter three and the calculation of interprovincial income transfers.

TABLE 2.3

DURATION OF UNEMPLOYMENT, ANNUAL AVERAGES,
NEWFOUNDLAND AND ONTARIO

1988

(in weeks)

	4 or less	5-13	14-26	27-52	Average
Newfoundland	23,7%	23,7%	23,7%	18,4%	18,7 weeks
Ontario	37,9%	29,3%	16,8%	9,3%	13,4 week

Source: Statistics Canada
Labour Force Annual Averages
 71.529
 Table 29

Furthermore, as table 2.2 indicates, forty-two percent of claimants in Newfoundland were unemployed for more than fourteen weeks, compared to twenty-six percent in Ontario: a difference of more than sixty-one percent. Moreover, as pointed out earlier, Osberg (1986) claims that short spells are more often not reflected in the unemployment rate than are longer spells. Thus, while almost half of all spells in Newfoundland are of short duration, a large portion of total unemployment is still explained by long spells (Hasan, et al, 1982). If we assume that statistics reflect a general tendency for longer unemployment spells in Newfoundland and shorter ones in Ontario then, since the Labour Force Survey ignores both very short and very long durations, we might conclude that the Survey biases the average unemployment duration for Ontario upward, and that of Newfoundland's downward. The result, of course, would be to narrow the gap between the two averages. This would imply that as unemployment rates rise, the average duration of unemployment would not necessarily be longer and the difficulty of finding employment would not be reflected by higher unemployment rates. However, taking these biases into consideration, we might conclude that the real duration of an unemployment spell may be much longer in Newfoundland and shorter in Ontario than reported by the Labour Force Survey.

Despite these statistics, some research has found that although there does exist some discrepancies in unemployment duration, the difference would not be as significant as we would believe. For instance, in the Report prepared by the Task Force on Unemployment Insurance (Canada, 1981b), the average duration in 1979 for Newfoundland and Ontario was reported as being 10,6 weeks and 9,5 weeks respectively. They claim that despite a large difference in unemployment rates (15,1% for Newfoundland; 6,5% for

Ontario), the difference in duration was not as pronounced. However, according to Statistics Canada (71.529, table 40), the average duration for that same year was 19,1 weeks for Newfoundland and 14,2 weeks for Ontario.

A second report published in 1981 by Glenday and Jenkins for the Labour Market Development Task Force states that "although unemployment rates vary widely from region to region across the country, the proportions of time that individuals on average are without work are quite similar" (p.20).

Despite the apparent opposing views concerning the average unemployment duration, some concern remains about this statistic. It has been suggested instead (Canada, 1981b) that it might be more appropriate to compare the average length of time which claimants receive benefits. One of the more obvious reasons is that many individuals, especially in high unemployment provinces, may effectively withdraw from the labour force after a period of unemployment believing there are no jobs available. The discouraged workers, prevalent in the Atlantic provinces, may continue to receive unemployment insurance benefits even after they stop searching actively for employment. This would therefore tend to make observed unemployment insurance benefit duration appear longer than measured unemployment spells, especially in the Atlantic provinces. It would also tend to reduce the difference between average unemployment spells between Newfoundland and Ontario. The concentration of unemployment in long spells noted above is one indication of the difficulties encountered in finding jobs. Several factors suggest that the observed concentration may even understate these difficulties. Amongst these factors is the fact that many of these long spells of unemployment finish not in employment but in withdrawal from the labour force. If all these long spells resulted, instead, in eventual employment, the average duration would in fact be much longer. The numbers concerning discouraged workers show a very large difference between the two provinces. In 1988, for example, 33% of unemployed workers in Newfoundland withdrew from the labour force believing no more jobs existed. In Ontario, only 5,4% withdrew from the labour force for the same reason. In 1984, the numbers stood at 40% for Newfoundland compared to 10% for Ontario. (Statistics Canada, 71.529, table 35). Therefore, labour market dissatisfaction should perhaps be taken into consideration. With the substantial difference in worker withdrawal (600 % in 1988 and 400 % in 1984), including the joblessness statistics will certainly result in higher average durations (Hasan and

de Brouker, 1985)).⁹ Furthermore, because the withdrawal rate is higher in Newfoundland than in Ontario, we might expect the average duration of unemployment in Newfoundland to be underestimated to a greater extent than that in Ontario. A report undertaken in 1985 by Kiefer et al. using the Current Population Survey¹⁰ in the United States reported similar objections. The measurement of the average duration of a completed spell of unemployment therefore depends heavily on how one chooses to view withdrawal from the labour force.

The conclusion which can be drawn from these statistics, is that interprovincial differences do exist in the average number of weeks individuals remain unemployed. Whether the difference is large enough to explain the very large differences in unemployment rates remains to be verified. Moreover, in calculating the average duration of unemployment, we must not ignore the possible influence the Unemployment Insurance Programme (more precisely, extended benefits) has on this statistic. If we accept the notion that the regional characteristics of the programme influence some workers to seek seasonal employment and therefore remain unemployed during the entire off-season, then these differences in unemployment duration would certainly be expected. With a greater concentration of seasonal workers in Newfoundland, we would expect the unemployment rate to be higher. Extended benefits would not be required to extend a workers's search period but rather to allow the worker to continue to receive income until the next employment season since for many of these workers, we believe it would be safe to expect that they would return to their seasonal job in the following season.

The average duration of unemployment while providing us with a general impression of regional variability, does not indicate the numbers or proportion of persons in the labour force who suffer unemployment. In other words, although we recognize that it is the average duration which might be a purer indicator of the difficulty the unemployed have in finding work, insofar as it abstracts from the number of unemployed and focuses on the length of time it takes an unemployed person to find work. However, the incidence of unemployment contributes as well to interregional differences in unemployment rates and represents the

⁹ In Hasan et al. (1982), it was estimated that the average duration would almost double.

¹⁰ Since the methodology of the Labour Force Survey in Canada is rather similar to the Current Population Survey, there is a reasonable likelihood that their results could be generalized to Canada.

probability workers might have in losing their job. The following section looks at the incidence of unemployment in greater detail.

2.2.2 The Incidence of Unemployment

In all provinces, there is a nucleus of workers with strong labour force attachment who suffer little unemployment. For these individuals, unemployment would pose few entitlement difficulties. Work attachments are long enough so as to ensure substantial periods of benefits. If the underlying assumption is correct, we should expect to find that where unemployment rates are higher, a larger fraction of the population would have experienced some unemployment. A higher unemployment rate would imply that there exists a higher probability of losing employment partly due to the faster flows in and out of employment. Unemployment is not shared equally by all labour force members. Instead, it is concentrated amongst a minority whose size will vary amongst provinces in relation to regional unemployment rates.

In Newfoundland, statistics have shown that there would seem to exist a large number of workers who experienced some unemployment during a given year. For example, in 1986, statistics show that 29,3% of Newfoundland's labour force was unemployed at one time or another during the year; compared to only 14,6% in Ontario (Statistics Canada, AWPS, 71.001, table 1). This high statistic is repeated every year in Newfoundland and may be attributed to the large seasonal industry where, from year to year, a large proportion of seasonal workers experience recurring unemployment.

In his report to the Commission of Inquiry, Osberg (1986) reported that the incidence of those experiencing a spell of unemployment in Newfoundland and Ontario for 1984 were respectively 40,9% and 23,2%. By these statistics, we can see that Newfoundlanders seem to have a much greater probability of losing their job. The high incidence, of course, reflects the movements amongst workers as they move back and forth between employment and non-employment. The general trend would appear to be that in regions with higher unemployment, a greater part of the work force experience unemployment at least once during the year. The high incidence of unemployment in Newfoundland might in fact be a reflection of the higher percentage of the intermittency and short-term nature of employment in that province. Others might claim that it is caused by the programme itself: generous benefits and fewer weeks of employment needed to qualify might encourage some workers to leave their present jobs

sooner. The high incidence in Newfoundland might as well be explained by the greater importance of seasonal and part-year workers whose employment duration is relatively shorter. The proponents of insurance-induced unemployment might claim that the programme encourages workers to seek seasonal or part-year employment year after year and therefore locks part of the labour force into seasonal industries (May and Hollett, 1986). Appendix 2A shows a summary of these statistics for the years 1980 through 1986.

The above discussion suggests that inter-regional variations in unemployment derives largely from differences in labour force and employment patterns, which in turn produce differences in the number of people experiencing unemployment as well as the duration of their unemployment spells. However, while the difference in the duration of unemployment might be contested on the grounds that some statistics might not account for the out-of-the-labour-force or discouraged worker (Osberg, 1986), the incidence factor would seem to indicate a clear and substantial variation amongst Newfoundland and Ontario.

Assuming that the average duration statistics show little substantial difference between these provinces, interprovincial differences in the rate of unemployment would tend to arise more from the number of people experiencing unemployment than its duration. This might lead some to conclude that whereas it might not be more difficult to find a job in Newfoundland, it would nonetheless, be more difficult to keep a job in Newfoundland.

The assumption that there exists no substantial difference in duration, however, is restrictive and does not seem to fit the facts. Even some of the more conservative statistics (Glenday, 1981) will admit to some difference but will assume that it is simply not significant.

However, to complete the analysis of interprovincial differences for unemployment insurance purposes, we need to discuss one last statistic: the average duration of employment. It forms the basis for variable entrance requirements and assumes that employment will generally last longer there where the unemployment rate is lower.

2.3 On the Concept of 'Variable Entrance Requirement'

The other major area giving rise to regional unemployment considerations concerns differences amongst regions in the possibility of becoming eligible for unemployment insurance benefits. An individual's ability to satisfy entrance requirements to the programme will depend on the amount of work they can secure during their qualifying period. In order to ensure a claimant has a sufficient insurable interest before becoming eligible for benefits, entrance to the programme is limited by qualification barriers requiring a certain number of weeks of insurable employment. Workers in high unemployment areas (particularly seasonal workers) might have a more difficult time obtaining the necessary minimum number of weeks. In 1977, the programme attempted to overcome this problem by varying the qualification period in a way which reflects regional labour market conditions. This amendment was in spirit with the ongoing regionalization of the programme since it permitted claimants to draw benefits which they might not have been able to claim prior to the amendment.

2.3.1 The Average Duration of Employment Spells

From Statistics Canada Surveys of Annual Work Patterns , it is possible to obtain estimates of the average duration of uninterrupted spells of employment which ends in a given year. Table 2.4 shows how these average employment spells differed in length between Newfoundland and Ontario.

As the statistics below show, Newfoundlanders seem to have a shorter work attachment than do Ontarians, reflecting the difficulty workers in high unemployment regions have in securing longer periods of employment. However, provided the statistics are correct, it would seem that the percentage difference between the two provinces would appear to have been constant during the 1980's, that the average duration of an employment spell in Ontario appeared to be consistently 33% longer than in Newfoundland.

TABLE 2.4¹¹

AVERAGE DURATION OF A SPELL OF EMPLOYMENT
NEWFOUNDLAND AND ONTARIO
1980-1988
(in weeks)

	Newfoundland	Ontario	Percentage difference
1980	31,9	42,7	34,1
1981	31,2	41,6	33,3
1982	31,0	41,3	33,2
1983	30,9	41,1	33,1
1984	31,6	41,7	31,9
1985	31,3	42,4	32,2
1986	35,2	45,5	29,2

Source: Statistics Canada
Annual Work Pattern Survey
71.001, 1980-1988
Table 4

The 1981 Task Force noticed similar results although the difference was more pronounced. The report concluded that in 1979 the duration of a completed spell of employment in Newfoundland averaged roughly fifty-two weeks compared to one hundred and eight weeks for Ontario.

Another statistic which is worth observing is the distribution of workers by the amount of time they remained employed. The results are reproduced below.

¹¹ It is possible as well to obtain data on employment duration from Statistis Canada Survey of Consumer Finances. These results show similar interregional variability. The advantage of this source is that it offers statistics at the disaggregated regional level as well. For reference, consult Technical Study 13 (Canada, 1981a)

TABLE 2.5

DISTRIBUTION OF WORKERS BY PERIOD OF EMPLOYMENT
NEWFOUNDLAND AND ONTARIO
 1983-1988
 (percentage)

	1-13 weeks	14-26 weeks	27-39 weeks	40-51 weeks	52+ weeks
1983					
Newfoundland	19,2	22,4	11,0	4,5	43,0
Ontario	9,0	9,7	9,3	7,7	64,2
1984					
Newfoundland	19,8	21,6	11,7	4,0	42,8
Ontario	9,3	9,0	8,2	8,4	65,1
1985					
Newfoundland	22,2	20,1	10,8	5,1	41,9
Ontario	8,3	9,2	8,4	7,5	66,6

Source: Statistics Canada
Annual Work Pattern Survey
71.001, 1983-1985
 Table 5

The above statistics show that although a majority of workers in each province keep their jobs on a long-term basis, it is clear that a much larger percentage of workers in Newfoundland than in Ontario maintain short-term jobs. The statistics seem to conclude the same for the entire length of the decade. Furthermore, we can conclude that an average of 20% of all employed workers were employed for less than thirteen weeks; had the 1977 amendment not have been approved, these workers would probably not have qualified for unemployment insurance benefits.

Soboda and Munro (1986) make this similar conclusion.

The strong negative relationship between weeks of insurable earning of UI claimants and regional unemployment rates makes the point that, throughout Canada, unstable employment patterns (as reflected by lower numbers of UI insurable weeks of work of UI claimants) are limited to high unemployment rates in local labour markets (p.440).

However, we must be cautious in interpreting these statistics. As was the case with the average duration and the incidence of unemployment, the average duration of employment might, as well, be influenced by the Unemployment Insurance Programme. Furthermore, the duration of employment is certainly influenced by the higher degree of seasonal activity in

Newfoundland than in Ontario. With a large percentage of the labour force employed in seasonal industries in Newfoundland, the average duration of employment will certainly be lower. Moreover, the existence of regional benefits not only means that ten-week claimants can receive benefits equal to roughly two and a half times their earnings (Courchene, 1987); it also provides a very substantial incentive not to work beyond the ten weeks. Working from one week through nine weeks generates no benefits. The tenth week triggers sufficient benefits to carry the claimant right through to the next working season.

It might be argued, furthermore, that variable entrance requirements are specifically tailored for regions with high seasonal employment. For these workers, employment is often limited to a few months and the consequences of higher entrance requirements might prevent workers from receiving any benefits at all. Work attachment is small and benefits represent a source of income for the time they are unemployed (see chapter three).

The continued regionalization of the programme has raised some questions concerning inter-regional and intra-regional mobility of the work force. The issue of whether or not programme provisions should be regionally different is not only an equity concern. The labour market effects of a regionalized programme should be examined as well. We believe that it is essential to present and discuss arguments which have been brought forward concerning the possibility that the Unemployment Insurance Programme contributes in keeping unemployment rates high. This will presently be undertaken.

2.4 On the Concept of Insurance-Induced Unemployment

One of the puzzling economic realities of Canada in the post-1981 recession has certainly been the persistence of high unemployment rates despite a relatively strong recovery in both output and employment. At the regional level, the continued and widening differences in unemployment rates has raised numerous questions concerning the role of the Unemployment Insurance Programme in these matters.

The general orientation behind this thesis has been to assume that where the unemployment rate is high, this would imply a higher duration and incidence of unemployment. Moreover, the higher rate would also imply lower employment duration. However, some researchers claim that the

longer and more generous benefits of the Unemployment Insurance Programme favouring high unemployment regions might in fact be the cause of these longer spells and incidence of unemployment. The regionalization of the programme would seem to be a source of regional unemployment disparities; it would have kept unemployment rates high in high unemployment regions which has slowed its path to economic recovery after the 1981 recession (Milbourne, et al. 1989). Furthermore, labour force participation may be excessive and cross-subsidization in the programme might generate an inter-industry misallocation of resources. Overall, such an approach often predicts a positive relationship between the level of unemployment insurance benefits, lower entrance requirements and the aggregate unemployment rate.

In his research conducted on the impact of the 1971 amendments, Wallace (1974) concluded that unemployment insurance benefits contributed to longer unemployment duration, based on Holt's 'aspiration level' concept.¹² According to this search theory approach, workers set aspiration levels in the form of jobs or wage rates they are willing to accept. This aspiration level declines over time as the job search increases and workers admit to the reality of job availability. On the demand side, employers' conditions or wages for employment increase with time as the opportunity cost of lost production begins to outweigh the potential increased labour costs. A successful matching of workers with vacancies occurs when aspiration levels of workers meet the conditions of employment of the employers. The role of unemployment insurance benefits is to raise the aspiration level of workers or to slow down the decreasing process. Benefits increase the financial security of unemployed workers which allows them to be more demanding in their job search. At the regional level, the introduction of extended benefits might certainly explain long durations in high unemployment regions since incomes can be maintained for longer periods.

Grubel, Maki and Sax (1975) hypothesized that the changes brought to the Unemployment Insurance Programme in 1971 tend to encourage workers to quit their jobs more readily, to search less arduously for a new job and to become more selective in accepting a new position since unemployment insurance reduces the marginal cost of leaving a job. The consequences

¹² See Holt (1970b). We have excluded similar research done for the United States. However, for those interested, please consult Ehrenberg and Oaxaca (1976), Hamermesh (1980) and Marston (1975). For research done at the international level, see Grubel and Walker (1978).

would be to raise the measured rate of unemployment. Moreover, where these benefits are more generous, the impact is more pronounced.

In their 1976 research, Green and Cousineau concluded that the Unemployment Insurance Programme was responsible for keeping measured national unemployment rates 1,1 percentage points higher for the years 1972 and 1973. However, they claim that what can be attributed directly to the 1971 amendments ranges only between 0,4 and 0,7 percentage points, which they perceive are conservative estimates. These results are in fact close to the 0,6-0,7 percentage points from Wallace (1974) and the 0,8 from Grubel, Maki and Sax (1975)¹³ Rae (1977) estimated the programme contributed a total of 1,6 percentage points of which only 0,7 can be attributed to the 1971 amendments.

Green and Cousineau (1976) also addressed the issue of insurance-induced unemployment at the disaggregated provincial level. They concluded that the Atlantic provinces account for almost half of directly induced unemployment in 1973 while representing only 13% of total unemployment in Canada. Close to 25% of unemployment in the Atlantic provinces is made up of directly induced unemployment in 1972 and 1973, compared to the national average of 10% and 6% for the two years respectively.

Maki (1977) estimated the direct impact of the 1971 amendments on the unemployment rate of the five major regions¹⁴ of Canada using a regionalized version of the Grubel-Maki-Sax model. Their results indicate that the average duration of search (the average duration of unemployment) is positively related to the benefit-wage ratio. Furthermore, the elasticity of the average unemployment duration with respect to this ratio is higher in high unemployment regions (p.233). Moreover, if the amendments had not taken place, the unemployment rate in the Atlantic provinces would have been 1,6 percentage points lower than the prevailing rate. Ontario, however, suffered very little insurance-induced unemployment (0,2 percentage points) which would seem to indicate that the extended benefits would have kept the unemployment rates higher in high unemployment regions therefore slowing their economic recovery.

¹³ For a criticism of Grubel, Maki and Sax in particular, please see Kaliski (1975).

¹⁴ The word 'region' here refers to the Atlantic provinces, Quebec, Ontario, the Prairies and British Columbia. It should not be mistaken with the definition and use of the word within the context of this thesis.

As was discussed above, the literature on this issue would seem to show consistent results. The regionalization of the programme would induce workers to either leave their present employment sooner or to voluntarily remain unemployed longer. The result would be to keep national unemployment rates higher by up to 0,8 percentage points. Regionally, the results would be more pronounced in high unemployment regions.

Although the literature has generated many valuable insights, there are two important reasons why this analysis remains incomplete. First, according to the implicit assumption of the paradigm, the unemployment against which insurance is being provided is essentially voluntary. In the search theoretic framework, even if layoffs are involuntary, the continuation of a spell of unemployment is the result of a worker's individual choice to hold out for a better wage offer. This would not give cause for concern, of course, if we could be certain that such a view of unemployment had fairly broad validity. Jones (1984) and even Rae (1977) realized the shortcomings of this restrictive condition by stating the Unemployment Insurance Programme would not have the above mentioned effects if some unemployment was involuntary:

The effect of UI on the measured unemployment rate is likely to be relatively small if there are involuntarily unemployed workers who can replace those who reduce their work (Rae, 1977, p.277).

A second reason consists in the models themselves. The dependent variable is the rate of unemployment and is a function of such factors as participation rates, benefit-wage ratio and unemployment insurance benefits. The models are fashioned in a typical search theory approach in a way which we would expect the variables to be significant.¹⁹ However, as we will see in the following chapter, some researchers claim that contrary to having negative effects on unemployment rates, the programme actually cushions the income deficiency created by unemployment by injecting additional income in regions suffering from high unemployment. The result is that, through the multiplier effect, unemployment rates remain lower than those which would have prevailed if no such generous programme would have existed. If there is any truth to this approach, then it might be interesting to add this variable in the above models and

¹⁹ For a thorough explanation of the model, see Grubel, Maki and Sax (1975).

see whether it is significant. Moreover, it would be equally interesting to examine whether the 'net benefit' variable would outweigh the effects of the other variables; in other words, would the income generated out the unemployment insurance benefits eliminate the adverse effects of the programme as proposed by the proponents of these models? Such endeavour, though no doubt interesting, is beyond the scope of this thesis but would make for useful research.

2.5 Conclusion

The main focus of this chapter has been to present the average duration of spells of unemployment as well as the incidence of unemployment for the provinces of Newfoundland and Ontario. The main conclusion would indicate that statistics would tend to support the principle that higher unemployment rates would imply both higher incidence and duration of unemployment. Interprovincial differences in unemployment rates would seem to arise more from the incidence factor than the duration, which is, nonetheless, longer for regions with high unemployment.

During the 1970's, economists perceived labour market activities as being dominated by a high worker turnover. These researchers (Holt, 1970a; Hall, 1970, 1972; and Feldstein, 1975) have concluded that the high rates in the 1970's were characterized by a large number of workers becoming unemployed for a short period of time only. This way, the social burden of unemployment was discounted since it was shared by a large number of workers. The average duration of unemployment was believed to be quite short and the frequent movements in and out of employment contributed, in large part, to the higher levels of unemployment.

However, the 1980's have seen the emphasis shift. Bowers (1980) and, more recently, Osberg (1986) have claimed that the 1980's witnessed significant degrees of concentration in long spells of unemployment. Statistics presented in this chapter have shown that in Newfoundland, the labour market is characterized by a high incidence and a high duration. The results are the same for Ontario, although to a lesser degree. The recession of the 1980's would seem to have shattered the prevailing theories of labour market activities.

As seen in this chapter, although there are many short spells of unemployment, almost half of all unemployed workers in Newfoundland are in fact concentrated in spells of unemployment that are long in duration

(three months and more). Hasan and de Broucker (1982) found that in 1980, the amount of spells exceeding six months in duration accounted for more than 21% of the unemployment rate; while those spells lasting three months and more accounted for 45% of the national rate of unemployment. For Newfoundland, these three-month spells accounted in 1984 for 42% of all spells compared to only 26% for Ontario.

The rise in unemployment during the 1981 recession has been credited to rises in both the duration and incidence of unemployment (Osberg, 1986). Hasan and de Broucker (1985) have estimated that the incidence accounts for approximately half of the unemployment rate while the second half can be attributed to the duration. Regionally, Osberg (1986) estimated that the differential rates of unemployment between Ontario and Newfoundland is mostly due to the difference in incidence. Nonetheless, statistics presented in this chapter as well as in sources stated throughout would indicate differences in unemployment duration as well. The way we view these statistics is strongly influenced by how we view the Unemployment Insurance Programme and whether the unemployment rate is endogenous to the provisions of the programme. Research presented in this chapter would indicate that the regionalization of the programme has influenced labour market structures in such a way as to encourage workers to seek seasonal or part-year employment and therefore remaining unemployed for longer periods of time. As a result, statistics presented here would be influenced by such labour market effects.

The following chapter will examine the two objectives of a regionalized Unemployment Insurance Programme: income maintenance and redistribute of income. It will be argued that the evolution of the programme was tailored for the concerns of seasonal workers in high unemployment regions, in doing, so, the redistribution of unemployment insurance monies would be achieved. We will calculate the net redistribution of income for Newfoundland and Ontario from 1980 to 1988, stemming from Unemployment Insurance. As expected, we will find that in 1988 Newfoundland (with a high degree of seasonal employment) received 40% of all unemployment insurance premiums. The regionalization of the programme accounts for almost forty percent of all income transfer in Newfoundland.

APPENDIX 2A

TABLE 2 6
THE INCIDENCE AND AVERAGE DURATION OF UNEMPLOYMENT
NEWFOUNDLAND AND ONTARIO
1980-1986

	unemployment* rate (percentage)	incidence** of unemployment (percentage)	average*** duration of unemployment (weeks)
1986			
Newfoundland	19,2	29,3	21,2
Ontario	7,0	14,6	16,5
1985			
Newfoundland	20,8	26,8	22,3
Ontario	8,0	15,9	17,9
1984			
Newfoundland	20,2	27,2	22,5
Ontario	9,0	17,4	19,2
1983			
Newfoundland	18,7	27,3	23,8
Ontario	10,3	17,9	20,4
1982			
Newfoundland	16,7	25,9	19,8
Ontario	9,7	18,9	15,5
1981			
Newfoundland	13,9	N/A	18,5
Ontario	6,6	N/A	14,0
1980			
Newfoundland	13,3	22,3	18,8
Ontario	6,8	15,0	13,9

Sources: * Statistics Canada, Historical Labour Force Statistics
71.201, pages 235 and 243
 ** Statistics Canada, The Labour Force, AWPS
71 001, Table 1
 *** Statistics Canada, Labour Force Annual Averages,
71.529, Table 29

APPENDIX 2B

2B.1 THE LABOUR FORCE SURVEY

If there existed, in Canada, a statistically representative survey of the population which followed the same individuals over time and recorded, on a continuous basis, their employment or unemployment status, then one could calculate relatively easily the duration of individual spells of unemployment and the number of individuals in the population affected by unemployment over a period of time. Unfortunately, no such survey exists and alternative methods must be used to estimate these values.

In this section, we have used data obtained through the Labour Force Survey (LFS) published by Statistics Canada in order to calculate certain statistics used throughout this chapter. It is the most familiar source for data on unemployment and employment in Canada. The LFS divides the civilian, non-institutional population of fifteen years of age and over into three categories - the employed, unemployed and those not in the labour force. The employed are defined as those who, during the reference week, did any work, for pay or profit, at all. In addition, those who have a job but were not at work due to illness or disability, personal or family responsibilities, labour dispute or vacation are also accounted as employed.

A household enters the sample through a random sampling procedure and remains in the sample for a period of six consecutive months.

However, the main problem in using the Labour Force Survey to estimate the duration and the incidence of unemployment is that it is designed as a static approach (a 'snap-shot') to labour markets while analysis of duration and incidence overtime requires a dynamic approach to labour force activity.

As stated in this chapter, the LFS ignores both short and long spells of unemployment due to the one month interval between surveys. This might lead to an overestimation, in some cases, of the unemployment duration or, in other cases, to an underestimation.

In order to take into consideration labour force dynamics, some researchers such as Hasan and de Broucker (1985) and Beach and Kaliski

(1983), have argued that it is possible to use the observed changes in labour force surveys between successive months as a way of estimating flows between labour market states, and the duration of unemployment and incidence of unemployment which they imply. Indeed the "new labour economics" of the 1970s emphasized the importance of labour market flows. In any given months, substantial numbers of individuals, move from employment to unemployment and others from unemployment to employment. Net job loss, in any given month, may be rather small, but it is composed of the sum of two offsetting flows which are much larger. Since the issues of unemployment duration, or incidence overtime, are essentially concerned with the size of labour market flows, it would be convenient if the labour force survey could be used to estimate such flows.

However, the labour force survey has some inherent problems in estimating labour market flows. The potential sources of errors are numerous, amongst these are coding errors.¹⁶ In estimating the total amount of unemployment at a point in time, coding errors, one way and the other, could be expected to approximately add out, hence, estimates of the aggregate level of unemployment will not be substantially affected by coding errors (Osberg, 1986). However, the more serious problem lies in the fact that coding errors are accumulative sources of bias in assessing labour market flows. While total unemployment could still be accurately measured, the duration of unemployment will likely be biased.

A second possible source of error might be when certain inhabitants of a sample household move during the six month duration of the sample. When new inhabitants move into that household, they assume the survey responsibilities and might create a spurious change in labour market status.

The net result of all the possible sources of error is that they produce gross flows between labour markets states which: "generally show movements into and out of the various labour force categories which, when balanced out, do not yield the same net changes as are shown by the published data. What is even more disturbing is the fact that the net changes that derive from the gross flow statistics have often differed from the official net changes not only in magnitude but even in direction, or sign" (Flaim and Hogue, 1985, p.8).

¹⁶ Flaim and Hogue (1985) reported that a re-examination of U.S. CPS data indicated that coding errors in assignment of labour force data could be as much as eight percent.

All the same, a number of recent authors, such as (Kiefer, et al., (1985) and Hasan, et al., (1982), have attempted to use gross flow data from labour force surveys to estimate 'hazard functions' of leaving unemployment and to calculate the mean duration of unemployment from these hazard functions¹⁷. Their conclusion is that in general, the average duration of unemployment is underestimated by two or three weeks. Despite its weaknesses, however, the Labour Force Survey would seem to be preferred to other available data due, among other reasons, to its better availability.

¹⁷ Hazard functions relate the probability to exit from unemployment to employment to the duration of that state. For an explanation, see Hasan and de Broucker (1982, pp. 738-740).

Chapter Three

The Economic Consequences of Regionalization

Since it was first introduced, unemployment insurance has become a central pillar of Canada's social security system by protecting workers against the loss of earnings caused by unexpected unemployment while avoiding the stigma of welfare. As a social insurance programme, unemployment insurance differs from social assistance measures on numerous grounds. For example, while social assistance is usually available to anyone who can demonstrate need, unemployment insurance, as a social insurance, is available to only those who can obtain a certain minimum qualifying period. The benefits they receive are paid as a matter of right to eligible claimants and are not affected by the claimants' financial position. Benefits do not depend on the means test usually administered in other social assistance programmes so that the claimants' dignity and privacy are preserved.

While it is clear that unemployment insurance differs from social assistance in several ways, much concern has been raised in recent years as to the 'insurance' nature of the programme. It has been argued that the Unemployment Insurance Programme has eclipsed its insurance principles and as such can no longer be deemed an insurance scheme. In this chapter, we will present some of these arguments and show how the abandonment of the insurance principle of the programme was a necessary element in the regionalization of the scheme. It should be noted that the debate over the insurance characteristic of the Unemployment Insurance Programme does not limit itself to the regionalization of the scheme. For example, much can be argued concerning the notion of risk as well as the pooling of the cost of the programme. However, we will limit our arguments to the single issue of regionalization.

The regionalization of the Unemployment Insurance Programme has also made clear the redistributive character of the programme. With the 1971 and 1977 amendments, there has been a large transfer of funds amongst provinces, principally from provinces such as Ontario to the Eastern provinces, such as Newfoundland. As a result, many have questioned this redistributive goal of the programme. It was realized that the programme could be used as a way to reduce regional income disparities through macroeconomic stabilization policies and, through the programme's multiplier effects, dampen the effect of unemployment by sustaining the purchasing power of high unemployment provinces.

This chapter will examine the impact of regionalization and will calculate the income transfer payments resulting from the Unemployment Insurance Programme for the provinces of Ontario and Newfoundland. Our research will limit itself to calculating the income transfers and will not attempt to calculate the value of the multiplier. Some researchers have attempted this task (Swan, et al, 1976); Swan and Glynn, 1975) and we will refer to them at the end of this chapter. As well, we will not discuss the efficiency of the Unemployment Insurance Programme as it pertains to income redistribution or income maintenance for such an issue is not of concern within the scope of our research. We will limit ourselves to the discussion of the income transfers and their possible implications.

3.1 On the Debate of Insurance

As it was first designed in 1940, the Unemployment Insurance Programme was intended to be an insurance against the unforeseen event of a loss of earnings. Unemployment insurance played a transitional role, that of a partial income replacement for a specific period between spells of work in a given job or between jobs. As stated in chapter one, the Unemployment Insurance Commission later defined the concept of insurance as it pertains to unemployment as "the area of insurance ... limited to contingencies, not situations that are certain to occur", "the contingency is loss of employment and the earnings there from" (Dingledine, 1981, p.7). In 1940, the criteria needed for insurance purposes were respected: the programme was an income protection plan for those employed in industries where there was no seasonal pattern to unemployment, but where there was a risk of unemployment due to recessions in business activity.

The inclusion of seasonal industries as early as 1946 (for example, workers in the water transportation industry) did not represent a departure from the insurance principles underlying the programme since benefits were limited only to the on-season and workers were not entitled to receive benefits during that part of the year where unemployment was certain to occur. This was interpreted as meaning that seasonal workers, accustomed to making their annual wages during part of the year, had no insurable interest in the off-season. Coverage was still limited to contingencies and the coverage of seasonal industries in the on-season was a mere recognition that these industries could suffer the effects of business cycles despite their peak production period. Any unemployment in a seasonal industry which occurred in the on-season was as fully protected as any other employment.

It is the adoption, in 1950, of supplementary benefits which represented a departure from the insurance nature underlying the original legislation.

Seasonal workers were now eligible for benefits during their off-season. Just as unemployment insurance was originally proposed to promote the social and economic security of workers from the time they left one job until they found another, supplementary benefits served to maintain the income of seasonal workers during the off-season. As Dingle (1981, p. 118) states, "it has become a regularly used guaranteed income plan, a kind of annual security blanket".

The coverage of self-employed fishermen in 1956 also represented a departure from the strict insurance nature of the programme. As well as being covered during the off-season, it was the first time coverage was extended to workers who were not employed 'under a contract of service or apprenticeship'. The coverage of fishermen was essentially a political decision, motivated by social rather than economic considerations. The purpose was to render support to incomes of self-employed fishermen in the inshore fishing industry, particularly in the Atlantic as well as to the many coastal communities that depend upon the fishery for their survival. Unemployment insurance acts more like a life-support system until the next fishing season and provides an important supplement to their income. In 1986, unemployment insurance constituted 31% of Newfoundland's fishermen's annual income (Canada, 1986). Courchene (1987) suggests that the payment of benefits of unemployment in the Atlantic provinces hampered the rationalization of the fishing industry. There are more fishermen, and fishing operations are smaller than the economics of the industry would dictate. A further implication is that this situation might also have contributed to overfishing and the resultant decline in fishing stock, which has led to fish processing plant shutdowns and layoffs. As a result, it has altered the economic geography of provinces such as Newfoundland.

The introduction of regional extended benefits in 1971 led some to believe that the programme had further abandoned its insurance principles arguing that extended benefits were in fact a form of income supplementation.

Regional extended benefits were originally designed as a third benefit phase to assist workers in regions with an average unemployment rate higher than that which was considered normal at the time. When these benefits were introduced in the early 1970's, the rate of unemployment accepted as normal was four percent. Regionally extended benefits provided claimants in regions with above normal unemployment rates with two additional weeks of benefits for every half percentage point by which the regional unemployment rate exceeded four percent up to a maximum of thirty-two weeks (1977 amendment). The four percent threshold was originally established on the grounds that the government, not employees or employers, should pay for unemployment benefits when unemployment rose above what was considered 'full employment'. When regionally extended benefits were

I introduced, it was assumed that they would be limited to specific regions with particularly serious unemployment difficulties. In 1975, extended benefits were limited to northern Québec and some parts of the Atlantic provinces. Today, they include almost all of Québec, the Atlantic provinces as well as many other regions in the western provinces (Statistic Canada, 73.001). In this regard, the Commission of Inquiry on Unemployment Insurance (Canada, 1986) argued that extended benefits were no longer part of an economic adjustment plan directed toward areas with unusually severe problems. "They have become a kind of guaranteed weekly income or a temporary social assistance/income maintenance plans" (p. 110).

If the original intention for regionally extended benefits was to offer income protection to workers in high unemployment regions, the focus today might be otherwise. To many, extended benefits are a continued source of income during part of the year when claimants become unemployed. Unemployment insurance has become much more than a programme of temporary income assistance for workers who are between jobs. As the Commission of Inquiry on Unemployment Insurance (Canada, 1986) insists, unemployment insurance has become "part of a regular pattern of income from earnings in seasonal employment, ... [supplementing] the income of short-term and seasonal workers through regionally extended benefits" (p. 108). The maximum benefit that a long-term employee can receive is sixty-percent of his or her annual insurable earnings. If the employee resides in a very low unemployment area, where the maximum benefit period may be only thirty-eight weeks, the maximum value of benefits will be only about forty-five percent of annual insurable earnings. On the other hand, a claimant with ten weeks of employment who resides in a region of high unemployment can become eligible to receive as much as two hundred and forty percent of earnings (Canada, 1986).

The Commission of Inquiry on Unemployment Insurance (Canada, 1986) defines income supplementation as "programmes that provide a financial supplement to those who are employed" (p. 105). Their goal is to attempt to minimize the severity of the effect of inadequate income. As for social insurance programmes (such as unemployment insurance), their objective is to provide income replacement in order to maintain some measure of income when individuals face contingencies such as unemployment. As a social insurance, it should not, therefore, be used to supplement one's income. Singularity of purpose, in this case insuring against temporary loss of earnings as a result of loss of employment, is seen as a condition for the effectiveness of the programme. We will not be discussing this issue since it is outside the scope of this research but would simply like to point out that it is argued that unemployment insurance should not be used in an effort to maintain income for that can be better served by other means in a more efficient manner. In some households, unemployment insurance may in fact

be a part of a regular pattern of income from earnings on seasonal employment or short-term creation projects. The former refers to such projects as the 'ten-week-worker-syndrome'. It is a popular example to illustrate situations where workers in high unemployment regions take part in short-term employment projects every year so as to obtain sufficient employment in order to qualify and collect unemployment insurance. These workers' lives become organized around qualifications for unemployment insurance. The Commission of Inquiry on Unemployment Insurance (Canada, 1986) suggests that these individuals enjoy this annual routine since it permits them to draw income from the programme through regional extended benefits for the remainder of the year. As the Commission argues "regional extended benefits are a form of short-term income supplementation to those who have been able to obtain 10 weeks of work" (p. 110). As discussed in chapter two, generous benefits and lower entrance requirement for high unemployment regions might incite workers to seek such short-term employment. Workers might even be encouraged to enter the work force for the first time, obtain the minimum employment length needed and then withdraw from the labour force collecting unemployment insurance benefits. However, Soboda and Munro (1986) reject this argument and insist that such projects are the result of low employment activity. Depressed economic regions can only offer enough work every year to enable workers to qualify for unemployment insurance. Therefore, it is not the workers who wish to work for such a short period but rather business or government who can only offer short-term employment. Nonetheless, it can certainly be recognized as fact that unemployment insurance supplements the income of short-term and seasonal workers through extended benefits.

The conclusion that regional extended benefits consist of income support can be attributed to statutory definitions. If one defines benefits, which are linked directly to the number of weeks worked, as social insurance then benefit resulting from other possible reasons is defined as income support. In order to respond to seasonal unemployment, the scheme had little choice but to become in certain cases, an income maintenance plan. This characteristic has been apparent since 1950 with the introduction of supplementary benefits. Whether the programme could have evolved into a regional scheme without the loss of its insurance principles is doubtful. The two goals have become incompatible. The issue of income support is seen as a logical result of this process.

3.2 On Income Redistribution and Income Transfers

Unemployment insurance is financed by employers, employees and the federal government - a tripartite system. Employers and employees pay premiums at

predetermined rates and the federal government contributes out of general revenue. Premiums are gathered almost universally while benefits are concentrated amongst people in certain regions.

In achieving its income protection or maintenance objective, unemployment insurance also contributes to the social goal of redistributing income amongst regions and provinces. The degree of income redistribution depends primarily on how the distribution of benefits differs from the distribution of premiums and on the use of taxes to finance the government's share. It shifts the net cost of unemployment from low unemployment regions or provinces to high unemployment provinces.

The regionalization of the programme, especially extended benefits and entrance requirement have played an important part in the income transfer today. Without these changes in programme design, income from benefits would have been limited. These amendments have made it much easier for claimants to qualify for benefits and allow them to receive benefits for a longer period.

Many have questioned this redistributive role by claiming that such an objective clouds up the main objective of income protection. While some redistribution is unavoidable, Kapsalis (1979) has expressed this view:

Unemployment insurance ought to be more than anything else, precisely what its name indicates: a social insurance program. Its primary objective should not be to reduce income disparities between income classes or regions. ... Income distribution objectives should be left to other programmes specifically designed for that purpose (pp. 53-54).

Moreover, Bird (1976) states the following:

The present coverage of seasonal industries, and especially fishermen, can only be understood if the unemployment compensation scheme is viewed as an income maintenance scheme. ... It also, of course, has a significant regionally redistributive effect since industries with many such workers tend often to be regionally concentrated. Redistribution of income across individuals and regions are both ineffectively accomplished within an unemployment insurance programme. Moreover, these goals can be accomplished with far less economic distortions through fiscal instruments other than unemployment insurance (p. 196).

We do not wish to address the issue of whether the objective of income redistribution is effective under an unemployment insurance scheme, that is best left to other research. However, it is clear that the regionalization of the programme altered the principles and the implicit objectives of the scheme. The redistributive goal of the Unemployment Insurance Programme has even been recognized as a 'sub-objective' of the Programme by the Comprehensive Review of the Unemployment Insurance Programme (Canada, 1977) when they suggested that one of the goals of Unemployment Insurance is to "prevent poverty and redistribute income" (p. A10). Moreover, the Report states that since 1971, there has been a greater emphasis on the redistributive effects of the programme as reflected by the increased federal government participation directed to particular areas in the country. It would seem, therefore, that the concepts of redistribution and regionalization are interrelated and that as long as the programme remains a regional scheme, it can neither be an insurance plan nor can it abandon its redistributive objectives.

In Table 3.1 below, we have calculated the net transfer of unemployment Insurance funds for Newfoundland and Ontario from the year 1980 to 1988.

As stated earlier, the programme is financed through three possible sources: contributions from insured workers, from employers and the federal government's own contribution to the cost of the programme. Under the 1971 legislation, employee and employer premiums financed regular benefits attributed to a national unemployment rate of up to 4%, all sickness, maternity and retirement benefits as well as the cost of administering the programme. The government, on the other hand, financed regular benefits attributed to a national unemployment rate over 4%, national and regional extended benefits and benefits for self-employed fishermen. However, in 1978, an amendment was made which saw the cost of extended benefits shared by all parties involved.

TABLE 3.1

UNEMPLOYMENT INSURANCE INTERPROVINCIAL TRANSFERS
 NEWFOUNDLAND AND ONTARIO
 1980-1988
 (in millions \$)

	U.I. Revenue**	U.I. Benefits***	Net Transfer	Federal cost of U.I. out of general tax revenue	Net transfer after taxes	CPI	1981 constant dollars
1988*						143,8	
Nfld	169,0	751,8	+582,8	38,5	+544,3		+378,5
Ontario	4743,4	2370,1	-2372,9	1637,1	-4010,0		-2788,6
1987						138,2	
Nfld	156,6	647,2	+490,6	38,8	+451,8		+326,9
Ontario	4378,8	2386,6	-1992,2	1686,9	-3679,1		-2662,2
1986						132,4	
Nfld	140,6	607,3	+466,7	37,4	+429,3		+324,2
Ontario	3946,1	2455,7	-1490,4	1695,1	-3185,5		-2406,0
1985						127,2	
Nfld	132,5	548,4	+415,9	37,9	+378,0		+297,2
Ontario	3504,0	2524,3	-979,7	1620,2	-2599,9		-2043,9
1984						122,3	
Nfld	120,7	493,9	+373,2	37,9	+335,3		+274,2
Ontario	3157,9	2484,0	-673,9	1577,7	-2251,6		-1841,0
1983						117,2	
Nfld	111,9	455,0	+343,1	36,3	+306,8		+261,8
Ontario	2799,4	2828,4	+29,0	1504,9	-1475,9		-1259,3
1982						110,8	
Nfld	73,7	379,3	+305,6	35,1	+270,5		+244,1
Ontario	1816,2	2347,1	+530,9	1435,1	-904,2		-816,1
1981						100,0	
Nfld	76,1	299,1	+223,7	34,9	+188,1		+188,1
Ontario	1861,9	1240,3	-621,6	1411,6	-2033,2		-2033,2
1980						88,9	
Nfld	50,3	261,7	+211,4	29,3	+182,1		+202,6
Ontario	1210,6	1220,4	+ 9,8	1403,5	-1393,7		-1567,7

Source: Based on UI Administrative Data, and
Statistics Canada
Provincial Economic Accounts
13.213 Annual

* Preliminary

** Includes UI contributions from individuals and firms

*** Includes gross benefit payments - overpayments and cancelled warrants
 - benefit repayments

In Table 3.1, Column 1 represents the total premiums collected from Newfoundland and Ontario as unemployment insurance contributions. They include both employee and employer contributions. Column 2 identifies the benefits allocated to each of these provinces. The differences between the two are noted in column 3 as the net transfers. Newfoundland has a constant surplus of funds indicating, quite logically, that it receives more in benefits than it actually pays. Ontario, on the other hand, loses money almost every year representing an outflow of funds going toward more depressed regions. However, column 3 does not take into consideration the federal government's role and involvement in administering the programme. The government's contribution to the programme come out of general tax revenues.¹⁰ Canadians contribute to the programme through unemployment insurance contributions as well as through general taxes. In order to calculate the net transfer after taxes in any specific province, we must extract the outflow of money in the form of taxes. We have estimated the percentage of total federal tax revenue collected by the federal government in Newfoundland and Ontario from 1980 to 1988. In 1986, for example, of all federal taxes collected in Canada, Newfoundland contributed 1%, compared to 45% for Ontario. We should then make the assumption that Newfoundlanders contributed 1% of the federal government's contribution to unemployment insurance out of general taxes (Swan, *et al.*, 1976). Column 5 then lists the net transfer or the redistributive effect of the programme after taking into consideration the taxes collected for the financing of the programme.

The results indicate a constant surplus of funds in Newfoundland and as well a constant deficit in Ontario. These numbers would seem to indicate that the federal government's participation in financing the programme plays a minor role in the redistribution of income since even without the government's financial participation, Newfoundland has a substantial surplus of funds. The role of government would appear to be more important in low unemployment regions as it collects substantial sums of money to finance the generous payments of benefits to high unemployment regions. These interregional transfers result therefore from differential unemployment rates, unemployment-linked entrance requirements and benefit duration, and federal financing.

The role extended benefits play in total unemployment insurance benefits vary amongst regions and provinces. Table 3.2 shows the percentage of

¹⁰ Column 4 and Appendix A estimate the cost of the Program attributed to each of the three provinces out of the tax base.

total benefits attributed to extended benefits for Newfoundland and Ontario.

As statistics show, Newfoundland profits heavily from extended benefits. In 1988, these statistics accounted for over 40% of all benefits paid in Newfoundland while they represented only 9% in Ontario. The reason is of course due to the large variation in unemployment rates and the higher degree of seasonal workers in Newfoundland. Moreover, of all extended benefits paid out in Canada in 1988, 12,3% were paid out in Newfoundland and 8,9% in Ontario (UIC Administrative Data). The regionalization of the programme would therefore have increased the degree of income transfer from low unemployment regions to other regions where the unemployment rate is higher.

TABLE 3.2

VALUE OF EXTENDED BENEFITS AND PERCENTAGE OF TOTAL BENEFITS
 NEWFOUNDLAND AND ONTARIO
 1980-1988
 (in thousands of dollars)

	Newfoundland	Ontario
1988	339 982 (40,4%)	204 370 (9,2%)
1987	303 762 (41,3%)	218 849 (14,2%)
1986	253 345 (41,7%)	409 737 (16,7%)
1985	226 323 (41,3%)	509 177 (20,2%)
1984	191 863 (38,8%)	548 517 (22,1%)
1983	1 365 (5,3%)	632 430 (22,4%)
1982	120 398 (31,7%)	332 861 (14,2%)
1981	88 934 (29,7%)	167 439 (13,5%)
1980	84 944 (32,5%)	152 671 (12,5%)

Source: Based on Unemployment Insurance Commission Administrative Data.

The following section will deal with the macroeconomic effects of the Unemployment Insurance Programme in a regional sense. The constant net transfer of funds from one region or province to another will have important macro stabilization repercussions.

3.3 On Economic Stabilization

It is natural to expect a public programme of this magnitude to contribute to the automatic stabilization of the economy. The net transfer of unemployment insurance money to high unemployment regions is certain to have some macroeconomic repercussions on regional economies. Because of its quick responsiveness to changing regional economic conditions, the Unemployment Insurance Programme promotes economic stability through the frequent payment of large amounts of benefits. The result is to help reduce cyclical fluctuations in overall economic activity. Through the programme's redistributive role, disposable income is maintained, although at a level lower than that which would have existed prior to the increase in unemployment. It cushions reductions and interruptions of income brought about by economic downturns.

In times of recessions, as unemployment rises and income falls, the countercyclical characteristic of the Unemployment Insurance Programme will ensure that the loss of income will be reduced or stopped. The Task Force on Unemployment Insurance (Canada, 1981b) has argued this point:

[Unemployment insurance] reduces the extremes in a business cycle by reducing overall disposable income and consumption in periods of strong economic activity and increases these when economic activity is slow. ... As unemployment increases, higher benefit payments help maintain demand, stabilize employment and prevent further unemployment. (p 32).

Unemployment insurance therefore affects macroeconomic stabilization and can help the economy approach its frictional rate of unemployment and its potential real output by injecting additional purchasing power in times of economic downturns.

The aggregate demand and multiplier effects of the Unemployment Insurance Programme have been examined in two Economic Council of Canada documents.¹⁹ Although these studies concentrate on the Maritime provinces and on income maintenance programmes overall, we believe that their conclusions would be relevant to Newfoundland since the eastern provinces are in a similar situation as it pertains to economic and labour market conditions. Moreover, we also believe that their results would be similar if the studies would have concentrated on the Unemployment Insurance Programme alone instead of the grouping of all income maintenance programmes since the Unemployment Insurance Programme accounts for a significant percentage of all income maintenance programmes (Swan, et al., 1976).

The net transfer of funds to Newfoundland has increased the level of aggregate demand in Newfoundland but has reduced the level of aggregate demand in other regions of Canada, e.g. in Ontario. Viewed as a collectivity, the people of Newfoundland gain more in spending power from unemployment insurance than they lose in the form of contributions to pay for the programme. However, in order to retain this stabilizing effect, unemployment insurance premiums or other tax financing of the programme must not be varied dollar-for-dollar with benefit costs. Fully financing benefit costs as they are incurred would largely offset the stabilizing effects of the payments. The net stabilizing effect would then be reduced to the differential spending propensities of unemployment insurance recipients and workers making contributions (Kesselman, 1981).

The additional output created out of the net income transfers will vary in value depending on how large the multiplier effect will be out of unemployment insurance benefits. Swan, et al., (1976) define the multiplier impact as the change in output brought about by the change in net income of unemployment insurance and is equal to:

¹⁹ Swan and Glynn (1975) and Swan, McRae and Steinberg (1976) examined the effects of Income Maintenance Programmes on the Maritime provinces. Both of these studies were based on an econometric model developed by Czamanski (1968) which was used to calculate aggregate demand effects in Nova Scotia.

$$\frac{\beta - g'}{1 - \beta + g'}$$

where β is the long-run marginal propensity to consume of a given [Maritime] province
 g' is the marginal propensity of a [Maritime] province to import from the rest of Canada

The propensity to import from outside the Maritime provinces is necessary in calculating the multiplier since goods imported for consumption represent an outflow of money which subsequently reduces the value of the multiplier. The numerator $(\beta - g')$ in fact may be interpreted as the marginal propensity to spend at home.

As calculated in these studies, the multiplier from the Maritime provinces averages 0,273; or every net dollar of unemployment insurance benefits generates twenty-seven cents-worth of added income or additional output. The rise in aggregate demand, as mentioned before, corresponds to a fall in the rest of the country; it is merely an interprovincial shift in aggregate demand.

Such an expansionary programme will not only cushion the loss of income but will limit the fall of employment as well. Swan, et al., (1976) estimated that the generating effect would in fact reduce the unemployment rate and limit the damages of economic downturns. In Nova Scotia, it was estimated that the Unemployment Insurance Programme reduces the unemployment rate by three quarters of a percentage point, by one percentage point in New Brunswick and by two percentage points in Prince Edward Island.

The unemployment insurance system, ..., not only increases aggregate demand but also stabilizes it. In the process of permanently raising the level of aggregate demand, they raise it more in periods of recession than in other periods, creating a rather smoother path of employment around the new higher level. In downswings this makes falls in employment less than previously, (Swan, et al, 1976, p. 59).

3.4 Conclusion

This chapter focused on the economic consequences of the regionalization of the Unemployment Insurance Programme. We have argued that although the programme still offers income protection against the possible loss of employment, it has become instead an income maintenance programme. Indeed, as it stands today, the scheme is an assured source of income for many regional or seasonal workers who depend on unemployment insurance for income every year. This was in fact a way to transfer income to those many regions whose economies depend on seasonal industries. The redistributive and stabilizing characteristics of the programme are primary objectives of a regional unemployment insurance plan. In this regard, the regionalization of the programme is seen as a result of the desire to maintain incomes of regional and seasonal workers as well as the desire to redistribute income to high unemployment regions. The programme's sensitivity to regional economies is intensified and its responsiveness increased in a counter cyclical way. As unemployment rates rise, income is maintained through the transfer of funds and the multiplier effect from low unemployment regions to others such as those in Newfoundland where the rate of unemployment is higher.

The federal government's contribution to the programme is seen as an added dimension to the interprovincial transfer of unemployment insurance funds. Their financing makes low unemployment regions contribute a higher share of the programme's cost out of their federal taxes.

APPENDIX 3A

TABLE 3.3
PROVINCIAL SHARE OF UNEMPLOYMENT INSURANCE COST
OUT OF GENERAL TAX REVENUE
NEWFOUNDLAND AND ONTARIO
1980-1988

	Total Federal Revenue** out of taxes and provincial contribution (with percentage) (millions \$)	Federal Cost of U.I P *** and cost accrued to provinces (millions \$)
1988*		
Federal	104 316	3 622
Newfoundland	1 105 (1,06%)	38 (corresponds to 1,06%)
Ontario	47 150 (45,20%)	1 637 (corresponds to 45,20%)
1987		
Federal	97 695	3 729
Newfoundland	1 012 (1,04%)	38 (corresponds to 1,04%)
Ontario	44 194 (45,24%)	1 686 (corresponds to 45,24%)
1986		
Federal	90 057	3 742
Newfoundland	895 (1,00%)	37
Ontario	40 799 (45,30%)	1 695
1985		
Federal	81 781	3 790
Newfoundland	790 (1,00%)	38
Ontario	34 958 (42,75%)	1 620
1984		
Federal	75 349	3 788
Newfoundland	723 (1,00%)	38
Ontario	31 385 (41,65%)	1 578
1983		
Federal	68 578	3 629
Newfoundland	652 (1,00%)	36
Ontario	28 444 (41,47%)	1 505
1982		
Federal	65 126	3 514
Newfoundland	609 (1,00%)	35
Ontario	26 591 (40,83%)	1 411
1981		
Federal	64 082	3 486
Newfoundland	594 (1,00%)	35
Ontario	25 946 (40,49%)	1 412

1980		
Federal	49 843	3 368
Newfoundland	436 (0,87%)	29
Ontario	20 769 (41,67%)	1 403

Source: Based on U.I. Administrative Data and
 Statistics Canada
 Provincial Economic Accounts
 13.213 Annual

- * Preliminary
- ** Includes direct taxes from individuals
 direct taxes from corporate and government business enterprises
 direct taxes from non-residents
 indirect taxes
 investment income
 other current transfers from individuals
- *** Includes the federal government contribution
 and the cost of administrating the programme

Chapter 4

Conclusion

The Unemployment Insurance Act was born out of economic reality. Canada had just ended its worst economic depression which had left the country with a record number of unemployed workers. The federal government felt obligated to introduce a permanent programme which would deal with the needs of unemployed industrial workers. Until recently, the conventional view was that federalism and the ambiguities of the BNA Act had retarded development of the Unemployment Insurance Programme. Banting (1982) has argued, for example, that in the pre-Second World War era, federalism was "a conservative force in welfare politics" (p. 81) which, due to its constitutional arrangement prevented the adoption of many social programmes. As for unemployment insurance, the situation was quite the same. In 1928 and 1929, Ottawa approached the provinces about a constitutional amendment but was met with indifference. Unanimity impeded any such attempt. Even when Bennett tried to get provincial agreement, the provinces were still reluctant to give their approval. Some years later, King had tried as well and was refused the agreement until wartime circumstances created an opportune moment for change.

At its inception, the programme covered selected industries and had uniform criteria in regards to eligibility and benefit requirements. Soon after, amendments were brought in which would question the validity of its intended role, to offer temporary assistance for those who lost their job through no fault of their own. As a result of these changes, the programme can no longer be considered a national programme nor even an insurance scheme. Many critics viewed the changes as a way of supplementing the income of seasonal workers during the winter months. The Unemployment Insurance Programme has now become a regional plan aimed at addressing the concerns of seasonal workers. As a regional scheme, its goals and objectives have also changed. Maintaining the income of seasonal workers as well as redistributing income amongst provinces have now become integral objectives of the regional Unemployment Insurance Programme.

The 1971 and 1977 amendments were designed to reflect regional unemployment conditions. These changes recognized the difficulty individuals have in finding and maintaining employment in their respective regions when the regional unemployment rate rose. For the programme's

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purposes, Canada was divided into sixteen regions (later to be subdivided into forty-eight regions). This was meant to better reflect interregional and intraregional economic conditions and their effect on employment opportunities. The subdivision of the regions helped to further the redistributive characteristic of the programme. By making the programme more sensitive to the concerns and needs of smaller regions, it distributed benefits to more workers (seasonal workers) especially in high unemployment areas.

Statistics presented in chapter two suggest that, on average, workers in Newfoundland remain unemployed longer than workers in Ontario. However, as we pointed out, it is rather difficult to assess the accuracy of these statistics for a variety of reasons presented in the chapter. Nonetheless, one argument which can firmly be brought forth is that of the greater importance of seasonal industries in Newfoundland than in Ontario and its impact on the length of unemployment (and employment) spells.

Some researchers claim that extended benefits are crucial since they allow unemployed workers in high unemployment regions the necessary time to find suitable employment. The argument is that a high unemployment rate would indicate greater difficulty in finding employment. However, we would tend to disagree for two reasons. First, extended benefits were implemented to maintain the income of seasonal workers during the winter months, not to offer unemployed workers in general more search time. Second, these seasonal workers are mostly expected to return to their seasonal job once the winter season is over.

It is also assumed that where the rate of unemployment is high, a greater number of individuals will become unemployed. Statistics presented in chapter two indicate this situation. However, the higher number of seasonal workers in Newfoundland than in Ontario will inevitably lead to a higher incidence of unemployment. In their report, Soboda and Munro (1986) would seem to ignore this fact as they conclude that extended benefits are required simply because the incidence (and duration) of unemployment is higher. From this, we might conclude that Newfoundland's higher unemployment rate is in part caused by its dependence on seasonal industries (May and Hollett, 1986).

The role regional characteristics have on labour activity was examined as well. It was argued that the programme, as it stands today, contributes to higher unemployment rates because of its generous provisions for seasonal workers. Because the benefit system is biased toward spells of

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short-term employment and because the premiums are not related to layoff patterns of seasonal industries, unemployment insurance gives Canadians an incentive to seek employment in seasonal industries; an incentive which would not exist under a scheme based more purely on insurance principles. It was estimated (Maki, 1977) that the regional characteristics of the programme keep unemployment rates high in high unemployment regions. Furthermore, as Courchene (1987) argued, unemployment insurance subsidizes seasonal industries at the expense of more stable industries by encouraging layoffs rather than reductions in working hours. It is also likely that, in some areas, there will be community pressure on individuals to quit work or accept unemployment insurance after ten weeks of employment in order to provide work, and therefore unemployment insurance support, for other members of the community.

Although many Canadians may disapprove of such activities, it is important to emphasize that the behaviour of seasonal workers is entirely rational. The problem lies not with the individuals who decide to take advantage of the incentives of the programme but rather, the problem lies with the incentives themselves embodied in the system.

The goals of a regionalized unemployment insurance programme are two-fold: to serve as a source of income for seasonal workers as well as to redistribute income between regions. It has been shown, in chapter three, that Newfoundland benefits highly from the programme. Extended benefits account for more than forty percent of all benefits. Had they had not been in existence, Newfoundland might have still received net income but certainly, at a lesser degree. In chapter three, the aggregate demand effect of the increased income was analyzed. It was argued that the net income out of benefits, maintain unemployment rates lower in Newfoundland than those which would have been without the regional features, an argument which certainly contradicts those who suggest that the programme leads to higher unemployment.

Whether income redistribution should be a goal of unemployment insurance has been discussed as well. The problem with this approach, it is argued, is not that redistribution is an unimportant social goal but rather that singularity of purpose is best and that unemployment insurance is simply a very poor instrument for achieving such a goal. As the MacDonald Commission (Canada, 1985) stated: "to change the UI system along these lines would be bound to interfere significantly with the social insurance objective which should be the primary focus of unemployment insurance" (p. 602).

The Commission of Inquiry on Unemployment Insurance (Canada, 1986) states furthermore, that unemployment insurance should not serve as a source of income support because the history of the programme suggests otherwise, that its history suggests that regional extended benefits should not be a part of the present legislation. We do not wish to discuss whether the programme should or should not be an income support scheme, that is best left to an individual's own views on the issue. However, we would like to comment on whether, historically, regional extended benefits should be a part of the present structure of the programme. Contrary to the Commission's statements, historically, extended benefits should indeed be a part of the present programme. Viewed as a regional programme, extended benefits were part of a continuing regionalization process which spanned almost 30 years and were aimed at dealing with the concerns of seasonal workers as they became unemployed. Extended benefits are a simple extension of this process. To say that extended benefits should not be part of the present programme is to say that the Unemployment Insurance Programme should not deal with seasonal unemployment. Moreover, it has become somewhat impossible to maintain the strict insurance nature of the scheme while at the same time displaying signs of regionalization.

Those who oppose the use of unemployment insurance for either income maintenance or redistribution have presented numerous proposals for reforms. Some analysts have argued in favour for "experience rating", that is, the gearing of unemployment insurance premiums to the likelihood or risk of layoffs.²⁰ Indeed, the Macdonald Commission (Canada, 1985) asserts that it "views experience rating as a most important change that should be made to Canada's existing UI system" (p. 611). Courchene (1987) suggests that it is possible to introduce experience rating while at the same time, maintaining the bias in the present system toward rewarding short-term employment. He suggests, perhaps, the requirement of three weeks of employment for each week of benefits.

The data presented throughout this thesis would suggest two things. First, a regionalized unemployment insurance programme serves as income maintenance and redistribution amongst Canadian provinces. Second, these same regional incentives in the programme do influence the pattern of

²⁰ See, for example, Kesselman (1983), Carmichael (1984) and Cousineau (1985).

benefits as well as interprovincial differences in unemployment rates. The degree with which they affect the unemployment rates, however, remains obscure.

There is no doubt that unemployment insurance plays a key role in the economic life of many of the poorer provinces, such as Newfoundland. Because of this, policy makers have to be very careful when making recommendations for reform. In particular, a few concerns appear uppermost. First, as stated above, the problem should not be viewed as reflecting in any way on the character or behaviour of the claimants. Claimants respond rationally and legitimately to the incentives embodied in the present programme. Second, any changes should be introduced gradually due to the social and political sensitivity of the issue. We are certain that the regional provisions of the programme could certainly be achieved through more effective means, however, the main problem with reform will always be the public's perception that the Unemployment Insurance Programme has become a sacred Canadian institution. It would seem that social and political interferences has once again distorted economic logic and rationality.

It would be interesting to see how further changes and amendments will affect the programme and whether the regional components will be preserved. The present amendments brought forward by the Mulroney government is indeed facing difficulties from the Opposition parties as well as the Canadian Senate, proof that reform is proving difficult.

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