GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN THEORY AND PRACTICE: CANADA, 1940-80

Miles R. Corak
Department of Economics
McGill University
Montreal, Quebec
November 1985

A thesis submitted to the
Faculty of Graduate Studies and Research
in partial fulfillment of the requirements
for the degree of Master of Arts

ABSTRACT

The present thesis examines the nature of government payments to the unemployed. Two alternative frameworks are assessed: an insurance model, and a public income transfer model. The former is considered not to be an accurate conceptualization of government payments to the unemployed because of the restrictive assumptions it makes with regard to the nature of unemployment. The latter recognizes that unemployment is not an insurable risk and is, therefore, deemed more appropriate as a framework for policy discussions. The evolution of the Canadian program is sketched from the perspective of the transfer model. When it is recognized that government payments to the unemployed are transfer payments in each of a succession of time periods not only can the dynamics of institutional change be understood but new avenues for empirical research are also opened.

ABSTRAIT

La présente thèse examine le charactère des versements gouvernementaux payés aux personnes qui sont en chômage. Elle évalue deux modèles alternatifs: un modèle d'assurance, et un modèle qui transfère le revenu public. On ne considère pas que le modèle d'assurance reflète précisément les versements gouvernementaux payés aux chômeurs à cause des suppositions restrictives qu'il fait quant au caractère du chômage. Par contre, le modèle basé sur un transfer du revenu public reconnaît que le chômage n'est pas un risque assurable qui peut s'assurer et on le juge donc un modèle plus approprié comme base de discussions de politiques. La thèse trace l'évolution du programme Canadien en utilisant le modèle qui transfère le revenue. Lorsq'on reconnaît que les versements gouvernementaux aux chômeurs sont des versements transférés dans chacune d'une série de periods de temps, non seulement peut-on comprendre la dynamique des changements institutionaux mais aussi peut-on découvrir de nouvelles avenues pour des recherches empiriques.

ACKNOWLEDGEMENTS

I wish to acknowledge with gratitude the assistance I received in preparing this thesis from my supervisors, Professors Ingerman and Soderstrom. Professor Ingerman provided me with much needed encouragement during the early stages of preparation, and with constructive criticism once the manuscript took form. Professor Soderstrom's criticism of the penultimate draft was particularly detailed and helpful in improving the quality of the final product. I should also like to thank Ms. S. Pelton for typing the entire work with great efficiency. The responsibility for the writing of the thesis, and for its contents is mine alone.

TABLE OF CONTENTS

Chapter 1
THE ECONOMIC EVALUATION OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED

Government payments to the unemployed, commonly referred to as unemployment insurance, have become the subject of an entire stream of economic research. The Canadian program has been no exception to this rule. Much of the economic debate has been concerned with the effects of such programs upon the unemployment rate. Such research equates, either explicitly or implicitly, the possible work disincentive effects of these programs with the problem of moral hazard experienced by private insurance schemes. Just as the purchase of insurance may render an individual less cautious in preventing the contingency insured against, so with the provision of "unemployment insurance" and the occurrence and duration of a spell of unemployment.

Yet, little attention has been given to the appropriateness of the insurance model as an overall framework for research. Some analysts explicitly suggest that it is valid.(1) Others note that the program is something other than insurance, and that their analysis of its disincentive effects is not intended as an overall evaluation.(2) Some researchers have gone so far as to suggest that the program has deviated from insurance principles, but that the insurance model should be clung to in policy discussions as it provides a means of selling the program politically.(3)

All three of these tendencies are unsatisfactory. The lack of a developed conceptualization of the program's nature lends a bias to both research and to policy debates. For example, most of the research on the Canadian program has been concerned with its possible disincentive effects.(4) Little attention is paid to the program benefits. The reason for this may in part be due to the fact that the insurance model suggests that the benefits are to be considered as the increase in individual utility that arises from the opportunity to avert risk. These benefits are inherently unquantifiable and as such cannot be compared with estimates of program costs.

Furthermore, exclusive concern with the possible disincentive effects cannot provide an indication of the program's impact on the unemployment rate. The program would have to be modelled in a macroeconomic context and its consequences for aggregate demand assessed.(5) An insurance conceptualization of the program's nature does not foster such a perspective.

The absence of an overall framework also influences the direction of policy. The implicit use of an insurance model focuses the policy makers'attention on the trade-offs between maintaining the incomes of the unemployed and increasing the unemployment rate. Consequently less attention is directed towards a program design that may not imply a trade-off. For example, benefits to the unemployed could be increased without concomitant increases in the unemployment rate if program financing was structured to enhance its macroeconomic stimulative effects.

There exists, therefore, a need to examine the nature of programs commonly referred to as "unemployment insurance". Indeed, the neutral phrase "Government Payments to the Unemployed" is used in the title of this work because the nature of these payments is open to dispute. Can such programs be accurately described as insurance programs? This thesis answers the question in the negative. The insurance model is developed and its assumptions are made explicit. It is shown that unemployment is not an insurable risk. Government payments to the unemployed are not concerned with the intertemporal allocation of income as an insurance program is. They are transfer payments within each of a succession of time periods. This is illustrated in theory, and by appealing to the actual operation of the Canadian program. An alternative model that considers such programs as public programs of income transfer is a more accurate conceptualization and a more fruitful framework for research and policy.

Chapter 2 provides a discussion of government payments to the unemployed at the theoretical level. Insurance principles and their significance for the economic evaluation of such programs are outlined and a model of government payments to the unemployed as insurance is presented. Particular attention is paid to the model's assumptions. Their relevance is brought into question by an assessment of the extent to which unemployment may be considered an insurable risk. An alternative model that more realistically incorporates the nature of unemployment is then outlined. This income transfer model focuses the analyst's attention upon the redistributional nature of unemployment payments.

The development of the Canadian scheme is sketched in this light in Chapters 3 and 4. The former deals with the period up to the late 1960's, and the latter with the post 1970 era. Several related themes are developed. These chapters outline the tensions between the original insurance-type program structure of 1940 and the objective of maintaining the incomes of the unemployed. Issues concerning program coverage, benefit structure, and financial aspects are focused upon. The gradual abandonment of insurance-type features lends support to the view that unemployment payments are addressing a collective problem of income distribution. The program cannot be considered as an insurance program.

An attempt is also made to chart the dynamics of institutional change. If the program's structure has not been determined by insurance principles, what are the factors that do determine it? The insurance model has in fact influenced program structure. This is not because it accurately conceptualizes the program's nature but because it represents a rationale for a particular distribution of program costs. Other forces influencing program structure are also outlined. These can be categorized into two broad groups: the nature of social values, and the prevailing economic conditions. The government's understanding of the program's nature and its interpretation of unemployment are a reflection of the former, while the government budget constraint provides an indication of the latter. It is difficult to disentangle the impact of these influences upon the structure of the Canadian program. Nonetheless, the legislative evolution of the program makes clear that in particular periods one or the other of the factors was crucial in determining program structure. The division of the historical review between Chapters 3 and 4 is intended to facilitate the analysis of these forces.

The final chapter provides a summary. It suggests possible avenues for further research that follow from the alternative conceptualization of the program's nature.

Chapter 2
THE NATURE OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED: A THEORETICAL PRIMER

2.1 INTRODUCTION

The principles of insurance have been an important theme in the design and evaluation of government payments to the unemployed. Indeed, they were central to the development of the Canadian program during the 1930s and 1940s. Many aspects of program structure were designed in terms of them. For example, speaking of the extent of program coverage A.D. Watson, chief actuary of the Department of Insurance, stated that:

> [t]he inclusion of non-industrial employments within a scheme of unemployment insurance, on the grounds that the risks would be reduced and the fund strengthened, is not a valid approach.... To require a contribution from persons so employed would come to be regarded as a tax rather than an insurance contribution. This would seem to import the idea of taxation into a scheme that ought to be one of insurance, and would be liable to end in changing the scheme to a social service... (1)

The concern of the present chapter is the theoretical analysis of government payments to the unemployed. How have economic models conceived the nature of the program, and what are their implications for program structure?

Two alternative frameworks are examined. The first arises from the insurance literature, and interprets government payments to the unemployed as indemnities. The chapter first sketches the basic elements of insurance and then presents a model of government payments to the unemployed as insurance. The assumptions of this approach are detailed, and their relevance is questioned. It is argued that unemployment cannot be considered an insurable risk, and that an alternative interpretation of the nature of government payments to the unemployed may be appropriate. A model of the program as a public program of income transfer is then presented.

The policy implications of both models are examined in the final section of the chapter. The insurance model has important implications for the extent of program coverage, the benefit structure, and the financial structure. The policy implications of the public transfer model differ in many respects from those of the insurance model. A sketch of a hypothetical program based upon each of these models is provided in order to illustrate these differences.

2.2 GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN THEORY

2.2.1 The Insurance Model

The exposition of ideal insurance is usually given within the framework of the VonNeumann-Morgenstern cardinal utility construct. A risk averse individual is assumed. The individual attempts to maximize the expected value of a utility function characterized by diminishing marginal utility. Such an individual prefers the certainty of a particular level of income to a probability distribution that has an equivalent income level as a mean.(2) The individual would be willing to pay a fixed amount that can be budgeted for to alleviate the anxiety of facing the risk of a possibly large loss in the future.

It is risk that makes insurance desirable and possible. Risk is uncertainty concerning loss: it is the standard deviation about a given relative frequency, the chance of loss. Insurance is a means of reducing risk. It operates by pooling a large number of homogeneous individuals and in so doing makes the individual losses collectively predictable. This is a result of the law of large numbers. The predictable loss can be shared proportionately by all members of the group. Under insurance, risk is reduced and losses are shared. It allows the individual to substitute a small definite cost, the insurance premium, for an uncertain but possibly large loss. Those members of the group who by chance escape the loss maintain the few who experience it.

The premium the individual pays is equivalent to the expected loss. Actuarial soundness refers to the equality between the ratio of expected benefits to premiums, and the probability of loss. It implies that there is no ex ante redistribution. Further, over many time periods there need be no ex post redistribution as the individuals all face the same probability of loss. Given the assumptions of risk aversion, the individual's utility is increased as a result of the availability of insurance.

In theory, individuals will fully insure themselves against a loss; in practice there are a number of reasons why premiums may not be actuarially fair. They all imply that the benefit premium ratio will be less than the actuarially fair ratio. The most obvious reasons for this are administrative costs and an allowance for profits. Another concerns the fact that the law of large numbers leads to a perfectly predictable result when the number of individuals grouped approaches infinity. In actual fact the pooling of risk never goes to infinity. Notwithstanding these facts the individual will continue to have a preference for an actuarially unfair policy "that is not too unfair."(3)

In an article entitled "Unemployment Insurance as Insurance for Workers", Martin Neil Baily develops a model that interprets government payments to the unemployed as a program of insurance.(4) He states that:

> [t]he most obvious benefit of UI is surely its insurance feature. Most people are, after all, willing to purchase insurance against the probability of a loss of income or wealth.... The loss of income from a spell of unemployment may be quite substantial and we would therefore expect workers subject to unemployment to experience a gain in welfare from the provision of income insurance.(5)

Baily's policy concern is the appropriate benefit level. He develops a two period model in which workers are employed in the first period and face an exogenously given probability of being laid off in the second. "[C]onsumption is taken as the only argument of a worker's strictly concave three-times differentiable utility function."(6) The worker in question is defined as a "single representative worker...so that differences among workers are ignored."(7) Firms are not considered in the model. The only other actor is a government that plays the passive administrative role of setting benefit and tax rates so as to balance the UI account.

Following Baily's notation, α is the probability of being retained in the second period while $(1-\alpha)$ is the probability of being laid off. As stated α is given and considered fixed throughout the analysis. For a worker who is laid off $(1-\beta)$ represents the fraction of the second period spent unemployed while β is the fraction employed at a new job. Baily defines y as the wage income from the original employment of period one and y_n as the income from the new job if the worker is laid off and then re-employed. "The wage income y_n that the worker is willing to accept is then a decision variable with an impact on the duration of unemployment."(8) It is, in other words, the acceptance wage of search theory. Finally, he lets c represent the intensity of search and claims that it measures the cost of search when expressed in income units. How this is done is left unclear.

In terms of this notation Baily assumes equation (1):

$$\beta=\beta(c,y_n), \quad \delta\beta/\delta c > 0, \quad \delta\beta/\delta y_n < 0 . \qquad (1)$$

The fraction of time spent re-employed after a lay off in the second period is some positive function of the intensity of job search and some negative function of the acceptance wage. Both of these variables are determined by the discretion of the worker. It follows that the length of an unemployment spell is a choice variable negatively related to the search intensity and positively related to the acceptance wage. A job is always available to the worker if he or she looks hard enough and asks a low enough wage.

There is no UI fund in the model. Baily employs a tax upon workers to generate the revenue necessary to pay UI benefits. However, the operation of the tax makes it equivalent to a fund. The government budget must be balanced: there is no scope for the accumulation of deficits or surpluses. Firms and governments do not make any contributions to UI revenues.

The model proceeds as follows. If t is the rate of UI tax on wage income then the total tax raised per worker is $(yt + \alpha yt + (1-\alpha)\beta y_n t)$, that is, the amount raised from first period income, plus that in the second period given absence of lay off and given lay off followed by re-employment in a new job. The level of expected UI benefit payments per period is b so that the average rate of benefits is $(1-\alpha)(1-\beta)b$: the product of the probability of lay off, the fraction of the second period unemployed and the per period benefit level. Given that benefits paid must equal tax revenues the UI budget constraint is given by:

$$yt + \alpha yt + (1-\alpha)\beta y_n t = (1-\alpha)(1-\beta)b. \qquad (2)$$

The ratio of benefits to the tax rate, the crucial variable of the insurance literature is:

$$\mu = \frac{b}{t} = \frac{[(1+\alpha)y + (1-\alpha)\beta y_n]}{(1-\alpha)(1-\beta)} . \qquad (3)$$

This equation implies that the benefit - tax ratio depends upon the decisions of workers. In the author's own words:

> [t]he most obvious and substantial cost of UI derives from the tax that is levied to pay for the program. Workers cause an increase in the tax needed to finance a given UI benefit level by prolonging the duration of their unemployment; thus the incentive effect of worker's search is important.(9)

The analyst is thus directed to the study of the extent of the disincentive effects of the program.

The author expresses a two period expected utility function. Its arguments include the utility derived from first period employment income less UI taxes and savings, the net income of second period employment plus savings given a lay off or not. The social optimum is claimed to be found by maximizing this utility function with respect to search intensity, saving, employment income from new jobs after lay off, the average rate of benefits and the tax rate.

Given this framework the actual workings of the model are described as follows. The workers determine their search intensity and acceptance wage by taking the prevailing UI benefit and tax rates as set: in other words, with the stated utility function s (saving), c , y_n , are chosen and t and b are taken as given. The program of benefits effects behaviour. Taking t and b as predetermined implies that search intensity is lowered and the acceptance wage is increased beyond their levels in the absence of a UI program. Since t reduces employment income and b reduces the costs of unemployment the duration of unemployment is increased. The policy maker sets b and t exogenously subject to equation (2), the UI budget constraint, and the behaviour of workers.

Baily's policy concern is the setting of the appropriate benefit level under circumstances in which the individual has some control over the duration of a spell of unemployment: that is, with the optimal benefit level in the context of moral hazard. Baily clearly intends the model to be a guide for policy. He goes through the exercise of establishing values for the crucial parameters by reliance on ad hoc assumptions for changes in consumption, the degree of relative risk aversion, and upon a consensus of published studies for the elasticity of unemployment duration with respect to benefits.

The novelty of his model is that he has placed the concern over possible disincentive effects that has characterized much of the literature into an overall framework that claims to incorporate ~~the~~ benefits of insurance. In doing so, he has suggested that unemployment may be validly interpreted as an insurable risk. If the insurance model is to be an appropriate framework for the analysis of behaviour under less than perfect information certain assumptions regarding the nature of the individuals involved and the nature of the probability of loss must be made. In the most strict of cases four assumptions must be confronted. It is not self-evident that the nature of unemployment conforms to these assumptions. Unemployment, in other words, may not be an insurable risk. This implies that an insurance model of government payments is not an appropriate framework.

The four assumptions that underlie a model of insurance are: (1) the probability and magnitude of loss are independent of any actions taken by the individuals insured; (2) the probability of loss faced by each of the insured individuals is the same; (3) the probability of loss is not correlated between individuals; (4) the probability of loss can be accurately calculated <u>ex ante</u>. Some of the problems that may arise should these assumptions not be valid can be dealt with in practice by the development of particular structures in the actual insurance program. In other cases, however, the applicability of the insurance framework is brought into serious doubt. Use of the insurance model focuses the analyst's attention upon problems that can be dealt within it, but it also causes the analyst to abstract entirely from those that it cannot address.

The problem of moral hazard is an example of the former. More often than not, it is invalid to assume that the probability and magnitude of loss are out of the control of those insured. This fact leads to the well known problem of moral hazard: actions that would have been taken to prevent the loss from occurring, or to limit its extent may, after the individual is insured, not be taken. The calculations of the expected loss made by the insurer are, as a result, invalidated.

Insurance against unemployment, in particular, may dull the individual's incentive to prevent its occurrence. The possibility that an individual may be voluntarily unemployed always exists. Economists and program designers have been greatly concerned with this issue. Moral hazard was at the center of the Unemployment Insurance Commission's view of the Canadian program during its formulative years.

> Insurance ought to provide against the unforeseen, against the abnormal, not what is normally to be expected.... It is important that any plan of insurance should be so constructed that the insured person may have some definite interest in avoiding claims, if he has control over the events insured against. Otherwise the moral hazards will be high. And so under unemployment insurance, the exclusion from benefit of some short period on each separate claim tends in the right direction and is a sound insurance device.(10)

Deductibles that shift part of the cost of unemployment upon the individual, such as the waiting period before benefits begin, were and remain prevalent aspects of the program. This same notion of moral hazard provides an underpinning of many empirical and theoretical analyses conducted by economists.(11) Baily's concern, for example, is exclusively with the optimal co-insurance rate.

Baily, however, does not address the appropriateness of the assumptions required to interpret unemployment as an insurable risk. In actual fact the possibility of unemployment is not a risk that is spread homogeneously across the population. A model of ideal insurance assumes that a large number of identical individuals are pooled. The individuals are identical in that they all face the same probability distribution. The pooling of unequal risks will imply a transfer from the relatively low risk individuals to those in the high risk category if the same premium is charged to all. The low risk individuals would be paying actuarially unfair premiums. These individuals would either withdraw from the market, or their demand for insurance would be met at actuarially fair premiums by a competing insurance firm. In the former case only high risk individuals would remain in the market and the provision of insurance would require increased premiums. If this group is a low-income group the required premiums may not prove to be economically feasible. This may also be the result in the latter case. Private organizations may not be able to provide insurance to all groups.

If individuals can be distinguished by their susceptibility to unemployment, and if those facing a high likelihood of experiencing a spell of unemployment have low incomes, then the design of a program of payments to the unemployed must address issues of income distribution. Structuring such a program under insurance principles must imply either the exclusion of broad categories of individuals and regions, or a differentiation of premium rates according to the various probabilities of being unemployed. If an insurance-type program encompassed only the low risk group, a large sector of the population would be left without income protection; if premiums were differentiated according to individual risk they may prove to be too great relative to the income of some and make coverage economically unfeasible. A pillar of Baily's analysis is the notion of a representative worker. How this entity is to be constructed is not an issue that is addressed. It is a construct that allows the author to consider all individuals as identical.(12) Issues of redistribution cannot enter the model.

The theory of insurance also assumes that it is unlikely that a loss will affect a great many individuals at the same time. This implies that not only are the losses spread evenly across the group, but also that the probability of loss is independent between individuals. An insurer is not able to insure a type of loss likely to occur at the same time to a large percentage of those exposed to it. The premiums required by actuarial soundness may be uneconomical.

In particular, probabilities of unemployment are correlated. Cyclical downturns affect many different groups simultaneously and without discrimination. Two authorities in the insurance field have remarked that:

> [i]ndividuals with secure jobs would be poor prospects for unemployment insurance. Prospective customers would be only those feeling insecure in their employment. During a business recession many of them would lose their jobs at the same time. Through insurance the unfortunate few who lose are indemnified by the fortunate many who escape loss. If the many suffer the loss, the few would prove inadequate to indemnify them properly, except at an uneconomic premium.(13)

Baily's interpretation of the probability of unemployment does not recognize this possibility. He speaks of an exogenously given probability that is faced by all workers. Although layoffs are supposedly involuntary the model invokes a search theoretic framework: a job always exists in some location at some wage rate. The problems of involuntary and interdependent transition probabilities that change with the cyclical state of the economy do not occur.

It should be noted that the problems of heterogeneous and interdependent probabilities do not necessarily invalidate the appropriateness of the insurance model. Institutional structures such as community rating are a response to the difficulties they may pose. Community rating involves the pooling of heterogeneous groups, and the charging of a single premium rate. It becomes apparent, however, that the need for mechanisms of this sort necessitates a policy towards issues of income distribution, and brings into question the universal validity of actuarial soundness as a criterion for the evaluation of program structures.

The use of an insurance model to conceptualize government payments to the unemployed is open to more severe criticism when these two difficulties are examined in conjunction with the fact that economic activity takes place within the context of uncertainty. The insurance model requires that a distinction be made between risk and uncertainty, or in the words of some, static risks and dynamic risks.(14) The model of insurance assumes that the probability of loss can be calculated. Such calculations may be based either upon logic, or determined empirically by the use of a projection of past experience. In practice the opportunity for logically based calculations is rare. Insurance is more often based upon an empirical calculation of probabilities. There are, however, many circumstances that cannot be handled in such a manner either because of the paucity of accumulated data, or because past experience cannot provide a guide for the future. The term 'risk' is often restricted to circumstances in which future probabilities can be calculated, while 'uncertainty' refers to those for which there is no basis to make such a calculation. Risk is insurable; uncertainty is not.

The likelihood of unemployment is an uncertainty and is related to the dynamics of the investment process and government policy, both of which are not predictable. The current vogue in economic research of unemployment entails the calculation of probabilities of an individual being in and moving between various labour market states. These calculations cannot provide the basis for probabilities in the insurable sense. They are <u>ex post</u> probabilities that cannot serve as a guide to the future because of their relative instability. The risk of unemployment is a dynamic risk that cannot be incorporated into an insurance program.

Baily does not address the problems of calculating the probability of lay-off. This probability is exogenously given and assumed to be known by all actors in the model. In reality it is an unknowable and as such invalidates the insurance framework. In cases where the party responsible for the occurrence of the contingency is identifiable the appropriate principle is not insurance, but compensation.(15)

Finally, it should be noted that a perfectly predictable event, one entailing no risk, has no place in an insurance scheme. This implies that there can be no justification for the coverage of the seasonally unemployed in a program operated under insurance principles. Insurance is of value in the context of decision making under uncertainty. A worker in a seasonal industry that knows that unemployment will occur at some point in the future faces no anxiety of risk. Baily, in fact, notes that his model is

> aimed primarily at workers in industries where downturns occur unexpectedly and result in layoffs after which workers search for new jobs.... Firms with frequent and predictable fluctuations in demand, perhaps seasonal, are in a somewhat different situation, and the case for insurance in such firms is rather weak.(16)

Insurance is only applicable in the context of static risks. Uncertainty and certainty have no place in an insurance scheme. The seasonally unemployed are not a category that should be covered as they are able to predict with certainty that they will be unemployed. Baily is suggesting that they therefore can provide for consumption during unemployment by saving part of their current period income. This ignores the possibility that employment income may not be great enough to allow for any substantial amount of saving. Furthermore, it ignores the fact that the future value of saving is rendered uncertain because of inflation.

Baily, in conclusion, develops an insurance conceptualization of government payments to the unemployed by abstracting from important aspects of reality. Prime among these aspects are the issues of heterogeneous workers, interdependence and uncertainty of employment probabilities, and the logic of maintaining the incomes of the seasonally unemployed.

The construct that in part permits this abstraction is the notion of a representative worker. Further implications of this notion derive from the utility function that is incorporated with it. What is labelled as an individual utility function also comes to play the role of a social welfare function. The latter is simply the individual function writ large. Although the analysis deals with social optimality, social relations are abstracted from by the use of a representative worker. This leaves the logic of the government and its information set in an awkward situation. In fact, since there is no reason to suppose that government has the requisite information, Baily's model cannot provide a rationale for the government operation of unemployment insurance programs. The private sector could operate the program on the same terms.(17)

The challenge posed to those who would construct a theoretical model of government payments to the unemployed is to incorporate the actual nature of unemployment, including the issue of a social welfare function into the analysis.

2.2.2 The Public Transfer Model

Writing in regard to public pension plans, Asimakopulos has stated that

> [c]onsiderations of equity and economic conditions are both involved in the formulation of the provisions of public pension plans. It is the dissatisfaction with the economic position of one group, which is no longer a participant in economic activity, relative to that of another group whose

> share in current income is protected by its participation in economic activity, that provides the motive force for such plans. A pension law taxes the latter group to provide income for the former. The rate of taxes levied and the size of transfers paid depend upon the value judgements made about the relative consumption of these two groups and upon the net effects of alternative rates of taxation and transfers on these groups.(18)

It is the argument of the present section that it is reasonable to cast government payments to the unemployed in such terms. Payments to the unemployed are transfers from income earned in the prevailing time period to those without employment. They are not a form of savings, nor are they an indemnity drawn from an insurance fund. The basis for these payments is a set of value judgements that concern the relative earnings of those unemployed.

In this model workers, firstly, are defined according to their susceptibility to unemployment.(19) In the simplest of cases two classes of individuals may be defined: those who are unemployment prone, and those who may never experience a spell of unemployment during their working lives. The model, as such, rests upon a conception of the labour market as segmented.(20) The dimensions of this segmentation may be many: age, sex, occupation, and region all suggest themselves. In reality unemployment is concentrated among particular groups. If the model is to capture this fact a representative worker should not, indeed cannot, be constructed.

The nature of the probability of unemployment must also be considered. Unemployment, in reality, is a dynamic risk. Introducing uncertainty into the analysis precludes the possibility of calculating an <u>ex ante</u> probability for insurance purposes.(21) Unemployment strikes some more than others. Those susceptible to it have no way of predicting its timing or severity. This implies that individual saving is an inefficient method of sustaining a future spell of unemployment. Indeed, the individual does not possess information regarding the amount of savings required. Furthermore, unanticipated inflation renders its future value uncertain. Finally, employment income may not even be great enough to allow for any substantial amount of saving if those prone to unemployment are low income earners.

In addition to not being predictable unemployment probabilities are interdependent. In conjunction with the above reasoning this fact would render private or group insurance plans ineffective in maintaining the incomes of the unemployed. The simultaneous demands of many upon the accumulated funds of the insurance scheme would threaten its solvency. The government is the only organization capable of operating a program of income maintenance for the unemployed. Government authority renders the program compulsory and allows, thereby, the pooling of heterogeneous individuals. The government's ability to tax allows transfers to be effected between individuals in order to maintain the incomes of those suffering a spell of unemployment. It is not the existence of a fund that renders government programs solvent. The state's guaranteed existence, and its ability to ensure compliance make it the only organization capable of maintaining the incomes of the unemployed. Government payments to the unemployed are transfer payments in each of a succession of time periods.

It may perhaps be instructive to compare this view of government payments to the unemployed with the model of public pension plans developed by Asimakopulos and Weldon.(22) The similarities between the two programs underscores the more fundamental distinction being made between insurance schemes and public programs of income transfer.

Asimakopulos and Weldon draw a distinction between public and private pension plans.

> By a "pure government" pension plan we mean a scheme whereby government exercises its command over goods to provide income for pensioners and instructs successor governments on the rules to be used in determining future pensions. By a "pure private" pension plan we mean a scheme in which payments come only from capital that has been specifically accumulated, in one form or another, by or on behalf of an individual. The definitions are based upon differences between social and individual methods of providing pensions. Government has the power to tax and use the revenue for pensions, while an individual can, on his own, provide for his retirement only through savings built up during his working life.(23)

A pure public pension plan is the result of the application of a social welfare function to the prevailing economic circumstances. Transfers are used to produce a distribution of income between different social groups, those employed and those retired, that is considered more appropriate than the situation that would prevail in the plan's absence. "[T]he basic principle of the pure [public] plan is that payments are transfers."(24)

Public pension plans are a social response to the inadequacy of private arrangements in maintaining the living standards of the aged. Private mechanisms proved inadequate for a number of reasons. The incomes of the aged during their years in the labour force may not have been sufficient to provide for an appropriate level of savings. This problem is compounded by the spread of industrialization and the consequent deterioration of the extended family that originally provided the basis for intergenerational transfers. Even if savings could be accumulated their future value is an uncertainty. An individual is not capable of accurately predicting the length of retirement so that income requirements are not known during the years of labour force participation. Unanticipated inflation, furthermore, may threaten the value of savings in future periods. Finally, private arrangements cannot necessarily accommodate the desire of the retired for a particular relative standing in the income hierarchy. If population and productivity are increasing an individual's reliance upon savings in retirement may, depending upon the interest rate, imply a fall in income vis a vis the working population.

The model of a pure public plan recognizes the heterogeneity of the actors involved. Individuals are, in the very least, categorized by age. Furthermore, it is recognized that knowledge of the future is limited. The model operates within the context of an uncertain future: static risks and stationary states are not implied. Pensions, as a result, have nothing much to do with the future and should be examined in short-run terms.(25) Workers are aware of prevailing consumption possibilities but not those of the future period when they will retire. In the case of pure public pensions, where it is assumed that the consumption goods are non-storable so as to abstract from savings entirely, pensions can only come from government. The authors say in a footnote that they

> see "government" and "social welfare function" in much the same way. "Government" is the agency that acts in a collective way in a given period in terms of a particular social welfare function. In the next period there is a successor government that acts for the new distribution of persons in terms of a new social welfare function. No doubt there is great continuity in these things from one period to the next.(26)

Within the context of uncertainty it is out of the realm of the prevailing government's power and information to guarantee a particular level of retirement income to its workers. All that the government can do is redistribute current income to those presently retired and make the conditional promise to its workers that they will be treated accordingly. It can attempt to influence the decisions of its successor by honouring the promises made by its predecessor. It has no guarantee, however, that its promises will be honoured in turn as changing demographics, values, and economic conditions will influence its successors ability to act.

> Public plans are a means of effecting intergenerational transfers in <u>each</u> of a sequence of time periods.... The continuance of these plans depends on the ability and willingness of the governments in each of these time periods to raise the taxes to finance these transfers. The integrity of public pension plans thus does not depend in any way on the build-up or the existence of a fund out of which pension benefits are to be paid. This is a fundamental difference between these plans and private (nonfamily) arrangements for retirement income, which depend for their success on the build-up of a fund for the provision of income to the aged.(27)

By incorporating heterogeneous actors in the context of uncertainty this model resembles the formulation presented of government payments to the unemployed. Furthermore, it suggests that collective values and prevailing economic conditions may be important determinants of program structure. Retirement is an eventuality for all actors in the model. The fact that generations overlap entails an economic logic of the behaviour of successive governments. The currently employed support a public pension program because they expect to receive similar benefits in the future.

Initially one is tempted to adopt a similar reasoning in developing a model of government payments to the unemployed. A two period framework could be used to cast the program in the same mold as public pension plans.

Those employed during the first period would concede to the taxation of their income to support the unemployed because out of self-interest they would desire to obtain the same treatment in the second period should they be unemployed. However, while old age is an eventuality for all actors, unemployment need not be. A large percentage of the labour force may never experience a spell of unemployment. The basis in self-interest for a program of government payments to the unemployed is weak with the result that support for such payments is at best ambivalent.

One may argue that every individual faces the risk of unemployment to some extent.(28) Heterogeneity is a matter of degree. The risk may be very small for some groups but it is still present and provides, therefore, a justification of the program out of self-interest. Even though it is correct to suggest that unemployment is an ever prevalent risk that all actors face, differences in degree may lead to qualitative differences in behaviour. Behaviour towards very small risks may be distinguished from behaviour to large risks. Risks below a particular threshold may be ignored by the individual. Only once the threshold is passed do individuals recognize and act upon the risk's existence. The support for a program of government payments to the unemployed will be ambivalent. It may, in fact, vary with the business cycle depending upon how changes in unemployment influence expectations of the future. If the unemployment caused by a recession is great enough to affect all groups in society the low risk groups may reassess their expectation of experiencing future unemployment. Support for the program may, as a result increase during the recession. Cutbacks may be prevented or the program could actually be expanded even though the government's budgetary situation has deteriorated.

If such a reassessment does not occur program support may wither even though high risk groups require its benefits to a greater degree. Cyclical booms may, in a similar fashion, prompt decreases or increases in program support.(29)

A further argument in support of the hypothesis that there is a justification out of self-interest for government payments to the unemployed could be made. The unit of the analysis should be the family, not the individual. Within the family there are low and high risk individuals. The low risk individuals may agree to the taxation of their incomes since they know that the program of government payments to the unemployed will benefit, to some degree, other members of the family. Even if this view is valid the support garnered for a program of government payments to the unemployed would not be as great as that for public pension programs.(30)

The absence of a clear basis in self-interest for the support of government programs to the unemployed implies that it is important to view the social welfare function as embodying the preferences of the most politically powerful of the two social groups: the employed or the unemployed. The nature and extent of government intervention is influenced by the dominant value system of the time. Political institutions may influence the manner and extent to which these values are reflected in legislation. Both factors will influence the system of payments to the unemployed.(31) To the extent that unemployment is recognized as involuntary there will be a continual basis for the maintenance of the relative standing of the unemployed.(32) In this way a clear rationale is evident for <u>inter alia</u> the coverage of the seasonally unemployed. While such a system of income security may differ in some respects from a program of public pensions it does share the characteristic that prevailing economic conditions will influence program generosity.

2.2.3 Summary

This section presents two alternative models of government payments to the unemployed. It suggests that the assumptions required to invoke the insurance model do not accurately reflect the nature of unemployment. A model of government payments to the unemployed as a public program of income transfer may be a more appropriate representation of reality.

2.3 GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN PRACTICE

Each of the above models of government payments to the unemployed have implications for all major aspects of program design. These include the extent of coverage, the benefit structure (benefit eligibility, duration, and rates), the contribution rates, and the status of the fund.

Viewing a program of government payments to the unemployed as insurance implies that its structure can be determined by the dictates of actuarial soundness. The fact that unemployment is not an insurable risk, however, implies that insurance principles provide an incomplete guide for program design. Even when they are fully accepted there remains a great deal of discretion in the determination of the actual levels of the program's parameters. An interpretation of government payments to the unemployed as a public program of income transfer recognizes that the program's structure is designed in a fashion congruent with the social purpose of maintaining the incomes of the unemployed in accordance with the desire and ability of society to meet the costs. The political process remains an important determinant of program structure.

The following section sketches two hypothetical program structures. A narrow and tightly structured unemployment insurance program is contrasted with a potentially broader program of income transfer payments to the unemployed. These ideal types are described in order to provide a backdrop for interpreting the nature of the Canadian program and assessing the manner in which it has distributed the costs of unemployment: the topics of Chapter 3 and 4.

Insurance notions have implications for all major aspects of a program of government payments to the unemployed. The Unemployment Insurance Commission, for example, stated the principles of insurance appropriate for program design as follows:

> A plan of insurance must have an actuarial basis. There must be a definition of the risk 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 premium or contribution must be calculated which is needed to provide a fund sufficient to meet all probable claims.
>
> For an unemployment insurance plan to be genuine insurance, it follows that (1) the insured person, to have an insurable interest, must be subject to 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 the insurance contract.
>
> Under unemployment insurance, as regards (1), the contingency is loss of employment and the earnings therefrom. A person who is 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.
> The above is a brief statement of what is meant by "insurance principles" as that expression is used in connection with unemployment insurance. A scheme of cash relief for the unemployed which does not adhere to these principles is not insurance.(33)

Insurance is indemnity for loss, and unemployment insurance, in particular, is indemnity for loss of wages resulting from unemployment. "Where there is no insurable interest, there can be nothing at risk, no event which can cause a loss, and no basis for indemnity or for a lawful contract of indemnity."(34)

The issue of coverage is basic to program design. The fundamental insurance notion of indemnity of loss has direct implications for the extent of program coverage. In this regard, it has been stated that

> a man cannot be said to lose what he never had. It could not be held that if a man normally works from Monday to Friday he has suffered a loss of wages because he is not working (i.e. is "unemployed) on Saturday and Sunday. Similarly if he normally works from April 1 to December 1 and is normally idle the rest of the year, he cannot be said to have "lost" any wages from December 1 to April 1. It is true that he may need some outside assistance to enable him to tide over the idle period but this is not the concern of insurance and it would be a distortion of an insurance plan to provide such assistance under the guise of insurance.(35)

An unemployment insurance program should be concerned, therefore, with only that part of unemployment that is a contingency. Indemnity for loss implies that coverage should not encompass the seasonally unemployed. Likewise it implies that those not subject to unemployment be excluded from coverage. Furthermore, the model of insurance suggests that those covered all face identical probabilities of unemployment. Should these probabilities differ actuarial considerations require that contribution rates should be set accordingly. Contributions must be set according to expected benefits: they must be, to borrow an oft used phrase, "experience rated". In any case, certainties have no place in an insurance scheme. Those groups who regularly experience a predictable spell of unemployment as well as those who never experience a spell would be excluded from a program of unemployment insurance.

A public program of income maintenance, on the other hand, could be much broader in scope. In the limit it could be universal. Governmental authority that renders the scheme compulsory allows disparate risks to be pooled. The governmental monopoly eliminates any competitive pressures leading to the discrimination of risks and permits the making of transfers between them. The precise extent of coverage would not be a technical problem to be solved on the basis of actuarial criteria, but an aspect of social policy to be addressed in terms of the community's values and the economy's performance. As such, the seasonally unemployed and those not exposed to the threat of unemployment could conceivably be included in such a program.

Given the appropriate scope for the program, insurance principles suggest that indemnity should be paid only under particular conditions. In the case of unemployment insurance the individual must involuntarily lose the wages derived from employment, the insurable risk. The individual must also have made contributions to the fund at a rate and duration equal to expected benefits. The basic criteria for eligibility are defined in terms of unemployment as an insurable risk. These have been stated as: (1) the individual should be unemployed; (2) the individual should be capable of and available for work; (3) the individual should be unable to find suitable employment.(36) These criteria, however, leave many practical issues unresolved. On what basis can involuntary unemployment, which the program desires to insure, be distinguished from voluntary unemployment? How are capability and availability for work to be defined? What is to be considered as 'suitable' employment? Additional criteria based on administrative convenience and fairness must enter if a workable guide is to be developed.

As a result the appropriate eligibility requirements are open to different interpretations. A public program of income maintenance would not seek to justify such criteria in terms of insurable interest, but recognize them in terms of its social purpose. Eligibility criteria serve as a means of allocating costs and as a way of identifying those deemed by society to have the right to governmental assistance. In this respect one analyst has stated that

> the concept of insurable interest, if it can be said to exist at all in social insurance, is very different from that which underlies private insurance. In the latter, it is an <u>individual</u> concept: the rules are devised to eliminate those individuals who cannot be held to have an insurable interest in the risks insured against. In social insurance, as indeed the name of the institution suggests, the concept is <u>social</u>: the purpose of eligibility provisions is to limit payment to those whose needs create a social interest. This interest is twofold: to give some or all of the people a guarantee of income in a form that meets prevailing views of what is acceptable, and to do it in ways that minimize the adverse effects on the economy as a whole.(37)

Changes in eligibility criteria do not necessarily reflect changes in unemployment as an insurable risk. They are, rather, a measure of how the costs of unemployment are being distributed.

As concerns the relationship between benefit rates and duration, and contribution rates, the insurance model suggests the use of the principle of individual equity: the individual's expected benefits must equal the individual's contributions. As a result benefits and contributions must be closely tied at the individual level and cannot be altered independently. The benefit is received as a matter of right because of the payment of contributions. Only the individuals insured would be required to make contributions. Further, indemnity must be tied to the extent of loss. A fund of sufficient size must also be developed to ensure the ability of the insurer to fulfill its obligations to the insured. This requires a prediction of future unemployment and the setting of benefit and contribution rates so as to maintain the fund at an appropriate surplus.

In a public scheme the objective of income protection requires a concern for the economic well being of those covered by the program and a concern for the benefits and costs to the community. Benefit rates and duration would be determined by the social desire to maintain the relative economic position of the unemployed, and by the economy's performance. Precise benefit durations and rates cannot be determined by a ratio rule: a rule relating duration to number of contributions made. Furthermore, given the compulsory nature of the program, sources of financing may include not only the potential beneficiaries but also employers and general governmental revenues. Depending upon the interpretation given to the nature of unemployment, and prevailing economic conditions, benefits may be only loosely tied to individual contributions.

Actuarial soundness comes to mean not that expected benefits of each individual equal that particular individual's contributions, but that in a broad sense program income must equal, over some period of time, program expenditure. Given the compulsory nature of the program there is no need for a fund. The program's integrity is based upon the government's ability to tax and transfer income not from the extent of private or public saving. The precise benefit level and the allocation of costs are aspects of social policy open to political influence.

In terms of coverage, eligibility, benefit structure, contribution rates, and the need for and status of a fund, a program based upon insurance principles differs markably from one based upon public principles. The parameters of the insurance program have the appearance of being technically determined. The criterion of actuarial soundness offers precise rules to be followed. It is a narrow program including only those groups who face a predictable risk of unemployment. Expected benefits are closely tied to premiums and benefits are paid from a fund. The costs of unemployment are bore by those subject to it. A public program of income maintenance, on the other hand, need not be so tightly designed. Coverage, eligibility, benefits and contributions are all open to different assessments. The program's structure will vary with changes in such assessments and changes in the ability of the economy to bear the costs of unemployment.

The fact that unemployment is not an insurable interest implies that insurance principles cannot serve as a complete guide for program design even when they are explicitly adopted. The probability of unemployment is not out of the individual's control, it is not spread homogeneously and independently across the population, and it is not predictable. As a result concerns such as fairness, adequacy of support, as well as, issues of administrative necessity, must enter discussions of program design from the very start. The following chapter illustrates that with respect to the Canadian program insurance notions represent a particular stance upon how these aspects are to be interpreted.

Chapter 3
PUBLIC ASPECTS OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN CANADA: THE PRE 1971 PROGRAM

3.1 INTRODUCTION

The previous chapter illustrates the fact that unemployment is not an insurable risk. Government payments to the unemployed do not represent indemnities that must be structured in actuarial terms. They are transfer payments between groups in the prevailing period of time. It is the government's ability to tax and transfer income between heterogeneous groups that ensures the program's efficacy.

The two following chapters substantiate this point by reviewing the structure and operation of the Canadian program. The 1940 legislation and its development through the 1955 Act to the late 1960s is contrasted with the 1971 Act and its operation into the 1980s. Neither scheme operated as an insurance program. They are, nonetheless, distinguished by the degree to which insurance notions have influenced their structure. This fact leads to the second major theme of the chapters: the insurance model has been and remains an important influence upon program design not because it provides an accurate conceptualization of its nature and operation, but because it represents a rationale for a particular distribution of the cost of unemployment. It focuses attention upon issues of program abuse, problems of moral hazard, and the requirements of a fund. The resulting structure places the burden of unemployment upon the unemployed as opposed to society in general.

The structure of the program and changes in it are, in fact, a reflection of several factors. These include the government's understanding of the program's nature; its interpretation of unemployment; the prevailing economic conditions; and, derivatively, the government budget constraint. It is difficult to disentangle the impact of these influences upon the structure of the Canadian program. Nonetheless the legislative evolution of the program makes clear that in particular periods one or the other of the factors was crucial in influencing program design.

For example, the expansion of the original legislation from its narrow structure in 1940 occurred during a period in which the government held steadfastly to an insurance conceptualization of the scheme. However, the recognition of unemployment as an involuntary phenomenon, the relatively buoyant economy, and the need to fulfill the social purpose of maintaining the relative economic position of the unemployed all led to piecemeal expansion. The recession of the late 1950s and early 1960s underscored the involuntary nature of unemployment. It was, however, only with the submission of the Gill Committee Report of 1962 that an official reassessment of the program's nature was begun. The report, though eclectic, was the first official conceptualization of the program in terms other than that of insurance principles.

In the context of the high growth era of the 1960s it led to a philosophical re-orientation and a reassessment of how the costs of unemployment should be distributed. A major brake upon program expansion was thus removed. The 1970 White Paper developed the interpretation of the scheme as a transfer program and proposed a structure that shifted some of the costs of unemployment from the individual to society in general. Thus, all four factors played, at different times and to varying degrees, a role in program expansion.

Table 3-1

LEGISLATIVE EVOLUTION OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN CANADA

Year	Configuration of Causal Forces	Major Legislative Developments
1940		UI Act receives Royal Assent piecemeal expansion of coverage some coverage of seasonal industries
	insurance conceptualization unemployment as involuntary economic prosperity	
1955		New UI Act receives Royal Assent incorporation of seasonal benefits benefit expansion independent of contribution increases
	questioning of insurance conceptualization unemployment as involuntary economic recession	Deterioration of Fund Premium Increases
1962		Gill Committee Report Submitted
	questioning of insurance conceptualization unemployment as involuntary economic prosperity	
1971		White Paper on UI submitted New UI Act receives Royal Assent
	alternative conceptualization of program	program cutbacks
1975		eligibility, coverage, benefit rates
	unemployment as voluntary economic recession	
1981		Report of the task Force on Unemployment Insurance submitted

In a similar fashion these factors all influenced program cutbacks. Restrictions in the program's provisions may be the result of the feeling that its structure has deviated too far from its insurance principles: adherence to these principles becomes an objective in its own right. They may also be caused by a view of unemployment as a voluntary phenomenon, or if involuntary as a phenomenon that does not necessarily impose hardship because, for example, of the existence of multi-earner families. A deterioration of the economy that worsens the government's budgetary position may also prompt program cutbacks. In fact all of these factors, in some combination, influenced the cutting back of the 1971 program that began in 1975. Table 3-1 depicts, in summary form, the major aspects of the program's evolution.

The present chapter surveys the program's structure during the period the Government viewed it as an insurance program: the period up to and in part including the 1960s. During this era the program did not operate as an insurance scheme. Economic growth and the need to maintain the relative incomes of the unemployed led to piecemeal expansion. The interpretation of the program as insurance influenced its original structure and prevented broad reform.

An overview of the program's development is provided for the reader's convenience. The focus is then on the 1940 and 1955 Acts and the amendments to them. Particular attention is paid to the fact that the program, even from its origins, was not an insurance program. It was an income transfer scheme that placed the costs of unemployment upon the unemployed. The nature of the amendments to the original Act, how they redistributed these costs, and how they had little basis in insurance principles is then reviewed.

Chapter 4 is concerned with the changes in the Government's understanding of the program and its influence on program structure. During a period of economic growth this change led to broad reform; in the context of economic decay and increasing government deficits it led to cutbacks in the program's provisions.

The views of the Committee of Inquiry into the Unemployment Insurance Act are discussed. The Committee's report marks the beginning of an alternative interpretation of the program's nature. The philosophy of the 1970 White Paper and its reflection in the 1971 legislation is reviewed. The nature and development of this legislation contrasts with that of the 1940 legislation. The costs of unemployment were placed not on the individual, but on society in general. The deteriorating economic climate of the 1970s, however, ushered in a period of revisionism. Cutbacks in the program's scope in the 1970s are not a reflection of the government's attempt to institute an insurance program; they illustrate, rather, its attempt to redistribute the costs of unemployment.

3.2 THE LEGISLATIVE EVOLUTION OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED

3.2.1 Overview

When the Unemployment Insurance Act was given Royal Assent in August 1940 Canada became the last major industrialized country to have adopted such legislation. A program of payments to the unemployed had in fact been the subject of public discussion as early as 1919.(1) The long delay in the development and passing of the legislation was to a large extent due to the lack of political will of successive governments of both the federal Liberal and Conservative Parties.

Unemployment, even during periods as severe as the Great Depression, was interpreted by many politicians and participants in public debate as a voluntary phenomenon. Instituting a system of payments to the unemployed conflicted with the dominant values of the time.(2) Constitutional difficulties were not, as is commonly stated, the fundamental cause of delayed federal action.(3)

When a program of governmental payments to the unemployed finally did reach the top of the political agenda it was conceived of as an 'insurance' program. This notion was in congruence with the prevailing value system and as such was an important element in selling the program politically. Such a conceptualization of the program, however, restricted its relevance to the unemployed of the period, and further delayed its enactment.

An insurance-type program cannot, at the time of its enactment, serve the needs of those unemployed. It requires that those covered first make sufficient contributions to the fund. Further, coverage is restricted to 'good' risks and as such does not necessarily include those most vulnerable to unemployment. The basic need for a fund in an insurance program implies that instituting such a program when it is needed most, during periods of high unemployment, is not possible. One major reason for the timing of the 1940 legislation was the fact that it was believed that the relatively buoyant economy of the war years would allow the building up of a large enough surplus in the fund. The fact that this was not a possibility during the 1930s prevented the development of such a program when it was needed most.(4) Another reason for the timing of the legislation concerns the change in prevailing values caused by the war.

Politicians came to feel that the state would have to accept an obligation for the economic security of those who contributed to the war effort. The commonly held fear of a post war depression suggested to the minds of many that the return of the country's armed forces would hail a period of elevated unemployment. The state could not expect those who had sacrificed so much for the community to be left without a means of economic security. This view was spurred on by the fear of the political consequences of a high unemployment rate among such groups. Thus the Canadian scheme of "Unemployment Insurance" came into being in 1940, and began actual operation a year later even though the need for a program of income support had been recognized by some during the 1920s.

The original Act was based as closely as was practically possible upon insurance principles. Even with the original legislation, however, there were departures from these principles. Important features of program design were influenced by the social purpose of maintaining the relative economic position of the unemployed.

This purpose came to influence the program to a greater extent once it began operation. A series of amendments to the Act that have been described by some as _ad hoc_ because of their departure from insurance principles were made throughout the 1940s and 1950s. They led to a new Act in 1955. Coverage was expanded during the 1940s. These expansions continued in the 1950s along with expansions in the benefit structure.

Unemployment Insurance became, during the 1950s, one of the Government's major responses to the recurring problem of unemployment.(5)

The ability of the program to respond to the recession of the late 1950s and early 1960s was a function of the continued hold of insurance notions upon its structures. The fund, for example, was considered an integral element of the program: its deterioration was a signal of failure. Concerns over the program's operation led to the appointment of a Committee of Inquiry in July 1961. The Committee submitted its report in November of the following year and in it provided the framework for interpreting the program in terms other than that of insurance.

3.2.2 Insurance Principles and the Pre-1971 Program

The present section provides a detailed illustration of an observation made by, among others, the Committee of Inquiry in 1962:

> The present unemployment insurance plan, although satisfactory enough in its basic structure, has by reason of amendments over the years departed unduly from insurance principles appropriate to such a plan. Undoubtedly such amendments appeared justifiable at the time in terms of the social problem that the amendment was designed to meet, but as such amendments have accumulated, the insurance concept has been pushed more and more into the background.(6)

The original design of the Canadian program was in fact greatly influenced by insurance principles, but contrary to the Committee's view, they need not be considered appropriate if the program's objective is to maintain the relative incomes of the unemployed. Indeed, once in operation the program was strained by the incompatibilities between its design and its purpose. This was reflected by the series of amendments that appeared _ad hoc_ from the insurance perspective. These developments are illustrated by a focus upon the relationship between the expansion of coverage and benefits, the adjustment of contribution rates, and the status of the insurance fund. The program's evolution up to the 1960s reveals a conflict between the goal of income security for the unemployed and the originally proffered means of achieving it, insurance for the unemployed. The piecemeal expansion of the program was prompted by economic prosperity and an interpretation of unemployment as involuntary.

3.2.3 Coverage

Coverage refers to the types of employment the program encompasses. The original Act of 1940 considered insurable employment as employment under a contract of service or apprenticeship in the industrial and commercial sectors only. Occupations outside of these sectors were excluded on the basis that loss of employment was highly unlikely, voluntary, or of a seasonal nature. It was considered inappropriate to cover such occupations because the pooling of such diverse risks would introduce an element of taxation and transfer into the program.

Also among the excluded occupations were self-employed business proprietors and those employed by their spouses. Other restrictions had the effect of excluding part-time workers. Those employed less than four hours per day, those working for more than one employer, but less than four hours for any one of them, and those available for work for no more than two days per week were considered not to have an insurable interest and hence not coverable by an insurance program.

Seasonal employment lasting less than 20 weeks was also considered not to be an insurable interest and exempted from coverage. The Unemployment Insurance Commission stated that the

> insurance of persons who normally work in employments that are wholly or highly seasonal, and who do not work in other insurable employment, at least for a part of the off season, should be limited to the normal season. If such a person becomes unemployed during the season he should be unable to get employment, then his insurance should have effect within the season. Unemployment in those circumstances would be something unforeseen and would be something more than might be considered to be provided for in the seasonal rates of pay.(7)

Thus, the notion of insurable interest and the probability of unemployment were the major criteria determining the inclusion or exclusion of particular occupations. Those facing a low probability of unemployment and those who faced the certainty of unemployment were excluded from the program. The program's designers, nonetheless, were not under pressure to insure only homogeneous risk or to differentiate individual contributions accordingly as a private insurance scheme would be. Indeed, the Unemployment Insurance Commission explicitly recognized the need for the pooling of diverse and interdependent risks. This pooling, however, did not extend beyond the manufacturing sector. "The grounds for exclusion of certain groups and classes of persons from insurance should be the fact that they are employed outside of industry and, therefore, not subject to the expansions and the contractions which characterize industrial activity."(8) The program included only the industrial sector because it was believed that only this element of the economy was subject to the threat of involuntary unemployment.(9)

> Conditions wholly outside a national economy may contribute enormously to industrial activity or contraction, for which no employer or group of employers can have any responsibility or can take effective action. For these reasons...it seems right to conclude that all industries should be brought within one scheme of unemployment insurance without distinction as to rates of contribution or of benefits. This means that in the matter of making provisions through insurance against unemployment, all industries are to stand together as a unit under one scheme.(10)

Thus the recognition of unemployment as an involuntary phenomenon allowed the pooling of heterogeneous and interdependent risks.

The further pooling of risks to the non-industrial sectors was not justified because it was assumed that the probability of involuntary unemployment approached zero in these occupations.(11) It was recognized that the pooling of diverse risks in the industrial sector implied redistribution. This, once again, was justifiable because all groups were subject, in some substantial degree, to what was viewed as involuntary unemployment.(12) The compulsory nature of the program rendered the discrimination of risks unnecessary. Such discrimination occurred only in a very coarse sense, not as a result of competitive pressures that would prevail in the context of private insurance, but because of the interpretation of unemployment that was held by the government. Conceivably, then, the extent of coverage was free to vary with changes in this perception.

Table 3-2 lists the exclusions from the 1940 Act and provides an indication of the point in time that they were included in the program. During the first decade amendments led to an extension of coverage to workers in transport (air and water), stevedoring, lumbering and logging, professional nursing, public utilities, hospitals and charitable institutions (on a voluntary basis). The 1955 Act did not introduce any substantial

Table 3-2
Expansions in Program Coverage 1940-1970

Original Exclusions	Year Included
1. Agriculture	*1955 +1967
2. Horiculture	1955 +1967
3. Forestry	1955
4. Fishing	1957
5. Lumbering and Logging	*1945+1950
6. Hunting and Trapping	
7. Transportation by Water	1946
8. Transportation by Air	1945
9. Stevedoring	1948
10. Domestic Service in a private home	
11. Employment in a non-profit Hospital or Charitable Institution	1943(voluntary)
12. Teaching	
13. Armed Forces	
14. Public Police Force	*1945
15. Federal Public Service	
16. Provincial Public Service	
17. Municipal Public Service	1943(public utilities)
18. Employment paid by Commission, Fees or Share of Profit	
19. Employment at a rate exceeding $2,000 per year	*1943($2400) 1948($3720) 1950($4800) 1959($5460) 1968($7800)
20. Casual Employment	
21. Employment where employer is a spouse	
22. Subsidiary employment (not the main means of livlihood)	
23. Employment for playing any game	
24. Any Employment (a) that ordinarily lasts for 4 hrs/day (b) that is ordinarily by more than one employer but less than 4 hrs/day for any one of them (c) where employee is only available for insured employment for not more than 2 days/week	

1* agriculture with poultry, egg grading, and horses
1+ all employees
5* British Columbia only
5+ all of Canada
14* with provincial or municipal consent
19*renumeration in form of hourly, daily, weekly or piece rates covered regardless of earnings

Source: Committee of Inquiry into the Unemployment Insurance Act, Report, p.21; Unemployment Insurance Commission, Annual Report, various issues.

changes, but it did continue the piecemeal expansion that had been occurring. The widening of the program's scope was justified in part by the easing of administrative difficulties, but also by the recognition that the extent of coverage determined to an important degree the adequacy of the program in meeting the needs of the unemployed.(13)

It should also be noted that an earnings ceiling formed the basis for the exclusion of a large number of employees. The original Act stipulated that annual earnings above $2,000 excluded an individual from coverage. The justification for this was twofold. On the one hand it lay in the belief that for individuals with high incomes the risk of unemployment was not great and hence the need for insurance did not exist. It was also assumed that individuals with high incomes had control over their own employment and as such the problem of moral hazard would be severe.(14) In 1943 the ceiling became applicable only to those on a semi-monthly, or commission basis. Those paid on an hourly, daily, weekly or piece basis became covered regardless of earnings. This represented an attempt to render the ceiling applicable to managerial occupations. The ceiling was raised intermittently throughout the first 30 years of the program in line with increases in average annual earnings.

The piecemeal expansion of program coverage and the consequent pooling of heterogeneous risks that this implied eroded the insurance basis of the original legislation. Indeed, departures from insurance principles were evident in the 1940 Act. The recognition that heterogeneous groups took part in an interdependent production process and were subject to involuntary unemployment provided a logic that originally justified pooling of risks and hence income transfers within the industrial and commercial sectors. This left an avenue open for further extensions of coverage in response to pressures from interest groups and changes in the interpretation of unemployment as an involuntary phenomenon.

The major break with insurance principles, however, was the inclusion of those subject to seasonal unemployment. This fact more than any other under the heading of coverage indicates that the program was adapting to the needs of the unemployed rather than following the dictates of insurance principles.

The 1940 Act empowered the Unemployment Insurance Commission with the authority to make special regulations should "anomalies" arise from the application of the Act to those normally employed for portions of the year. This authority, in fact, was applied only to seasonal workers. Its use by the Commission reflects the tension between the social pressure for program expansion and the attempt to maintain the insurance basis of the program by the bureaucracy. As legislative amendments were enacted by parliament to expand coverage to seasonal industries, the Commission established conditions that restricted off season benefit payments to the unemployed of these industries.(15) This tension between the social objective of maintaining the incomes of the unemployed, and the insurance conceptualization of the program was clearly evident during the first fifteen years of its operation.

On October 1, 1946, the Act was amended and amongst the changes introduced was the extension of coverage to employment in transportation by water. The Unemployment Insurance Commission, however, introduced a seasonal regulation to restrict benefit payments to these employees. The Commission held the view that seasonal workers had no insurable interest in the off season and felt that the rights of other insured workers would be compromised if benefits were payable during such periods of the year.(16) As such it attempted to impose additional conditions upon the payment of benefits to covered seasonal workers. Claimants were considered as seasonal workers if they were employed in the period before their claim in a seasonal industry for some specified period of time. Any unemployment that occurred in the on season was covered, while any that occurred in the off season was not.

A seasonal industry was one in which employment in the off season over a period of some years declined each year to less than 50% of the peak and stayed below that level for at least twenty weeks. The off season was defined as the average period the industry reduced its activity to below 50%. These rules were arbitrary.

Employees could be exempted from seasonal status if they could prove that they had: (1) at least twelve days of employment in the 48 day period before the benefit began; or had (2) sufficient yearly attachment to insurable employment, defined as 420 days of employment over the two year period before the claim; or had (3) at least 40 days of insurable employment in each of the two previous off seasons.

The first application of seasonal regulations was to inland transportation by water and involved an off season of January 1 to March 31. It implied that even though these workers were newly covered under the Act they were not entitled to benefits during the off season. A similar pattern developed as other seasonal industries were brought under the program's coverage. Amendments to extend coverage to stevedoring, and lumbering and logging were introduced in 1948 and 1950 respectively. The Commission, in turn, expanded its seasonal regulations to include these occupations.

At the end of 1949 there was a sharp increase in the unemployment rate and early in 1950 the Act was amended. The most significant change was the creations of a new kind of benefit. These so called Supplemental Benefits were payable to people unable to qualify for regular benefits. They were paid at approximately 80% of the regular benefit rate from January 1 to March 31, except in 1950 when they covered the period March 1 to April 15. The introduction of these benefits allowed many to circumvent the seasonal regulations set by the Commission. In addition to the seasonally unemployed, Supplemental Benefits were also paid to those who had exhausted their benefits and to newly covered employees regardless of their contributions. In early 1955 the rate of Supplemental Benefits was increased to that of regular benefits and their period of applicability extended to April 15.

While the 1955 Act extended coverage to several occupations its major change was the incorporation of Supplemental Benefits into the program as Seasonal Benefits. "Seasonal Benefit is payable during the period January 1 to April 15 because it is recognized that at this time of year unemployment is always greater and that persons whose ordinary benefit runs out in late fall or winter months find greater difficulty at that season in obtaining employment."(17)

At the same time, in an attempt to increase their efficacy, the Commission formulated new seasonal regulations. This proved difficult because of the entrenchment of Supplemental Benefits as Seasonal Benefits in the new Act. The application of these regulations was postponed for a year and they were eventually revoked before coming into effect. This ended the period of benefit curtailment for those workers in seasonal industries that had come to be included in the Act.

Extension of coverage to such industries continued after the 1955 Act. In 1956 coverage was extended to fishermen. The Commission recognized that this was a major departure from insurance principles. It entailed treating consumers as the employers of fisherman. "In extending coverage to fisherman, it is necessary to propose some rules which seem to contravene the ordinary principles that govern unemployment insurance. To insure all fishermen, irrespective of whether they are wage earners, sharesmen, loneworkers or self-employed, a universal basis of coverage was considered necessary."(18)

With the economic downturn of 1957 the seasonal benefit period was extended to December 1 to May 15, from January 1 to April 15. It was felt that without such a liberalization a large number of workers would be without assistance during the winter. In May of 1958 the end of the seasonal benefit period was extended to June 29 for that year only in response to the prolonged unemployment.(19)

The expansion of coverage during the first two decades of the Act's operation illustrates the degree to which the prevalence of unemployment and the need to maintain the security of those susceptible to it has influenced the Act's structure. The insurance mold in which the Act was originally cast was gradually broken through. Coverage was extended to groups previously assumed to be free from the threat of involuntary unemployment. As a result diverse risks were pooled and an element of taxation and transfer introduced to the program. The most significant departures from insurance principles were the introduction of Supplemental Benefits and their entrenchment as Seasonal Benefits, as well as the coverage of self-employed fishermen. Such changes make clear that the legislation was responding to the social need of maintaining the unemployed and not to the dictates of insurance principles. The implication of this is that the costs of unemployment were being shifted from the individual to society in general.

3.2.4 Eligibility

Eligibility requirements define the particular conditions under which indemnity is paid. An individual would be paid benefits under an insurance scheme if the appropriate contributions have been made, and if the insurable loss has been suffered. As previously stated, the Unemployment Insurance Commission viewed individuals as having suffered the insurable loss if they were unemployed, capable of and available for work, and unable to find suitable employment.(20) These criteria are of little practical guidance. In fact, the program's eligibility criteria have been of an arbitrary nature and have varied over time less because of changes in the nature of unemployment as an insurable interest, than as a means of allocating the costs of unemployment and identifying those having the right to benefits. Changes in eligibility requirements have had the effect of extending the program to individuals that have not made contributions that are equal to expected benefits; something an insurance program would not be able to do.

The length of attachment to employment has been the major criterion determining access to benefit rights since the original Act's formulation.

"The purpose of the primary qualifying conditions ought to be", the Unemployment Insurance Commission stated, "to test whether the claimant has in fact such an attachment to insurable employment, and of such recency, that prima facie, the establishment of a benefit year in his case is justifiable."(21) 'Justifiable' was usually interpreted in terms of an insurance model. It referred either to the existence of an insurable interest, or to the payment of sufficient contributions. The specific requirements, however, were set somewhat arbitrarily. For example, one authority stated simply that:

> two years seems reasonable as a practical period within which the employment record should be brought into account to establish materiality of attachment, and 180 days of actual employment within the two years seems to be about the minimum that ought to be considered to be proof of a material attachment.(22)

A new entrant must, therefore, have worked for at least 180 days before being eligible for benefits. The entrant who is involuntarily unemployed before 180 days of employment is not deemed to have an insurable interest.(23) These requirements were framed, to some large degree, with the issue of moral hazard in mind. It was felt that the 180 day requirement would not attract individuals into insurable employment solely to become eligible for benefits. Even so, the actual requirements have a sense of arbitrariness about them.

A more explicit example of this fact is provided by the regulations imposed upon married female claimants. In November 1950 the Commission introduced a regulation that imposed additional conditions upon this group's rights to benefits. In the Commission's view many newly married women reported themselves as unemployed and established a claim when they had in fact withdrawn from the labour force. The regulation required women claiming benefits within two years after marriage to show by their record of employment, that they remained in the labour force in spite of marriage. Originally 15 and later 10 weeks of insurable employment since marriage, or after the first job separation after marriage, were required. There were certain exemptions to the regulation that were broadened in 1952. These included widows or women who were the main source of family income due to separation. In its attempt to address problems of moral hazard the Commission was not able to defend itself against charges of discrimination made by women's groups. The regulations as a result were revoked in 1957.

In August 1953 an amendment was introduced that violated the principle that the claimant should be available and capable of work during the benefit period. The amendment allowed benefits to be paid to claimants becoming ill after leaving a job. It was justified by the continued need for income security by each individuals.

The 1955 Act introduced changes that loosened the tie between contributions made and benefit eligibility. The qualifying conditions were stated in terms of weeks rather than days of contributions. The individual was required to have made contributions in each of 30 weeks during the two years before the date of claim. At least eight of the 30 weeks were required to be in the year immediately preceeding the claim. "While it is necessary to have made contributions in each of 30 weeks to qualify, it is not necessary for a claimant to have been employed for the whole of each week. In this respect, the qualifying conditions are easier than under the old Act."(24) Even a single day of employment per week was valid for the fulfillment of the qualifying conditions. The same applied to the conditions for requalification.(25) The new Act thus loosened the link between

Table 3-3
Financial Conditions of the
Unemployment Insurance Fund, 1941-42 to 1970-71

Fiscal Year	Surplus or Deficit(-) (millions of $)	Year End Accumulated Surplus	Ratio of Accumulated Surplus to Benefits Paid in Fiscal Year
1941 - 42	44.0	44.0	
42 - 43	70.0	114.0	159.2
43 - 44	76.3	190.3	110.5
44 - 45	77.7	268.0	54.0
45 - 46	49.2	317.2	9.9
46 - 47	55.6	372.8	8.6
47 - 48	74.9	447.7	12.8
48 - 49	81.8	529.5	10.6
49 - 50	53.1	582.6	6.8
1950 - 51	81.9	664.6	7.4
51 - 52	113.6	778.2	8.6
52 - 53	73.4	851.6	6.3
53 - 54	29.7	881.3	4.7
54 - 55	-40.6	840.7	3.3
55 - 56	13.5	854.2	4.0
56 - 57	24.2	878.4	3.8
57 - 58	-134.2	744.2	1.9
58 - 59	-244.4	499.8	1.0
59 - 60	-133.9	365.9	0.9
1960 - 61	-181.2	184.7	0.4
61 - 62	-118.1	66.6	0.2
62 - 63	-56.9	9.7	...
63 - 64	-8.8	0.9	...
64 - 65	39.6	40.5	0.1
65 - 66	101.0	141.5	0.5
66 - 67	116.7	258.2	0.8
67 - 68	44.4	302.7	0.8
68 - 69	79.7	382.4	0.8
69 - 70	75.8	458.2	0.8
1970 - 71	-134.5	323.6	0.4

Source: Jonathan R. Kesselman, Financing Canadian Unemployment Insurance (Toronto: Canadian Tax Foundation, 1983), p.44.

contributions made and benefit rights, and made it easier to qualify and requalify for benefits. What seems "reasonable" in terms of eligibility conditions varies across time. These conditions, because they regulate access to benefits, are an important indication of how the costs of unemployment are distributed. The strict conditions of the 1940 Act were loosened as unemployment was recognized as involuntary. Social values, such as sexual equality and need, also played a role in determining eligibility requirements.

3.2.5 Benefit Structure and Contribution Rates

The relationship between the benefit structure and contribution rates is best introduced by focusing on the status of the fund. Table 3-3 charts the development of the fund balance from 1941 to 1971. A surplus was realized in each of the first thirteen years of the program's operation. A deficit was not recorded until 1955. The recession of the late 1950s and early 1960s exhausted the fund's surplus and forced the government, at one point to make additional loans to the program. In spite of the original Act's intention the program was not able to operate as a fully funded scheme in the manner of a private insurance plan. The benefit structure was based and expanded upon principles other than that of insurance. Contributions were not necessarily expanded concomitantly with benefits. The inability to predict unemployment and to set contribution rates according to anticipated costs, coupled with an increasingly liberal program implied the deterioration of the fund: an element that is considered essential to an insurance program.

The fund, indeed, was a central concept in the formulation of the original Act. It was felt that benefits and contributions must be structured in order to provide a sufficiently large surplus. The Unemployment Insurance Commission stated that:

> [w]henever there is a question of increasing the benefit rate under an unemployment insurance plan, it should always be borne in mind that nothing can be paid out of an insurance fund in excess of what is paid into it through contributions and interest earnings. In framing a social insurance scheme, the financial foundations should be planned in such a manner that the total contributions from all sources together with the interest earnings are sufficient to provide protection for insured persons over a cycle of good and bad years. It is sometimes proposed that the additional cost of increasing the benefit rate should be met by Government only.
>
> In the long range interest of social insurance in general it should be pointed out that any increase in the benefit rate should only be made within the framework of the scheme, when the contributing parties, which presumably include employers and employees, increase their contributions.... So long as the public and administration clearly understand that there can be no increase in the benefit rate without a corresponding increase in contributions from employers and employees, then the scheme will be protected against any unwarranted increase in benefit or against any use of the fund other than to provide the regular cash payments to qualified bona fide claimants.(26)

The previous section illustrates that considerations other than insurance principles led to an expansion of what are considered as "qualified bona fide claimants". The present section shows that these principles, as outlined in the above passage, had little to do with the determination of benefits and contributions for such claimants.

Several provisions govern the structure of benefits. These include the length of the waiting period, the duration of benefit payments, and the rate of benefits. An actuarially sound program requires that this structure be tied at the individual level to contribution rates. This was not so in the case of the 1940 Act, nor in the amendments that followed it.

The original Act established a waiting period of 9 days before benefits were paid after the initiation of a claim. This waiting period was justified as a deductible feature that served to reduce the moral hazard and shift part of the cost of unemployment upon the individual.(27) It was reduced to 8 days in 1950, to 5 days in 1952, and was left unaltered in the 1955 Act. The waiting period was, thus, eased during the period that the fund was accumulating reserves. It was not altered again until the 1971 Act became effective.

A 'ratio rule' was used in the 1940 Act to link benefit duration to individual contributions. Benefit duration was computed as one day of benefit for each five daily contributions in the previous five years, less one day of benefit for each three days of benefit received in the last three years. This particular procedure was not justified in terms of an actuarial calculation, but in terms of moral hazard, and fairness:

> a great deal of experimenting may be done with a view to setting upon a reasonable and satisfactory rule, having regard for all types and classes of insured persons in their ever shifting circumstances and environments.... [T]he following rule appears to answer well: one-fifth the number of days of benefit in the five years preceding claim, less one-third the number of days of benefit in the three years preceding claim. Under this rule the graduation of the number of benefit days, relative to the basis for their determination, proceeds without any breaks. As between claimants, its practical fairness would probably be accepted without question, and this is an important consideration.(28)

Under this rule the maximum benefit duration possible was one year in the case of those individuals who had 5 years of continuous employment. The rule was somewhat less liberal for workers who were employed for parts of the year, such as seasonal workers. The minimum benefit duration, which was determined by the ratio rule in conjunction with the eligibility requirement of 180 contributions, was 6 weeks. The 1955 Act introduced a new benefit formula in order to increase the minimum duration. This was justified in terms of the needs of the unemployed, especially new entrants such as immigrants and the young. The new minimum was fixed at 15 weeks. Although the maximum benefit duration was reduced to 26 weeks, provisons continued to exist that allowed the possibility of a 51 week duration.(29) The Commission argued that the reduction of the maximum duration was justified since only a small proportion of claimants used their full entitlement. Nonetheless in 1959, with greater demands being put on the program because of the economic downturn, the maximum benefit duration was extended to 56 weeks.

In terms of the structure of benefit rates, the Canadian program rejected the British precedent of establishing a flat rate of benefit. The justification for a progressive scheme of benefit rates recognized that there existed a relative as well as an absolute dimension to deprivation.(30) The setting of benefit rates involved the balancing of two principles. On the one hand the scheme sought to ensure that benefits maintained the living standards of the unemployed; on the other it sought to reduce the possibility of work disincentives. Which principle prevailed was not a technical matter. It was deemed necessary to set benefit levels below the rate of earnings. "The proper relation between rates of earnings and rates of benefits is a matter of informed judgement, as is generally the case where moral hazards are concerned."(31) Separate benefit rates were nonetheless devised for those with and those without dependents.

Table 3-4 summarizes the original benefit and contribution structure at the outset of the 1940 Act. Employee benefits and contributions

Table 3-4
Benefit and Contribution Structure, 1940

Weekly Earnings Class ($)	Weekly Contribution		Weekly Benefits		Benefits as multiple of Employee Contribution	
	Employer ($)	Employee ($)	Single ($)	Dependency ($)	Single	Dependency
less than 0.90 or under 16 years	0.18	0.09*	+	+		
5.40 - 7.49	0.21	0.12	4.08	4.80	34	40
7.50 - 9.59	0.25	0.15	5.10	6.00	34	40
9.60 - 11.99	0.25	0.18	6.12	7.20	34	40
12.00 - 14.99	0.25	0.21	7.14	8.40	34	40
15.00 - 19.99	0.27	0.24	8.16	9.60	34	40
20.00 - 25.99	0.27	0.30	10.20	12.00	34	40
26.00 - 38.50	0.27	0.36	12.24	14.40	34	40

* paid by employer
+ benefits paid only if more than half of previous contributions were from a higher earnings class, and based on the higher earnings class.

Source: Adapted from Kesselman, p.34.

both increase with the earnings class. The benefit rate of single beneficiaries was structured to be 34 times the contribution rate. This ratio was 40 for those with dependents. Individual expected benefits greatly exceeded contributions because the costs of benefits were divided between employees, employers and the federal government.

The rates were originally set such that aggregate employee and employer contributions would, given certain assumptions about the distribution of employees across the earnings classes, be equal. The government's contribution was one-fifth the aggregate employer-employee contribution. Thus, the original Act embodied very little of the insurance notion of actuarial soundness. Not only did individual benefits greatly exceed individual contributions, but social considerations and elements of need entered into the structure. The cost of unemployment, furthermore, was a burden borne by all the major actors involved: employees, employers, government, and the unemployed. The major result of insurance notions was the setting of benefit rates below the rate of earnings.

The benefit structure proved to be rather rigid because it was based upon fixed earnings classes. As earnings increased over time, benefits gradually fell out of line. A series of amendments were implemented in order to maintain the relativities. The first increase in benefits occurred in October 1948. Contributions were also increased. Further amendments increased benefits in 1950 and 1952. In the latter case, however, the benefit increases were introduced without concomitant contribution increases. The waiting period, as already mentioned, was also reduced at this time. These changes were made, the Commission stated, "[i]n view of the sound condition of the Unemployment Insurance Fund."(32) This

Table 3-5
Benefit and Contribution Structure, 1955

Weekly Earnings Class	Weekly Contribution (Employer&Employee)	Weekly Benefits Single	Weekly Benefits Dependency	Benefits as multiple of Employee Contribution (1)	Benefits as multiple of Employee Contribution (2)
less than 9.00	0.08	*	*		
9.00 - 14.99	0.16	6.00	8.00	37.5	50
15.00 - 20.99	0.24	9.00	12.00	37.5	50
21.00 - 26.99	0.30	11.00	15.00	36.7	50
27.00 - 32.99	0.36	13.00	18.00	36.1	50
33.00 - 38.99	0.42	15.00	21.00	35.7	50
39.00 - 44.99	0.48	17.00	24.00	35.4	50
45.00 - 50.99	0.52	19.00	26.00	36.5	50
51.00 - 56.99	0.56	21.00	28.00	37.5	50
57.00 and over	0.60	23.00	30.00	38.3	50

(1) Single (2) Dependency

* when weekly earnings are less than $9.00 the contribution is counted as one-half week for benefit purposes

Source: Adapted from Kesselman, p.38.

contrasts with a previous stance taken by the Commission. In an earlier annual report, the seventh, it acknowledged that it had been under pressure to increase benefits without increasing contributions because of the size of the fund's surplus. It steadfastly rejected this logic by an appeal to insurance principles:

> [i]t may seem to some that this fund is larger than necessary. Suggestions have been made by employees and unions that benefit rates be raised, the waiting period shortened and the benefits under the Act increased generally. From employers have come suggestions that contributions should be lowered or perhaps dispensed with for a period.
>
> However it must not be forgotten that unemployment insurance is a long range proposition. The Canadian scheme being on an actuarial basis, the fund must maintain adequate reserves to meet all its obligations.(33)

The 1955 Act continued the tendency toward liberalization by making further adjustments in maximum weekly benefit rates. The structure was transformed to a weekly basis which further eroded the tie between individual benefits and contributions. Contributions were charged to weekly earnings regardless of the number of days worked. Table 3-5 summarizes the benefit and contribution structure at the outset of the 1955 Act.

Despite the liberalization of the program during its first 15 years of operation, the fund, as has been noted, remained in a surplus position. Actuarial soundness meant not that individual contributions equalled individual expected benefits, but rather that in the aggregate there was sufficient revenue to meet program costs. Once the authorities believed that there existed sufficient revenue to meet these costs the benefit structure was determined independent of contribution rates.

These rates were originally established in conjunction with the benefit structure and a prediction of future unemployment. The latter was necessary to determine _ex ante_ program costs. This prediction was generally based upon a moving average of past unemployment. For example, in setting the 1940 contribution rates an estimate was made of the funds that would have been necessary to cover costs during the period 1921-31, plus a margin of 30% had the program been in operation during those years.(34)

Predicting the unemployment rate on the basis of past unemployment rates proved adequate only as long as the procedure led to overestimates. during the first fifteen years the fund accumulated surpluses at an unexpected rate. Yet the Commission admitted that the program had not yet experienced the test of a severe period of unemployment. There was, therefore, no reason to believe that the fund was too large.(35)

In the fiscal year 1957-58 the fund experienced the first of seven consecutive annual deficits that would eventually erase the accumulated surplus of $878.4 million. As a result a 30% increase in contributions was initiated in 1959.(36) The government, however, resisted the Unemployment Insurance Advisory Committee's recommendation of cutbacks in benefit rights to fishermen and the seasonally unemployed.(37) The Commission's prediction of unemployment for the five years 1959-63, upon which the 1959 contribution increase was based, was the average level of unemployment for the five years ending March 31, 1958.(38) This, needless to say, proved inadequate and only underscored the point that _ex ante_ program costs could not be established with the required accuracy.

Even though revenues rose after the 1959 increase in contributions, the fund balance continued to deteriorate because of the expanded program structure and the elevated unemployment rates. An accumulated deficit was reached in April 1963. The fund received temporary loans from the Minister of Finance to allow the program to continue operation. An accumulated deficit occurred for the last time in July 1964. Although the fund remained in a surplus position for the duration of the 1955 Act its balance never greatly exceeded annual benefits.(39) The program became, in spite of previous fund surpluses and in spite of its name, a "pay-as-you-go scheme."

The operation of the program reveals that benefits were, in the light of social considerations, adjusted independently of contributions. The tie between benefits and contributions did not operate at the individual level. Indeed, even at the aggregate level it appears that prevailing economic conditions, not insurance principles, influence the setting of benefits and contributions. During buoyant economic periods there is a tendency to expand benefits. Contribution increases are irregular and are not necessarily associated with benefit increases. The program's solvency is not guaranteed by the existence of a fund in large part because the probability of unemployment is unpredictable and affects many individuals simultaneously. It is the government's power to increase contribution (tax) rates when the revenues are needed that provides the basis for the guaranteed operation of the program.

3.3 SUMMARY

The insurance model does not offer an accurate conceptualization of the program's operation. It represents, at best, a particular stance on the setting of program parameters and the distribution of the costs of unemployment. These costs, it suggests, should be placed upon those experiencing unemployment. This, however, is only one of many other possible configurations. Viewing government payments to the unemployed as a public program of income transfer provides a framework that incorporates these possibilities.

In terms of coverage, eligibility requirements, benefit structure, contribution rates, and the status of the fund there is little to suggest that the Canadian program functioned as an insurance scheme during its first 30 years of operation. Coverage involved the pooling of different risks without associated differences in contribution rates. Program expansion occurred throughout the period; the seasonally unemployed, those that cannot be viewed as having an insurable interest, also came under the program's scope. This latter development occurred in spite of the administration's disagreement. Eligibility requirements were, in actuality, not set according to the criterion of an insurable interest. Recency of attachment to the labour force was greatly reduced, and the tie between contributions made and expected benefits was loosened. Further, it was established that even if ill an individual continued to have a right to benefits. Income adequacy competed with availability for work as the relevant criterion. The benefit and contribution structure were not designed in terms of individual equity. The link between an individual's expected benefits and contributions was, as mentioned, weak. Further, benefits and contributions were at times altered independently. The status of the fund played a role in determining these changes. Though the fund existed in name <u>ex ante</u> program costs could not be accurately formulated. Program financing, after the late 1950s, was conducted on a current, not a cumulative, basis. The program operated in the context of an uncertain future. The heterogeneity, and interdependence of unemployment probabilities implied that in such a context the goal of maintaining the incomes of the unemployed could only be achieved by income transfer mechanisms.

Yet, throughout the period many continued to feel that the program should function as an insurance scheme. Deviations in the program's operation from this interpretation of its nature could only be seen as ad hoc. This contradiction between how the program actually functioned and how it should function led to an official reassessment of its nature; a topic discussed in the following chapter.

Chapter 4

PUBLIC ASPECTS OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN CANADA: EXPANSION AND RETREAT

4.1 INTRODUCTION

The previous chapter develops two points with regard to the pre-1971 program of government payments to the unemployed. The Canadian program cannot, firstly, be considered an insurance program. The fact that unemployment is not an insurable interest influenced the program's structure even when the insurance model was explicitly adopted by policy makers. The use of an insurance model, secondly, implies a program structure that places the burden of unemployment upon the unemployed.

The present chapter focuses upon a version of this latter point. It illustrates the nature of and reasons for changes in program structure during the 1970s. An important determinant of program structure is the manner in which its nature is conceptualized. The Government's re-interpretation of the nature of the Canadian scheme of payments to the unemployed is described. This philosophical re-orientation in the context of a growing economy was the major factor leading to the program's overhaul in 1971. The revisionism that followed was also influenced by the prevailing economic climate. The economy's deterioration, along with a reassessment of the costs of the 1971 legislation and a more benevolent interpretation of unemployment, led to a cutting back of the 1971 provisions in as early as 1975. This revisionism, mediated by the political process, continued throughout the decade.

The Government's reassessment of the nature of the program of payments to the unemployed began with the Report of the Committee of

Inquiry into the Unemployment Insurance Act in 1962.(1) The Committee's philosophy was eclectic. It saw a role for both an insurance program and a welfare program in maintaining the incomes of the unemployed. It also saw, however, a role for a program between these two extremes: a program of "extended benefits". The present section first reviews the Committee's Report. An emphasis is placed upon its philosophy and the actual degree to which its recommendations would have extended the program beyond a narrow insurance-type basis and redistributed the costs of unemployment. The philosophy of the 1970 White Paper is also reviewed.(2) The White Paper went beyond the Gill Committee's view in two respects. It explicitly recognized the transfer nature of government payments to the unemployed without making any reference to insurance. It also advocated a program structure that would redistribute the costs of unemployment from the unemployed to society in general. The manner in which these recommendations were embodied in the 1971 legislation is then examined. The formulation of the features of the 1971 Act are in large part due to the philosophical reorientation of the government. The buoyant economic conditions of the 1960s formed a necessary backdrop for these developments. The era of revisionism that followed is the subject of the final part of this chapter. Government budgetary considerations, in an era of economic stagnation, were one of the major reasons for program cutbacks.

4.2 EXPANSION

4.2.1 The Views and Proposals of the Committee of Inquiry

The recession of the late 1950s brought into question the efficacy of the prevailing program of payments to the unemployed. The program's failure had two consequences. It underscored, on the one hand, the ad hoc nature of the changes made since the 1940 Act. On the other hand, however, it was not the appropriateness of the amendments that was questioned, but the validity of the assumptions of the insurance model as a guide for a program that must serve the needs of the involuntarily unemployed. Both of these concerns are found in the Report of the Committee of Inquiry. The Committee's analysis of the Unemployment Insurance Act is important for two reasons. On the one hand it illustrates the degree to which the prevailing program had deviated from an insurance scheme, and on the other hand it makes explicit the public principles of income transfer and thus provides the basis for an alternative vision and structure of the program.

The Report contains 244 recommendations that touch virtually every aspect of program design. The philosophy underlying these recommendations represents a transition from private principles of insurance to public principles of income transfer. The Committee's view is eclectic. Its recommendations would have created a program greatly influenced by the insurance model, but it does nonetheless illustrate that program structure will vary according to the vision held of its nature and the interpretation given to unemployment. It is clear that the committee developed a framework other than the insurance model for conceptualizing the nature of government payments to the unemployed. For the first time in Canada there was an official statement of the principles and structure of a public program of income support.

Overview

The cyclical downturn of the late 1950s and early 1960s made clear that unemployment was an involuntary phenomenon that affected many individuals simultaneously. These facts did not escape the Committee of Inquiry. Its report displays a hybrid vision that attempted to define the appropriate realms for private and public principles. The Committee stated:

> we are convinced that a soundly conceived insurance plan has a prominent place in a program of support for the unemployed, we are equally convinced that an insurance plan cannot deal with the whole problem. Any attempt to make it do so forces such distortions that basic insurance principles cannot be maintained and the plan is pushed from amendment to amendment without any sound guiding principles on which decision can be based.(3)

The Committee recognized the existence of different kinds of unemployment. Frictional unemployment "can be best dealt with on an insurance basis";(4) unemployment of a longer duration due to cyclical movements of the economy cannot. A program of income maintenance is the first step in meeting the problem created by such unemployment.(5)

The Committee recommended a three part program, each part based on different principles and addressed to a different type of unemployment. The first part would be an insurance program designed upon insurance principles and addressed to frictional unemployment. This unemployment was arbitrarily defined as unemployment of short duration. The Committee's recommendations were geared towards moving at least some part of the legislation closer to an insurance scheme. The second part, the program of "extended benefits", would apply to those experiencing longer spells of unemployment that were involuntary in nature and due to the cyclical movements of the economy. It would apply to those individuals who exhausted their insurance benefits and possibly to the seasonally unemployed. It embodied public principles of income transfer and was designed to shift the burden of unemployment from the individual to society in general. Finally, the third part would be a welfare program and would be addressed to any residual unemployment. It was based upon a needs test. Thus, the Committee sought to parcel the program structure according to its interpretation of the nature of unemployment.

The Insurance Program and the Program of Extended Benefits

The manner in which the government's understanding of the program it operates, and the manner in which its interpretation of unemployment influence program structure and the distribution of the costs of unemployment is illustrated by contrasting the insurance part and the extended benefits part of the Committee's proposed scheme. This contrast also illustrates the degree to which the then prevailing philosophy had placed a brake upon the expansion of the Canadian scheme. The 1955 Act and the amendments to it represented a program of government payments to the unemployed that was broader than an insurance inspired scheme would be. At the same time, however, it was not as broad, given the prevailing economic conditions, as it would have been had public principles of income transfer been the government's basis for evaluating it.

The insurance inspired part of the Committee's proposals was much narrower in structure than the prevailing program. Conceiving unemployment as a frictional problem reduces program scope and places the burden of its costs upon the individuals experiencing it.(6) Yet, even under this insurance program, coverage was to be universal. This was so in order "to accomplish an appropriate sharing of the losses arising from unemployment."(7) Thus, the individual receives the benefits of shifting the risk of unemployment onto the group.

Universal coverage was, just as importantly, necessitated by the realization that a narrow scope created too many inconsistencies. Groups that had previously been excluded on the basis of their low probability of unemployment were to be covered. These included government employees at the federal, provincial and municipal levels, employees of hospitals and charities, and teachers.(8) Furthermore, the earnings ceiling that restricted coverage would be removed and coverage extended to all employees regardless of income level.(9)

> [W]e do not accept [the Committee stated] the criterion of probability of unemployment as a basis for inclusion in or exclusion from the scheme. We are aware of many classes of employment where persons with virtually no risk of unemployment are compulsorily covered by the scheme, whereas those in similar conditions and earning a little more are excepted. In our view, the philosophy of universal coverage requires coverage to be extended to all persons in an employee-employer relationship without restriction based upon earnings.(10)

In this respect the proposed insurance scheme was broader than the prevailing program. However, the Committee invoked the notion of insurable interest to withdraw coverage from certain groups that were included in the prevailing program. It recommended that coverage be withdrawn from those below the age of 18 because they were unlikely to have an insurable interest in their employment.(11) More importantly the committee recommended that coverage of self-employed fishermen be withdrawn. In this case there was no evidence of an employee-employer relationship. The income security problems of this group should not be handled by an unemployment insurance program. It recommended that a separate program be established and administered under the Department of Fisheries. Seasonal unemployment *per se* would also be removed from the purview of the insurance program.(12) The seasonally unemployed would be treated as all other unemployed and may, if they qualify, receive assistance under the insurance and extended benefits plans. In all of these important respects, therefore, the actual program was much broader than an insurance inspired program would be.

The Committee's recommendations concerning eligibility upheld the then existing program's emphasis, at least in theory, on recency of attachment to the labour sector. The recommendations, however, went further than simply reasserting the prevailing requirements.(13) These were seen as too easy to meet. The Committee suggested that the program return to the pre-1955 practice of using the actual number of days employed in the calculation of the eligibility requirements. Weeks of employment regardless of the number of days worked per week was not seen as an appropriate measure of recency. The Committee suggested 30 full weeks of employment with at least 20 full weeks in the year preceding the claim. The problem of moral hazard was the main justification for the proposal. An insurance program must be designed in a fashion that does not attract the individual into insured employment solely for the purpose of qualifying for benefits.(14) Yet, there is nothing definitive about either set of qualification rules as neither the framers of the actual program nor those of the Committee's proposed program, had direct estimates of the number of additional spells of unemployment caused by shorter qualification requirements. The explicit adoption of the insurance model places greater emphasis upon the issue of work disincentives and leads as a result to a narrower structure.

As concerns the benefit structure, the Committee upheld the prevailing waiting period of one week. It also upheld the notion that benefit structure should be tied to recency of employment. This, it was argued, represents the application of the principles of indemnity for loss, and of individual equity. Indeed, the Committee recommended that the benefit duration be tightened. One week of benefits should be paid for each two full weeks of contributions in the 52 weeks preceeding the claim. Unlike the prevailing scheme a partial week of work would not represent a full week of contributions. In conjunction with the entitlement recommendations this implied a minimum 10 weeks and a maximum of 26 weeks of benefits. "It appears to us," the Committee stated, "that this formula represents a reasonable relationship between benefit and the interest the insured person has in insured employment."(15) This reduction of benefit duration was justified by the argument that an insurance program can appropriately deal only with unemployment of short duration. As in the case of eligibility requirements, the explicit adoption of an insurance framework implies that terms such as "a reasonable relationship" come to be interpreted more severely.

The prevailing method of establishing benefit rates was also upheld. Benefit rates must be set below actual earnings levels because of the problem of moral hazard. The Committee, however, felt that prevailing rates were too low. To prevent claimants from falling below a minimum standard of living the Committee recommended that the benefit rate be 60% of earnings for those with dependents, and 45% for those without. These rates, it was believed, would not greatly alter incentives.

Employees and employers would be the sole contributors to the scheme. The two parties would share the costs equally. The government, as previously stated, contributed 20% of the prevailing program's revenues. The Committee would have the government address itself only to administrative costs.

The setting of contribution rates according to the dictates of a fund would also remain a part of the proposed program.

> The determination of rates of contribution... must necessarily await the determination of other features of the plan. The contribution rates must be such as to provide enough revenue to meet the benefit payments as these average out over a period of years. They must, therefore, be based not only on the terms of the plan but also on some assumptions concerning the economic climate within which the plan will likely have to operate.(16)

This, as the previous chapter notes, is not actuarial soundness in the sense that each individual's expected benefits equal that individual's contributions. It is only a requirement that over some time period program costs equal program revenues. This, in fact, does not require a fund. The fund remained, nonetheless, an aspect of the proposal. The Committee was clearly aware of the difficulties inherent in predicting unemployment. It recommended that prevailing contribution rates continue. They were seen as sufficient to provide for the development of a fund. "Should the experience in the next few years prove to be favourable, opportunity will be afforded for the fund to accumulate some necessary reserves. When the reserves have reached a reasonable level we believe that contribution rates should be adjusted to prevent undue growth in the size of the reserves."(17) The Committee did not offer, indeed was not able to offer, any recommendations concerning what a 'reasonable' level should be.

In its broad contours the prevailing program of government payments to the unemployed resembled the proposed insurance program outlined by the Committee of Inquiry. In its actual structure, however, the prevailing program was broader in scope. Although the proposed program endorsed universal coverage it would have excluded several important groups from its purview. Only in the setting of benefit rates was the proposed program more liberal than the actual one. This, however, was countered by the stringent eligibility requirements and the shorter benefit duration that were also proposed. Adoption of an insurance model in justifying a program of government payments to the unemployed does not, indeed cannot, lead to the design of an insurance structure; it leads, rather, to a narrowly based transfer scheme that places the burden of unemployment upon the individuals experiencing it. This is considered an appropriate structure, in part, because unemployment is viewed as a phenomenon of short duration due to frictional or voluntary reasons.

The actual program was broader than the proposed insurance scheme because government was, as a result of the prevalence of involuntary unemployment, required to deal with issues of income adequacy. Unemployment due to the downturns of the business cycle cannot be dealt with by an insurance type structure. The Committee's explicit recognition of involuntary unemployment led it to propose an additional structure that was based upon public principles of income transfer. This program of "extended benefits" would "occupy a middle position between unemployment insurance and an assistance plan."(18) It was designed to shift the burden of unemployment from the individual through government to the community. The rationale for this program was stated as follows: "The payment of benefits under the extended plan would be based on the concept of presumed need by persons who have been unemployed for some time or who regularly suffer seasonal unemployment."(19) Thus, once unemployment is recognized as involuntary income adequacy becomes an important criterion for program design.

The proposed program, nonetheless, was restricted to those who had qualified for insurance benefits and had exhausted them. Coverage was, therefore, universal, but eligibility was determined by recency of attachment to employment. The use of this latter criterion was justified, however, not in terms of insurable interest, but as a practical matter: some set of clear rules were required to determine eligibility for tax supported benefits.(20)

Benefit duration under the extended program was also related to work record. The justification for the length of benefits was, once again, not insurance based: the criteria of administrative convenience and fairness were invoked by the Committee. A uniform period of benefit duration for all individuals was rejected in favour of a duration related to length of employment because the latter achieved "some degree of equity amongst various classes of employees and [directed] the application of moneys expended in payment of extended benefits to the classes of employees for whom such benefits are most justifiable...."(21) The maximum duration suggested was one and one half the duration of the insurance benefit that the individual had been entitled to. This implied a minimum duration of 15 weeks and a maximum of 39 weeks. One year was to be the maximum duration applicable to the entire program.

The extended benefits program would be financed entirely from the general revenues of government. This is an explicit recognition that unemployment is a phenomenon beyond the individual's control and a cost that should be absorbed by the community.(22)

Although the actual program of the time was more liberal than what the Committee viewed as an insurance program, it was not explicitly justified in terms other than insurance. Issues of income adequacy were considered implicitly in an ad hoc fashion. The statement of an alternative philosophy, even though it was done in a piecemeal manner, by the Committee of Inquiry was the first step in changing the Government's understanding of the program of payments to the unemployed.

Viewing the program as an insurance program, or in the very least arguing that it should be an insurance program, was a major force in dulling the trend of liberalization that developed immediately after the program's inception. The justification of coverage, eligibility, benefit rates and duration in insurance terms left the program sensitive to questions of moral hazard to a greater degree, in a given economic climate, than if unemployment was explicitly recognized as involuntary. Further, program financing, by being structured under the influence of insurance notions, restricted the degree to which the costs of unemployment were shifted onto the community.

The Committee's report did not lead to significant legislative changes during the 1960s.(23) However, in conjunction with the prosperity of the decade it provided the necessary impulse for a deeper reconsideration of the program's nature by the government. Interpreting the program in terms of public principles of income transfer would imply important changes in all aspects of its structure. The White Paper on Unemployment Insurance reflects the final stages of the government's re-interpretation of the program. It extended the philosophy of the Committee of Inquiry and ushered in, as a result, a complete overhaul of the Canadian program: a topic that is discussed in the following section.

4.2.2 The 1970 White Paper

Although the Committee of Inquiry's views and recommendations did not lead to immediate legislative changes they were given consideration by the government throughout the 1960s. An interdepartmental committee was formed in 1963 to examine its report.(24) The Report also played a role in the work of a project team assembled by the Unemployment Insurance Commission with the goal of developing an updated program design.(25) The scheme that was proposed was eventually tabled in the House of commons by the Minister of Labour in the form of the 1970 White Paper on Unemployment Insurance.

Two separate points concerning the White Paper merit attention. First, it developed and extended the philosophy that was nascent in the Gill Committee's report. Government payments to the unemployed were conceptualized and discussed in terms other than insurance. The program's purpose was not to provide insurance: it was to provide income to those suffering an interruption of employment. The scheme was justified as a public program of income transfer. Second, the White Paper rejected an insurance type structure as the means to attain its goal. A structure was proposed that would shift the costs of unemployment onto the community. Coverage, eligibility requirements, benefit structure and financing were all liberalized. Indeed the 1971 Act, which followed, with only minor deviations, the White Paper's proposals, represented an entirely new scheme of government payments to the unemployed in Canada.

The philosophy expressed in the White Paper goes beyond that of the Gill Committee's report. For example, the removal of administrative inconsistencies was one of the justifications that the latter put forth in favour of universal coverage. It also suggested that a greater pooling of risks would result, but it omitted any mention that this would imply the pooling of heterogeneous risks and hence income redistribution. The White Paper, on the other hand, justifies universal coverage in the following terms:

> Universality of coverage, which will add 1,160,000 members to the plan, in some respects calls upon the good will and responsibility of more fortunate, better placed Canadians toward those who through lack of education and opportunity are in less secure occupations.(26)

A similar stance is taken with regard to other aspects of program structure. The transfer of income is explicitly recognized as being at the core of a scheme of government payments to the unemployed.

The White Paper's authors viewed the production process as a collective endeavor so that heterogeneous groups each had a right to share in its benefits. The provision of income security for those whose employment income is interrupted is a collective responsibility. "A nationwide economic crisis [could] only be combatted by collective measures."(27) Thus, the system of Canadian government payments to the unemployed was interpreted as a collective response to a social problem of income security.

The notion of insurance had been clung to during the 1940s and 1950s even though it could not rationalize the many changes that the program structure had undergone. With the first steps toward an alternative perspective made by the Gill Committee the stage was set for a deeper re-interpretation. By 1970 the Government's philosophical re-orientation was complete, and with this change came important alterations in program structure.

Thus, an important factor determining the structure of the new Act was the Government's re-interpretation of the program's nature. It should be noted, however, that this philosophical change was conducted during the 1960s, an era of unprecedented growth. This growth gave rise to expectations of future growth, and these expectations through their influence upon the government's estimates of its ability to pay program costs, also had an influence upon the actual parameters of the 1971 Act. The opening paragraph of the White Paper, for example, states:

> As Canadians stand on the threshold of the '70s they see on the horizon the outline of many brilliant changes and developments - developments which indicate we know how to exploit the breakthroughs in technology marking us as a community capable of realizing the full promise of the post-industrial era - developments which single us out as one of the world's most affluent peoples with a spiralling gross national product and a rising standard of living.(28)

The government's new interpretation of the program's nature, and its expectation of the community's ability to meet its costs are the major factors that determined the new Act's timing and structure.

4.2.3 The Provisions of the 1971 Act

Coverage under the 1971 Act was almost universal: it was extended to all people who worked in an employer-employee relationship. The major inclusions over the previous Act were civil servants,(29) teachers, employees of hospitals and charitable institutions, the armed forces, nurses, police forces and professional athletes. It should be noted that the earnings ceiling was dropped entirely from the plan. A provision was added to insure the first $150 per week.(30) An exemption from coverage on the basis of weekly earnings was, nonetheless, stipulated. Those earning the lesser of (a) 1/5 the maximum insurable earnings, or (b) 20 times the minimum hourly wage for the province in which the person is employed, were exempted from coverage. The other major exclusions remaining were those individuals receiving CPP or QPP, who were 70 years of age, or were self-employed. The White Paper estimated the increase in the insured population at 1,160,000 bringing total coverage to 6,500,000 or 96.3% of the labour force in 1971. Previously 80% were covered by the program.(31) Even though the self-employed were to be excluded a place remained in the program for self-employed fishermen. Coverage was extended to them until an alternative program of income maintenance was devised. Coverage, in line with the program's purpose, was as broad as it was ever to be. The program intended to provide for the interruption of earnings due to involuntary unemployment whatever its cause, seasonal or otherwise.

The eligibility requirements are also an important indication of the shift in philosophy. The three main conditions of the previous act were retained: involuntary unemployment, capability and availability for work, and inability to find suitable work. The length of attachment to covered employment necessary for eligibility was significantly reduced. The basic requirements were 8 or more insurable weeks in the qualifying period (the 52 weeks before the establishment of a claim or since the last benefit period ended, whichever was shorter). This reduction from the 20 week requirement was in response to the needs of new entrants and the recognition that involuntary unemployment implied job scarcity. If jobs were scarce the use of lengthy eligibility requirements was antithetical to the program's purpose. A major break with insurance principles was the inclusion of sickness, maternity, or retirement to the eligibility conditions.(32)

The benefit structure became more complex under the new Act. The major changes were increases in benefit rates and the tying of benefit duration to the unemployment rate. It should be noted, firstly, that the waiting period was increased from 1 to 2 weeks. The benefit rates for those without dependents was increased to 66 2/3% of previous earnings from approximately 40%. For those with dependents it became 75% during the first two benefit phases.(33)

The benefit duration was structured as a series of phases that individuals passed through according to various criteria. The initial phase was from 8 to 15 weeks long according to the individual's work attachment. Those with 20 or more weeks of employment in the qualifying period, referred to as major attachment claimants, received the maximum 15 weeks of benefits.(34) It was only in this first of five possible phases that sickness and maternity benefits were payable.(35) It should also be noted that those who returned to work within 5 weeks were given a lump sum payment of an additional 3 weeks of benefits.

The second phase was referred to as a "re-established initial phase". If claimants remained unemployed once phase one benefits were exhausted their benefits were automatically re-established for a further 10 weeks.

Phase three, the labour force extended benefit phase, was limited to only those with 20 or more weeks of insurable employment. The extended phase ranged from 2 additional weeks of benefits for those with 20 weeks of employment to 18 additional weeks for those with 51 or 52 weeks of employment.(36) The first three phases were based, as was the previous program's benefit structure, on recency of attachment to employment.

The two remaining phases tied benefit duration to the unemployment rate. As such the program recognized that individuals were constrained in their job search by the availability of jobs. Phase four was referred to as the national extended benefit phase. "Four weeks of benefits were paid in a four week period if the national unemployment rate was over four per cent and up to five per cent. Eight weeks of benefits were paid in an eight week period if the national unemployment rate was over five per cent."(37) The unemployment rate used was a three month moving average of national seasonally adjusted unemployment rates.

The final phase of the benefit duration was the extended benefit phase that was tied to the regional unemployment rate. When the regional rate was greater than the national rate by one but less than two percentage points 6 additional weeks of benefits were paid. A further 6 weeks of benefits were paid if the regional rate was more than 2 but less than 3 points above the national rate. Finally, if the regional rate was more than 3 percentage points greater than the national 6 more weeks of benefits were paid.(38)

Even though a maximum of 69 weeks was conceivable under the system a limit of 51 weeks was stipulated by the legislation.(39) The benefit structure, in summary, differed from the Gill Committee proposals in that the unemployment rate itself became the criterion determining duration. The first three phases, while they did depend upon work attachment, were more liberal than the Gill Committee scheme. Further, the two programs differed by the fact that the 1971 Act was broader in coverage and contained much more liberal eligibility requirements.

A further difference was the structure of financing. The 1971 Act formally altered the financial structure from a cumulative to a current basis. The UI fund was replaced with a UI account in the Government's Consolidated Revenue Fund. If the amount in the account was insufficient to meet benefit and administration costs, the Minister of Finance was authorized to make advances of up to a maximum of $800 million.(40) Employers and employees financed regular benefits in the initial and re-established phases attributable to a national unemployment rate of up to 4%, all sickness, maternity and retirement benefits, and the administration of the Act. The government financed regular benefits in the initial and re-established phases attributable to a national unemployment rate of over 4%, all benefits under the labour force and regional extended phases, all regular benefits paid to claimant/trainees granted extensions after training, and all benefits paid to selfemployed fishermen. Employer and employee contribution rates were set annually. Any expected deficits or surpluses were to lead to contribution rate changes needed to eliminate them. The employer contribution rate would be 1.4 the employee rate. Employee contributions were set at $0.90/week for each $100 of insurable earnings. Earnings classes were thus eliminated. Authority was also granted to the Commission to establish a system of experience rating.(41)

Table 4-1

Actual and Expected Operation of the 1971 Unemployment Insurance Act: 1971 - 1975

Year	Simulated Unemployment rate (%)	Actual* Unemployment rate (%)	Expected Costs+ total costs (millions of dollars)	Expected Costs+ gov't costs (millions of dollars)	Expected Costs+ % gov't of total	Actual Costs+ total costs (millions of dollars)	Actual Costs+ gov't costs (millions of dollars)	Actual Costs+ % gov't of total	Error (4)-(7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
1972	5.3	6.3	948	229	24	1 990	n.a.		-1 042
1973	5.2	5.6	1 006	235	23	2 145	917	42	-1 139
1974	5.1	5.4	1 069	238	21	2 278	875	38	-1 209
1975	5.0	7.1	1 138	241	21	3 322	1 707	51	-2 184

* Former Labour Force Survey

\+ Expected Total Costs and Actual Total Costs include benefit payments under all phases, sickness, maternity, and retirement benefits, and administration costs.

Sources: Columns (2), (4), (5) from Canada, House of Commons, Standing Committee on Labour Manpower and Immigration, 28th Parliament, 2nd Session, Appendix M, (September 16, 1970), pp. 142 and 146; column (3) from Department of Finance, *Economic Review*, April, 1976; columns (7) and (8) from Unemployment Insurance Commission, *Annual Report*, 1973 to 1975.

The 1971 legislation was a reflection of the government's understanding of the program as an income transfer scheme. Less concern was expressed over insurance-type issues. The problem of moral hazard was not emphasized, and the fund was eliminated as an aspect of program structure. The particular levels of the program's parameters were a reflection of the government's estimation of program costs, and its judgement of which groups should pay for them. The interpretation of unemployment as an involuntary phenomenon implied, to some degree, a social responsibility towards the meeting of its costs. Government thus assumed a greater proportion of them. This estimation of how the costs should be shared was drastically altered in the years following the Act's enactment. It became a major factor precipitating the period of retreat from the legislation's provisions; the subject of the following section.

4.3 REVISIONISM

The retreat from the provisions of the 1971 legislation began almost immediately after its passing. There were several factors that precipitated and shaped it. They include unexpected program costs, the increasing emphasis on government restraint in an era of economic decay, and the structure of the Canadian political process. Table 4-1, for example, documents the extent to which benefit payments under the 1971 legislation were underestimated. It is this unexpected component of program costs that was an important factor leading to program restraint. It became even more vital as governmental revenues deteriorated with the economy. Table 4-2 charts the movement of the Federal government's budget balance in actual and in cyclically adjusted terms. The budget deficit as

Table 4-2
Actual and Cyclically Adjusted Federal Budget Balances
1954 -1982

Year	Federal Government Deficit or Surplus (millions dollars)	% GNP	Cyclically Adjusted Federal Government Deficit or Surplus (millions dollars)	% GNP
1954	-46	0.2	40	0.2
1955	202	0.7	36	0.1
1956	598	1.9	102	0.3
1957	250	0.8	54	0.2
1958	-767	-2.2	-543	-1.6
1959	-339	-0.9	-114	-0.3
1960	-229	-0.6	218	0.6
1961	-410	-1.0	240	0.6
1962	-507	-1.2	-162	-0.4
1963	-286	-0.6	-27	-0.1
1964	345	0.7	348	0.7
1965	544	1.0	368	0.7
1966	231	0.4	-215	-0.4
1967	-84	-0.1	-253	-0.4
1968	-11	0.0	-158	-0.2
1969	1 021	1.3	738	0.9
1970	266	0.3	527	0.6
1971	-145	-0.2	0	0
1972	-566	-0.5	-665	-0.6
1973	387	0.3	-590	-0.5
1974	1 109	0.8	-455	-0.3
1975	-3 805	-2.3	-3 847	-2.3
1976	-3 391	-1.8	-4 060	-2.2
1977	-7 303	-3.5	-6 812	-3.2
1978	-10 685	-4.6	-9 867	-4.3
1979	-9 264	-3.5	-8 904	-3.4
1980	-10 153	-3.5	-8 191	-2.7
1981	-7 979	-2.4	-6 191	-1.8
1982	-27 083	-6.0	-11 705	-3.1

Source: Department of Finance, *Economic Review*, April, 1983.

a percent of GNP reached unprecedented proportions during the 1970s. Both of these factors signalled an era of restraint and as a result reversed the liberalizing trend of legislative changes to the Canadian program of government payments to the unemployed.

The actual form and timing of this revisionist movement, however, was influenced by the nature of the Canadian political process. Canadian public policy making can be described as "deductive": "policy proceeds from the top down."(42) Once a proposal has been formulated by the ruling party public discussion is of little influence in altering it. This structure allowed the ruling party to pass legislation regarding the program of payments to the unemployed that was increasingly contentious as the decade wore on. The important exception to this was the NDP's ability to prevent the passing of restrictive legislation during the minority government of 1972-74. The fact that this was an exception, however, only proves the general rule.

There are two phases in the period of program revisionism. The first, a period of muted restraint, lasted from the enactment of the 1971 Act to late 1975. The major factor causing program cutbacks was its unexpected cost. These touched a sensitive cord amongst predominant social values and edged public policy toward restraint. Program abuse, in fact, became an issue in the 1972 federal election. The movement toward restraint, however, was tempered during this period by the minority Liberal government's dependence upon NDP support. Commitments to income adequacy and fairness in the Act's provisions remained evident. The government attempted to address questions of income adequacy in a manner that shifted costs to the private sector, not by cutbacks.

Overt cutbacks of the program's provisions characterized the second phase. Government budgetary considerations became the overriding criterion determining program structure. The period of economic stagnation and the worsening of the government's budget prompted a shift in the form of taxation. A greater emphasis was placed upon the payroll as opposed to the income tax. It also caused important cutbacks in program structure.

The economic constraint was not as severe in the former phase. Table 4-2 shows that government budget deficits, although worsening in the early 1970s were, at least up to 1974, within the realm of previous experience. There were two major bills introduced during this period of muted restraint. The first in 1973, Bill C-124, removed the ceiling of $800 million on advances from the Consolidated Revenue Fund. Program requirements had quickly begun to exceed the ceiling. The need for an amendment to remove it so soon after the 1971 Act underscores, once again, the degree to which the new Act's costs were underestimated. Government costs were made dependent upon the unemployment rate by the new benefit structure and as a result became difficult to predict. The Bill was given quick passage in February 1973. A second Bill, also introduced in 1973, met exactly the opposite fate.

Bill C-125 attempted to tighten the Act's administration and reduce perceived abuses. It focused on the disqualification conditions. Individuals voluntarily leaving their employment without just cause, losing it for reasons of misconduct, or failing to apply or accept suitable employment would be required to work an additional eight weeks before being eligible for benefits. Under the 1971 Act this condition was 3 weeks. The Commission would also be given the authority to make regulations determining when individuals were capable and available for work, and what suitably employed was considered to be. The Bill, however, met with opposition in the House of Commons and was eventually withdrawn because of the minority Government's inability to gain NDP support.

This constraint on government behaviour was removed with the Liberal majority victory in the 1974 election. The trend towards greater restraint was signaled in the Unemployment Insurance Commission's annual report of the following year. It provides the first restatement of the program's objectives since the passing of the 1971 legislation.

> The mandate of Canada's Unemployment Insurance Program is twofold; to offer temporary income support to unemployed workers while they find new jobs and to assist the unemployed in becoming reabsorbed into the labor force as quickly as possible.(43)

Administration of the Act became tighter in 1975,(44) and the first substantive amendments to it were introduced in a Bill that summer. In introducing Bill C-69 to second reading in the House of Commons the Minister of Manpower and Immigration stated that it

> is intended to complement measures outlined in the June 23 budget and is in accordance with our efforts to provide a more rational allocation of government resources.... [The amendments] will contribute substantially to the over-all effectiveness of this program by elimination of some rigidities, by removing some disincentives to quickly return to work, and by cost reductions and better allocation of resources.(45)

The government was at that point in time paying 50% of program costs. The Bill received Royal Assent on December 20, 1975 and ushered in a period of overt program cutbacks.

With the constraint of the minority government removed, and with the further downturn in the economy a second major Bill to amend the UI Act was introduced in December 1976. The estimated annual savings under the proposals of Bill C-27, as it was finally passed, was $135 million.(46) A motion was required to limit debate in order to ensure the Bill's passage. The most notable amendments restricted the benefit duration. The Bill also increased eligibility requirements.(47)

The Government's commitment to restraint was renewed in 1978. Prime Minister Trudeau made a pledge to reduce federal government spending by $2.5 billion in the next fiscal year.(48) Amendments to the UI Act were geared to improving the incentives toward work and reducing federal government costs. Bill C-14 was introduced in the fall. In his comments on the Bill the Minister of Manpower and Immigration stated that:

> the essence of the changes we propose to the unemployment insurance program is twofold. First we want to reduce some of the disincentives to work which are present in the program. Second, we want to encourage workers to establish more stable work patterns and develop longer attachments to the active work force, thereby reducing their dependency on unemployment insurance.
>
> The proposed changes to the UI program should, therefore, be considered both as program improvements, in themselves, which will reduce the negative aspects of the program, and as cost savings to be applied to other more productive programs. The cutbacks are necessary and will result in a better, more balanced program than ever before. The new emphasis will be on encouraging all Canadian workers to look for, accept and remain at work....
>
> The growing costs of the unemployment insurance program, which were just over $4 billion in the latest fiscal year, could not be ignored. Nor could we ignore the employment disincentive effects which were adding to other problems in the labour market.(49)

Eligibility conditions and benefit rates were both moved to more restrictive levels. Financing provisions were altered to shift a greater proportion of costs onto the private sector.(50) The Government estimated that costs would fall by $675 million in 1979-80 and by $885 million in 1980-81. The private sector contribution would increase by $20 million in the first year and fall by $50 million once the proposal was fully implemented in the second year. The burden of the cutbacks, thus, would fall on those who had been receiving benefits. There was also an implication that the provinces would pay the costs through higher social service requirements as former UI recipients became more dependent upon welfare.(51) The reaction to the Bill was more hostile than that faced by previous Bills. Indeed, it could only be passed by the Government's introduction of a motion of closure in late December 1978.

The election campaign of the following spring committed the newly elected Conservative Government to a review of Bill C-14 and the program in general. A proposal to eliminate threshold financing by government (that is, the mechanism through which the share of government costs are increased when unemployment exceeds a particular level), was included in the Budget of December 11, 1979. All initial and labour force extended benefits would be charged to the private sector. Also included was a proposal to charge the cost of employment and related services under the Act to the Account. These were at the time paid by general governmental revenues. Contribution rate increases accompanied these proposals.

Although these changes were not enacted because of the Budget's defeat they did find their way into legislation under the re-elected Liberals. In 1980 Bill C-3 along with other changes in regulations altered the financial structure of the program in a manner that shifted costs to the private sector.

Thus the shift from concerns of income adequacy to issues of work incentives and government costs occurred in two stages. Unexpected program costs precipitated the revisionist trend, but it was the removal of political constraints on government action in the context of a deteriorating economy that substantive cutbacks were introduced. The government was able to enact restrictive legislation even though opposition to them was great.

The program's structure was significantly narrowed after 1975. The dimensions of this narrowing involved all aspects of the program. Coverage was altered by Bill C-69 in 1975. The Bill reduced coverage to those under 65 years of age. Individuals between 65 and 70 would no longer contribute to, or have a right to, benefits. A special severance benefit at 65 would continue to be paid if the individual had 20 insurable weeks of employment at 65 years of age.

Eligibility requirements were also made more stringent. As mentioned the NDP thwarted the attempt to increase the disqualification period in 1973. The proposal, however, was passed through Bill C-69 in 1975. It doubled the disqualification period from 3 to 6 weeks. It also should be noted, however, that the Bill extended the qualifying period to a maximum of 104 weeks for those involuntarily absent from the labour force: that is, those incapable of work because of sickness, disability or quarantine, receipt of workers compensation, participation in approved training programs or incarceration in a penal institution. This provision was justified in terms of fairness.

Changes in eligibility after 1975 were all in a restrictive direction. Bill C-27 in 1977 attempted to increase requirements to 12 weeks from 8 weeks. This proved, however, to be a contentious issue in the Bill's debate and the Government decided to alter the form of the increase. A Variable Entrance Requirement of 10 to 14 weeks according to regional unemployment rates was introduced.(52) It should be noted that the minimum eligibility requirement was nonetheless higher than the prevailing 8 week requirement. Furthermore, the Variable Entrance Requirement was to be in force for 36 months. Legislation would be required to extend it. If such legislation was not forthcoming it would automatically become a 14 week requirement.

In 1978 authority was granted to the administration under Bill C-14 to make regulations excluding those who worked less then 20 hours per week or received less than 30% of maximum insurable earnings from insurable employment. The Bill also proposed to raise entrance requirements. New entrants were singled out. They were defined as those individuals with less than 14 weeks of employment in the year preceding their qualifying period and required 20 weeks of insurable employment in the qualifying period to be eligible for benefits. Those with 14 or more weeks qualified according to the Variable Entrance Requirement. A special requirement was also established for program repeaters. Six additional weeks were added to the Variable Entrance Requirements for this group. Thus the employment requirement ranged from 16 to 20 weeks according to the regional unemployment rate. The structure was designed to encourage longer work attachments and shorter claims.(53) A sunset provision was written into the Variable Entrance Requirement. It was extended by Bill C-3 in 1980, and Bill C-156 in June 1983 for a further two years.

The benefit structure was significantly curtailed during the decade. No changes were made in the waiting period. It will be recalled, however, that this was the only aspect of the structure that was tightened in 1971 when it was increased from 1 to 2 weeks. Benefit rates were first reduced in 1975. Bill C-69 eliminated the dependency rate of 75% of previous earnings: 66 2/3% would apply to all claimants in all benefit phases. The Bill also eliminated the payment of advance payments to major attachment claimants. Benefit rates were further reduced in 1978 under Bill C-14. The view was taken that the benefit rate encouraged work disincentives and as a result was cut to 60%.

The major change in benefit structure concerned the duration of benefits. Bill C-27 was introduced in 1977 after the Department's Comprehensive Review of that year. The Bill followed the Review's proposal of reducing the 5 phase structure to 3 phases. The initial and re-established benefit phases were replaced with a single initial phase. One week of benefit was paid for each insurable week of employment in the previous 52 weeks up to a maximum of 25 weeks. Labour force extended benefits continued to form the second phase. One week of benefits was paid for each 2 weeks of employment for claimants with 27 or more insurable weeks of employment.(54) A maximum of 13 weeks was established for the phase: five weeks less than the prevailing maximum. The third and final phase of the new structure replaced the national and regional extended phases with a single extended phase. A maximum of 20 weeks was originally established, but after debate of the Bill was altered to 32 weeks. Individuals were to receive 2 additional weeks of benefits for each 0.5% that their regional unemployment rate exceeded 4%. The maximum was attained when the regional unemployment rate exceeded 11.5%. The conceivable maximum of 58 weeks of benefits under all three phases was legislated to 50 weeks in a 52 week period.

The new structure was particularly restrictive toward minor attachment claimants.(55) The initial phase under the new scheme, although it was a maximum of 25 weeks long, tied duration closer to employment record by its ~~elimination~~ elimination of the re-established benefit phase. Further, the labour force extended phase was restricted to those with 27 weeks of employment as opposed to the 20 weeks of the 1971 Act. Along with the elevated eligibility criteria these facts implied that new labour force entrants and others with short attachment to employment faced significant restrictions in benefit duration.

Lastly, the setting of contribution rates was done since the 1971 Act on the basis of the balance in the UI Account. These rates were changed throughout the decade according to the account balance. The major changes in the program's financial structure, however, concerns the shift in the payment of program costs from government to the private sector. Before the 1971 Act the government's share of program costs were fixed at 20%. By 1975 they had risen to as much as 50%. Amendments were enacted to eventually reduce it to the 20% level. In 1975 Bill C-69 altered the 4% unemployment rate as a threshold for government financing. The new threshold would be adjusted annually according to an 8 year moving average of monthly national unemployment rates. Following this formula the 1976 threshold became 5.6%. In 1978, Bill C-14 extended the tri-partite financing scheme to the labour force extended benefit phase: a phase that the government had been solely responsible for. The private sector would pay for costs up to the unemployment threshold and the government would pay for costs once unemployment surpassed the threshold.(56) In 1980 Bill C-3 eliminated threshold financing of these 2 phases. All of the costs were shifted directly to the private sector. The federal government would pay only the cost of regional extended benefits through general revenues.

Regulatory changes concerning financing were announced at the same time. Administration costs of employment services and of the UI program itself would be met by employee and employer contributions.(57)

4.4 SUMMARY

The Canadian program of government payments to the unemployed is a dynamic institution. Its structure has been open to the influence of several different but related factors. These include the government's interpretation of the program's nature; its interpretation of unemployment; the prevailing economic conditions; and the government budgetary position.

The two preceding chapters suggest that three broad phases can be discerned in the program's development according to the configuration of these factors. The first phase, which extends from the program's origins to the early 1960s, is characterized by the government's interpretation of the program as an insurance scheme. A tightly structured insurance-type institution was developed and put into operation in line with this interpretation. However, as the institution was forced to operate in an economy characterized by heterogeneous individuals, cyclical fluctuations, and an uncertain future, it was gradually expanded beyond its insurance basis. The recession of the late 1950s made clear that unemployment was an involuntary phenomenon, and that the program's ability to meet the needs of the unemployed was constrained by insurance-type features.

The concern with the adequacy of the income of the unemployed became a more influential criterion for program design as the insurance conceptualization of the program eroded. The second phase of the program's development is characterized by the development of an alternative governmental view of the program, and by a period of economic prosperity. This phase has its origins in the Report of the Committee of Inquiry of 1962 and extends to the enactment of the 1971 Act. Government payments to the unemployed were viewed as transfer payments. Program structure was altered accordingly. In particular a fund was no longer viewed as a necessary element and was replaced by an account. The interpretation of government payments to the unemployed as a public program requires a justification of its structure and its redistributional impact in terms other than that of insurance. Government costs became the relevant criterion. The government's expectation of continued prosperity resulted in a shifting of some of the burden of unemployment from the unemployed to society in general. Eligibility requirements were significantly reduced, and the benefit structure, though not replacing all of the income lost as a result of unemployment, expanded.

The third and final phase of the program's development is characterized by the reassessment of the government's ability to meet the costs of the program. This era of revisionism, which extends from the early 1970s into the 1980s, was precipitated by the decay in the economy's performance and the large unexpected component of program costs. It was shaped by social values and the nature of the Canadian political process. Program costs were the major criterion determining changes to the 1971 legislation. The government first shifted the costs of the program to the private sector, and after 1975 began to overtly cutback the program's provisions. This restraint was the result of further deteriorations in its budgetary position, and the election of a majority government.

At no point during its history can the program of government payments to the unemployed be said to have operated as an insurance scheme. Unemployment is not an insurable interest. Even so insurance notions have been important influences upon the program's structure. They represent a particular rationalization of how the costs of unemployment should be distributed. The Canadian program of government payments to the unemployed is a public program of income transfer, and the dimensions of its structure are open to the influence of several related and continually changing factors.

Chapter 5
CONCLUSION

In 1944 Eveline Burns claimed that

> [f]ew topics of economic study present a more perfect example than social insurance of the interrelationships between economics and other social sciences; sociology, social psychology, political science and history, using the latter word in the sense of the study of institutional evolution. Few make greater demands on the ability of the student accurately to diagnose and specifically state his premises concerning the prevailing temper and social psychology of the period to which his generalizations relate. Few illustrate better the need for a dynamic and evolutionary approach to the study of social institutions. Finally, few topics of study expose the economist to greater temptations to introduce implicit value judgements into his "purely theoretical" analyses.(1)

In its application to government payments to the unemployed this claim is no less true today than it was 40 years ago. Interpreting such payments as an insurance scheme is not a positivistic view, it is a normative stance. Government payments to the unemployed do not represent an insurance scheme, they are rather, a public program of income transfer.

The present work shows that this is so in theory and in practice. Chapter 2 illustrates that unemployment is not an insurable risk. The probability of unemployment is not out of the individual's control. More importantly, however, individuals are not homogeneous and their probabilities of unemployment are not independent: indeed, they are not even calculable in an insurance sense. The income security needs of those exposed to the threat of unemployment can only be met by a public program of income transfer. Such programs transfer income between individuals during a given time period. The nature of unemployment and the uncertainty to which the economy is subject dictate that government payments, if they are to meet their objective, must function as such.

Chapters 3 and 4 reveal that the actual structure and operation of the Canadian program dispels the notion that it functioned as an insurance program. Coverage entailed, from the very beginning, the pooling of heterogeneous risks. The seasonally unemployed, those that cannot be said to have an insurable interest, have also been incorporated into the program. Eligibility qualifications represent less a means of establishing that recipients have lost an insurable interest and have made the requisite contributions, than an important gateway limiting access to benefits to those deemed to have a right to tax supported payments. The benefit structure has been the aspect of the program most influenced by insurance notions. The fact that benefits have consistently been set at a level below employment income because of concern over issues of moral hazard does not support the hypothesis that the program is an insurance scheme. It reveals, rather, that interpreting the program as such implies a tendency to shift the costs of unemployment onto the unemployed. Individual equity has not been an aspect of the benefit-contribution structure. Benefits and contributions, furthermore, have been altered independently. "Contributions", in fact, may be a misnomer. They are in reality taxes. Furthermore, a fund could not be sustained as a relevant aspect of program design. Financing was done on a current basis after 1960.

Use of the insurance model offers a rationale for a particular configuration of the program parameters. It stresses issues concerning the optimal allocation of resources in a static context. The costs of the program are emphasized by such an approach. Economists adopting the model are directed to issues of work disincentives in their various forms. The setting of optimal benefit rates is done with concern for these costs. The model gives the impression that these rates can be established according to the criterion of actuarial soundness.

In reality this criterion offers a coarse and incomplete guide for the determination of the program's parameters. Expectations of program costs are certainly one factor influencing them, but others have been just as important. Modelling government payments to the unemployed as a public program of income transfer provides a framework that incorporates the influence of these factors. It suggests that the government's budgetary position, and the nature of the social welfare function are the determinants of program structure. The review of the Canadian program in Chapters 3 and 4 interprets these categories to mean, on the one hand, the cyclical state of the economy, the government deficit, and the government's expectation of program costs; and on the other hand, the government's interpretation of the program's nature, and its interpretation of the nature of unemployment. The structure of the society's political institutions mediate between these two broad categories of program determinants.

This perspective allows an analysis of the program through time, and in a way that meshes with analyses offered by historians and political scientists. The insurance model is a narrow interpretation of the program's nature. Deviations of the program's actual operation from insurance precepts can only be explained as <u>ad hoc</u>. The interpretation of government payments to the unemployed as a public program of income transfer is a more accurate conceptualization of what the program is, without implying a vision of what it should be.

This perspective depicts the program's operation in a context of uncertainty and assumes heterogeneity of the actors involved. It offers avenues for further research at both the theoretical and empirical levels. The heterogeneity of actors implies that the probability of unemployment is greater for some than for others. There exist, therefore, contrasting expectations of the possibility of being unemployed. Behaviour towards risk may be asymmetric: those facing a small probability of unemployment may ignore the risk altogether. Only once the probability exceeds some threshold does it influence individual behaviour. Since the possibility of unemployment varies the public support for a program of government payments to the unemployed may be ambivalent. This hypothesis was suggested in Chapter 2 and requires further examination. Is it true that small possibilities of an event occurring do not influence behaviour until they approach some critical level? If so what is the basis for such behaviour? With particular reference to the possibility of unemployment, what is its relationship to the structure of the work place? Can such patterns of behaviour be incorporated, for example, into the theory of dual labour markets?

Asymmetric behaviour of this sort may have its basis in the fact that the economy is characterized by uncertainty. Its existence may serve to underscore the fact that individuals are forced to make decisions without having knowledge of the future. It is not likely that such asymmetric behaviour would prevail in an economy where actors had knowledge of the probability distributions of future events; that is, an economy characterized by risk.

The view of government payments to the unemployed as a public program of income transfer suggests a rationale for the state operation of such programs. This is something that the insurance model cannot do. It is necessary to recognize not only the problem of moral hazard, but also the issues of worker heterogeneity, interdependence of probabilities, the prevalence of uncertainty, and the explicit adoption of income adequacy and fairness as criteria for program design. When these factors are taken into account the operation of such a program as a government program can be understood. This is not to deny that many economists have adopted the insurance model and find it persuasive; the reasons for this persuasiveness is a topic for future consideration.

The public transfer model suggests a parallel between government payments to the unemployed and government payments to the retired. If the analogy is a valid one it may be extended to other social security programs. Is it possible to provide an overall framework for the analysis of government income security programs in these terms?

Workmen's Compensation and government operated medical insurance could conceivably be analyzed from the perspective of the public model of income transfer. Income security programs could be categorized by the extent of moral hazard, the degree of actor heterogeneity, the degree to which their probabilities are interdependent, and the extent to which _ex ante_ calculations can be validly made. These factors may provide the rationale for state operation of such programs. Is it possible by comparing income security program's in these terms to explain differences in the extent of public support for them?

The interpretation of government payments to the unemployed as a public program of income transfer also suggests directions for empirical research. The use of the insurance framework has skewed policy debate toward the analysis of work disincentive effects. The public model of income transfer suggests that greater attention be paid to the distributional impact of the program and any proposed policy changes. The advocacy of "experience rating" has, for example, been put forward solely in terms of allocative efficiency. There have been no studies made of its potential impact on income distribution. The Canadian program of government payments to the unemployed is part of the institutional structure determining income distribution. Changes to it will influence income distribution. This fact should be recognized in the planning of public policy.

This is not to suggest that program costs should be ignored, but to underscore the fact that they be placed within the overall context of the program's operation. In fact, the empirical analyses of the program's possible work disincentive effects may not be as robust as is often suggested. The historical review of the institution's operation presented in Chapters 3 and 4 implies that the program's complexity has not been captured in the empirical studies made of it. It is clear that from the very beginning program structure has been influenced by the cyclical state of the economy. Indeed, after 1971 benefit duration was explicitly tied to the regional and national unemployment rates. Later in the decade this was also true of the eligibility requirements. Yet, in all empirical studies of possible disincentive effects the line of causality is reversed. Interdependence is not even recognized.(2) This fact suggests the need to examine these studies in a critical vain. While two separate reviews do exist in the literature they do not critically assess the statistical techniques employed and the extent to which the analyses are robust.(3) A critical review of this research is in order.

A third avenue for possible empirical work concerns the program's impact upon consumption. The program's major objective is to maintain the consumption possibilities of individuals during periods of unemployment. To what extent does it achieve this goal? Is the marginal propensity to consume out of transfer payments greater or less than that out of other income sources?

Finally, research is needed on the macroeconomic implications of the program. The notion that the program is an automatic stabilizer is held by many. Is this so in reality? What changes in program structure have the greatest consequence for the program's stabilizing potential? Studies of this sort have been few and far between.(4) In fact it is not unreasonable to suggest the hypothesis that during the 1970s the program has become an automatic destabilizer. While the development of the UI Account in 1971 was a positive change in that it freed the program's operation from the dictates of a fund, it represents a potentially negative effect on the program's macroeconomic impact. If a fund mentality prevails in the operation of the account the program will be removing purchasing power from the economy during a recession not injecting it. During the 1970s there has been pressure to eliminate deficits in the account over a short period of time. Contribution rates are adjusted annually according to the expected deficit. This narrow time horizon may erode the automatic stabilizing powers of the program. How have policy makers actually behaved? What have been the consequences for aggregate demand? These issues remain to be addressed in the Canadian context. (5)

The pursuit of these research directions may allow the development of a broader vision of the Canadian program of government payments to the unemployed. Only within such a context can the nature and extent of policy trade-offs be correctly understood. The first step in developing such a vision remains, however, the rejection of the insurance interpretation of the program for one that recognizes it as a public program of income transfer.

Appendix
DISTRIBUTIONAL CONSEQUENCES OF THE CANADIAN PROGRAM: 1978

The following tables reveal the pattern of redistribution resulting from the Canadian program of government payments to the unemployed during 1978.

Table A-1 shows that there was a transfer of income from males to females and from those in the middle-aged cohorts to the youth. While females paid 16.8% of total contributions they received 33.5% of total benefits. Those between the ages of 35 and 54 subsidized, in large part, 15 to 24 year olds. Table A-2 illustrates that low income earners in general are net recipients under the program. Those with annual incomes under $12,000 received 80% ($3,597 million) of total benefits, while those with annual incomes above $12,000 accounted for 76% of all contributions ($3,424 million). A similar pattern exists under a family income basis. While middle and high income families receive a high percentage of total benefits, they account for an even higher percentage of program contributions. Families with annual incomes greater than $16,000 received 55% of total benefits ($2,485 million), but accounted for 85% ($4,429 million) of total contributions. Families with an income of less than $20,000 per year were net program recipients. The fact that redistribution among families is not as great as among individuals is a result of the concentration of many low income recipients in middle and high income families.(1)

Finally, the occupational and regional dimensions suggest that the program transfers income to those most susceptible to unemployment. Workers in seasonal or unstable occupations receive a transfer from the

Table A - 1
UI Transfers by Sex, Age, Family Status, and Occupation
1978 (millions of dollars)

	Benefits	Contributions			Transfer
		(1)	(2)	(3)	
SEX					
Male	2879	1740	1557	3297	-417
Female	1634	849	367	1216	417
AGE					
15-24	1512	598	161	759	753
25-34	1322	795	512	1307	15
35-44	681	523	462	985	-303
45-54	564	432	427	859	-295
55-64	429	238	268	506	-77
65+	5	3	96	99	-93
FAMILY EARNING STATUS					
Highest earner	2448	1900	1615	3515	-1067
2nd highest	1698	590	240	830	868
Other	367	0	168	168	200
OCCUPATION					
Managerial and Admin.	138	265	334	599	-462
Professional	305	310	302	612	-306
Teaching	145	131	117	248	-103
Clerical	643	438	193	631	11
Sales	283	235	185	420	-136
Services	649	237	119	356	293
Forest, Farm, Fish	314	53	52	105	209
Mining	440	217	141	358	82
Product Fabrication	399	269	171	440	-42
Construction	759	206	159	365	394
Transportation	439	228	152	380	60

(1) private (2) government (3) total

Source: Employment and Immigration Canada, "Distributive and Redistributive Effects of the UI Program", Technical Study 10 of the Task Force on Labour Market Development, Ottawa: 1981.

more stable occupations. Construction, services, forestry, farming and machinery, and to a lesser extent mining and transportation are all occupations that received a net transfer. The major net contributors were the managerial and administrative, and the professional occupations. Workers in teaching and sales also made net contributions.

There is, furthermore, a regional transfer of income. Redistribution occurs from Ontario and the Prairies to Quebec and the Atlantic provinces. Excluding British Columbia, some $1,130 million were transferred from the west to the east in 1978.

The data should be taken as indicative only. They are based upon the gross income of the groups involved so that the role of taxation of benefits and deduction of contributions is not taken into account. Furthermore, the results are to some degree sensitive to the assumptions made regarding government financing. The government share is considered as the surplus of premiums paid during the reference year. It is assumed that the government contribution is financed by personal income taxes. Excise and corporate taxes and their final incidence are abstracted from entirely. Although the assumption may not be strictly valid, a more careful analysis that included tax provisions reached qualitatively similar results.(2) Concerning program contributions, no distinction is made between employer and employee contributions. The implicit assumption being that employer contributions are shifted entirely to workers through lower wages.

Table A - 2

UI Transfers by Family Income and Individual Income, 1978 (millions of dollars)

	Family Income					Individual Income				
Annual Income	Benefits	Contributions (1)	(2)	(3)	Transfer	Benefits	Contributions (1)	(2)	(3)	Transfer
under 3,999	94	10	1	11	83	583	78	0	78	505
4,000- 5,999	197	22	2	24	173	918	110	2	112	806
6,000- 7,999	310	41	8	49	260	907	170	25	195	712
8,000-11,999	712	156	48	204	508	1189	534	169	703	486
12,000-15,999	715	273	111	384	311	517	576	281	857	-341
16,000-19,999	564	367	191	558	6	239	481	339	820	-580
20,000-24,999	747	473	299	772	-25	160	639	1108	1747	-1587
25,000-29,999	468	405	291	696	-227					
30,000-34,999	287	297	250	547	-260					
over 35,000	419	546	722	1268	-849					

(1) private (2) government (3) total

Source: Employment and Immigration Canada, "Distributive and Redistributive Effects of the UI Program", Technical Study 10 of the Task Force on Labour Market Development, Ottawa: 1981.

Table A - 3
UI Interprovincial Transfers, 1978 (millions $)

	UI Revenue (1)	UI Expenditure (2)	Transfer	U %
Newfoundland	64.4	262.9	198.9	16.4
PEI	13.8	46.0	32.2	9.9
Nova Scotia	132.6	226.8	94.2	10.6
New Brunswick	99.2	260.5	161.3	12.6
Québec	1144.4	1787.8	643.4	10.9
Ontario	1920.9	1237.8	-648.1	7.2
Manitoba	179.2	139.3	-39.9	6.5
Saskatchewan	140.6	96.1	-44.5	4.9
Alberta	472.6	153.5	-319.1	4.7
British Columbia	505.8	564.3	58.5	8.3

(1) aggregate UI revenue, private and government
(2) aggregate UI Expenditure, benefits and administration
U unemploymnet rate

Source: Employment and Immigration Canada, "Unemployment Insurance: Interprovincial Transfers", Technical Study 9 of the Task Force on Labour Market Development, Ottawa: 1981; Statistics Canada, Labour Force Annual Averages, Catalogue 71-529, Occasional.

ENDNOTES

Chapter 1
INTRODUCTION: THE ECONOMIC EVALUATION OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED

1. See the introductory chapter of Herbert G. Grubel and Michael A. Walker, eds., Unemployment Insurance: Global Evidence of its Effects on Unemployment (Vancouver: Fraser Institute, 1978).

2. In his survey of the literature Hum has stated that an "investigation of the work-disincentive effects of unemployment insurance is clearly an incomplete evaluation of the program since there are also beneficial features as well as other economic objectives. Unemployment insurance cannot be viewed in isolation from the total social security system any more than labour markets can be examined apart from the total economy ...". Derek P.J. Hum, "Unemployment Insurance and Work Effort: Issues, Evidence, and Policy Directions," (Toronto: Discussion Paper Series, Ontario Economic Council, 1981), pp.25-26.

3. For example, in discussing the program's financing Kesselman states: "[s]ubstantial balance between benefits and premiums is ... important in maintaining the popular perception that UI [Unemployment Insurance] is a social insurance rather than a welfare program. Participants will feel that they have "paid for" their insurance coverage and have a clear right to their benefits under well-specified circumstances." Quotations in original. Jonathan R. Kesselman, Financing Canadian Unemployment Insurance (Toronto: Canadian Tax Foundation, 1983), p.14.

4. A representative, but partial, bibliography would include the following: Herbert G. Grubel, Dennis Maki, and Shelley Sax, "Real and Insurance-induced Unemployment in Canada," Canadian Journal of Economics, VIII, No. 2, (May 1975), 174-91; C. Green and J.-M. Cousineau, Unemployment in Canada: The Impact of Unemployment Insurance (Ottawa: Economic Council of Canada, 1976); D. Maki, "Unemployment Insurance, Unemployment Duration and Excess Supply of Labour," Industrial Relations Industrielles XXXI, No. 3 (1976), 368-78; D. Maki, "Unemployment Benefits and the Duration of Claims in Canada," Journal of Applied Economics IX (1977), 227-36; Samuel A. Rea Jr., "Unemployment Insurance and Labour Supply: A Simulation of the 1971 Unemployment Insurance Act," Canadian Journal of Economics, X, No. 2 (May, 1977), 263-78; Fred Lazar, "The Impact of the 1971 Unemployment Insurance Revisions on Unemployment Rates: Another Look," Canadian Journal of Economics, XI, No. 3 (August, 1978), 559-70; W. Craig Riddell and Philip M. Smith, "Expected Inflation and Wage Changes in Canada, 1967-81," Canadian Journal of Economics, XV, No. 3 (August, 1982), 377-94; C.M. Beach and S.F. Kaliski, "The Impact of the 1979 Unemployment Insurance Amendments," Canadian Public Policy, IX, No. 2 (June, 1983), 164-73.

5. In fact the Economic Council of Canada, in summarizing published work on the impact of the 1971 program changes noted that while the disincentive effects may have added 60 to 75 thousand individuals to the ranks of the unemployed, the stimulative effects may have increased the number of employed by 80 thousand. See People and Jobs: A Study of the Canadian Labour Market (Ottawa: Information Canada, 1976), p.154.

Chapter 2
THE NATURE OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED: A THEORETICAL PRIMER

1. A.D. Watson, The Principles that Should Govern the Structure and Provisions of a Scheme of Unemployment Insurance (Ottawa: Unemployment Insurance Commission, February 1948, revised May 1954), p.6.

2. For the discussion of the theory of insurance see Kenneth J. Arrow, "Uncertainty and the Economics of Medical Care," American Economic Review LIII, No. 4 (December 1963), 941-73; Robert J. Mehr and Emerson Cammack, Principles of Insurance 6th edition (Richard D. Irwin, 1976); J. Hirshleifer and John G. Riley, "The Analysis of Uncertainty and Information An Expository Survey," Journal of Economic Literature XVII, No. 4 (December, 1979), 1375-1421.

3. Arrow, p.960.

4. The source for the following discussion is Martin Neil Baily, "Unemployment Insurance as Insurance for Workers," Industrial and Labor Relations Review XXX, No. 4 (July, 1977), 495-504. After the present chapter was written, an extended version of this paper was discovered. There are no changes in substance between the two papers, but the citations attributed to the former may not necessarily be found in the latter. The reader is referred to: Martin Neil Baily, "Some Aspects of Optimal Unemployment Insurance," Journal of Public Economics X (1978), 379-402.

5. Baily (1977), p.496. The reader should note that insurance cannot be justified in terms of the magnitude of income loss due to unemployment, only in terms of the risk of such a loss.

6. ibid., p.497.

7. ibid.

8. ibid.

9. ibid., pp.495-6.

10. Unemployment Insurance Commission, An Explanation of the Principles and Main Provisions of the Unemployment Insurance Act (Ottawa: Queen's Printer, October 1950, revised January 1953), pp.13-14.

11. See Chapter 1, n. 4.

12. Indeed, in concluding his paper Baily himself states: "Although it is hoped that the analysis has some fairly direct policy relevance, the real problem is sufficiently complex that the conclusions need to be applied with caution. There remain unanswered questions involving the response of firms, the problem of temporary layoffs, and particularly the differences among workers. Young workers with a general skill in a diversified labor market are in a very different position from older workers with a narrow skill in a local labor market." ibid., p.504.

13. Mehr and Cammack, p.36.

14. This distinction and its significance is often not addressed in any detail. See for example Hirshleifer and Riley, p.1378. Two exceptions are Frank H. Knight, Risk, Uncertainty and Profit (New York: Houghton Mifflin, 1921); and J.M. Keynes, "The General Theory of Employment," Quarterly Journal of Economics (February, 1937).

15. See Lee Soderstrom, "Unemployment Compensation: A Different View," in Unemployment Insurance: Another Victim of the '80s (Ottawa: Canadian Centre for Policy Alternatives, 1981), pp.48-59.

16. Baily, p.496.

17. This is shown in Sargent. He develops a model that is similar to that of Baily's, but introduces risk neutral firms into the analysis. Profit maximization will provide sufficient incentives for firms to develop a system of unemployment insurance. See Thomas J. Sargent, Macroeconomic Theory (New York: Academic Press, 1979), pp.160-70.

18. A. Asimakopulos, The Nature of Public Pension Plans: International Equity, Funding, and Saving (Ottawa: Minister of Supply and Services Canada, 1980), p.39. Emphasis in original.

19. Indeed one advocate of the insurance approach has gone so far as to say: "[i]nsured persons, in their employment environment, are highly heterogeneous in nearly all significant characteristics ... It is unrealistic to think in terms of the average person or of the average employment or industrial conditions, for such averages are concepts without practical meaning for insurance purposes." Watson, pp.10-11.

20. The literature on dual labour markets may provide a foundation for the analysis.

21. That this in fact is the case in actual practice is illustrated in Chapter 3.

22. The major references are: A. Asimakopulos and J.C. Weldon, "On the Theory of Government Pension Plans," Canadian Journal of Economics, I, No. 4 (November, 1968), 699-717; "On Private Plans in the Theory of Pensions," Canadian Journal of Economics, III, No. 2 (May 1970), 223-36; J.C. Weldon, "On the Theory of Intergenerational Transfers," Canadian Journal of Economics, IX, No. 4 (November 1976), 559-79.

23. Asimakopulos and Weldon, (1970), p.224. Footnotes omitted, quotations in original.

24. ibid., p.225.

25. Asimakopulos and Weldon, (1968), p.701.

26. ibid., n. 7, p.702.

27. Asimakopulos, (1980), p.43; emphasis in original.

28. Professor Ingerman's comments on an earlier draft were helpful in formulating the following argument.

29. It is well documented that in the industrialized nations support for pension programs is one of the strongest amongst income maintenance programs, while that for unemployment payments is weakest. See Arnold J. Heidenheimer, Hugh Helco, and Carolyn Teich Adams, Comparative Public Policy: The Politics of Social Choice in Europe and America, 2nd edition, (New York: St. Martin's Press, 1983), pp.320-24.

30. This logic seems to rest upon the assumption that utility functions are interdependent. A rationale exists for the transfer of income much in the way that some have argued the case for charity. The individual derives satisfaction from the increased consumption of others, and would be willing to transfer some of his or her own income to this affect. Bellemare reviews this perspective in her concluding chapter.

31. The direct relationship that Asimakopulos and Weldon see between "government" and "social welfare function" must be seen as being mediated by political institutions and the nature of the political process. See p.25; n. 30.

32. In this respect Ashenfelter has stated: "A worker is viewed as unemployed by the community if he is perceived as identical to other workers with respect to preferences and skills and yet is unable to find the number of hours of work that others have both chosen and managed to find. Thus, it is the inherent inequality of the constraints on choice implied by the presence of unemployment that defines it, and in my opinion, what makes it seem so socially unacceptable.... On the other hand, those who maintain that unemployment is voluntary typically also maintain that unemployed workers are different than fully employed workers, either because they have stronger preferences for leisure than do fully employed workers or because they have fewer marketable skills than do fully employed

workers. It is hardly surprising that individuals who accept this view of unemployed workers have little sympathy for the compensation of the hardship of the unemployed workers and argue that without such compensation most unemployment would disappear." Orley Ashenfelter, "The Withering Away of a Full Employment Goal," Canadian Public Policy, XI, No.1 (March 1983), pp.117, 118.

33. Committee of Inquiry into the Unemployment Insurance Act, Report (Ottawa: Queen's Printer, November 1962), p.20. Parantheses and emphasis in original.

34. Unemployment Insurance Commission, An Explanation of the Principles and Main Provisions of the Unemployment Insurance Act (Ottawa: Queen's Printer, October 1950, revised January 1953), p.11.

35. Committee of Inquiry, p.103.

36. Unemployment Insurance Commission (1953), p.18.

37. Eveline M. Burns, "Private and Social Insurance and the Problem of Social Security: Part II," Canadian Welfare (March 15, 1953), p.12. Emphasis in original.

Chapter 3
PUBLIC ASPECTS OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN CANADA: THE PRE-1971 PROGRAM

1. The need for an unemployment insurance program was first proposed by the Royal Commission on Industrial Relations. See James Struthers, No Fault of Their Own: Unemployment and the Canadian Welfare State 1914-41 (Toronto: University of Toronto Press, 1983), pp.12-44.

2. These are discussed in Bellemare, pp.7-21.

3. On this point compare the analysis of Guest with that of Struthers. The latter provides detailed evidence to show that the constitution was not the major barrier to reform. Struthers, pp.71-138; Denis Guest, The Emergence of Social Security in Canada (Vancouver: 1980).

4. For example, Cassidy argued for the establishment of the program in terms of the dictates of the fund. Harry M. Cassidy, "Unemployment Insurance for Canada," Queen's Quarterly, XXXVIII (1931), 306-34. Struthers, pp.44-104 is the source for the following discussion.

5. Gary Dingledine, A Chronology of Response: The Evolution of Unemployment Insurance from 1940 to 1980 (Ottawa: Employment and Immigration Canada, 1981), pp.25-42. This is the major source for the following discussion.

6. Committee of Inquiry, p.105.

7. A.D. Watson, The Principles that Should Govern the Structures and Provisions of a Scheme of Unemployment Insurance (Ottawa: Unemployment Insurance Commission, February 1948, revised May 1954), p.12.

8. Unemployment Insurance Commission (1953), p.8.

9. Watson, p.6.

10. ibid., p.8; see also pp.9-12.

11. ibid., p.6.

12. ibid., p.6.

13. The Minister of Labour, H. Mitchell, stated in introducing the legislation that the "effect of any social legislation is dependent on the extent of the classes of persons covered ... It has been and still is the policy of the government to widen the scope of the Act as rapidly as possible, and the changes effected, together with those projected, indicate the progress being made." Dominion of Canada, House of Commons, Debate, 2nd Session, 20th Parliament, Vol. III (1946), p.3103.

14. Committee of Inquiry, p.108.

15. Dingledine, p.21. This is the reference for the following discussion.

16. Section 42 of the Act empowered the Commission with the authority to establish additional conditions for contributions and benefits for those normally employed only parts of the year. If the application of the Act to such employees led to 'anomalies' with regard to the benefits of other insured workers, the Commission could establish further conditions for the payment of benefits.

17. Unemployment Insurance Commission, 15th Annual Report (Ottawa: Queen's Printer, 1956), p.52.

18. Unemployment Insurance Commission, 16th Annual Report (Ottawa: Queen's Printer, 1957), p.24.

19. Dingledine, p.39.

20. See p. 29 of text.

21. Watson, p.35.

22. ibid., p.36.

23. In addition the Act contained conditions for repeat claimants and conditions under which claimants could be disqualified, see Unemployment Insurance Commission (1953), p.18 for a summary.

In the original Act a second claim could be granted only if 60 of the required 180 days of employment occurred in the year after the last claim ended. In 1943 an amendment made this less stringent by requiring that the 60 days occur since the start of the previous benefit year. With a further amendment in 1950 the requirements for a repeat claim became: (a) at least 60 daily contributions in the period of one year before the claim, or in the period since the previous benefit year began, whichever was shorter; or (b) at least 45 contributions in the period of six months before the claim or in the period since the previous benefit year began, whichever was shorter. Dingledine, p.26.

24. Unemployment Insurance Commission, 15th Annual Report, p.48.

25. "Instead of 60 days during the last year (or 45 during the last half year) a claimant has to build up credit for eight additional contribution weeks since the commencement of his previous benefit." Dingledine, p.37.

26. Unemployment Insurance Commission (1953), p.17.

27. Watson, p.12.

28. ibid., pp.38-9.

29. Unemployment Insurance Commission, 15th Annual Report, pp. 49-50.

30. Watson, p.15.

31. ibid., p.21.

32. Unemployment Insurance Commission, 12th Annual Report (Ottawa: Queen's Printer, 1953), p.6.

33. Unemployment Insurance Commission, 7th Annual Report (Ottawa: Queen's Printer, 1948), pp.25-7.

34. Dingledine, p.15.

35. Unemployment Insurance Commission, 13th Annual Report (Ottawa: Queen's Printer, 1960), p.29-30.

36. Unemployment Insurance Commission, 19th Annual Report (Ottawa: Queen's Printer, 1960), p.26.

37. Unemployment Insurance Advisory Committee, "Special Report of the Unemployment Insurance Advisory Committee Resulting from Meeting, October 27, 1960, "The Labour Gazette, LXI (1961), pp.122-9.

38. ibid., p.125.

39. Jonathan R. Kesselman, Financing Canadian Unemployment Insurance (Toronto: Canadian Tax Foundation, 1983), p.43.

Chapter 4
PUBLIC ASPECTS OF GOVERNMENT PAYMENTS TO THE UNEMPLOYED IN CANADA: EXPANSION AND RETREAT

1. Committee of Inquiry into the Unemployment Insurance Act, Report (Ottawa: Queen's Printer, November 1962).

2. Canada, Unemployment Insurance in the '70s (Ottawa: Queen's Printer, Catalogue No. LV4-270, 1970).

3. Committee of Inquiry, p.4.

4. ibid., p.5.

5. However, the Committee felt that such income support must be conducted in conjunction with a full employment policy. "The development of adequate opportunities for employment and the fullest use of human resources is a prime concern of the community; support for the unemployed when work is not available is a necessary and important social obligation, but is never an end in itself." Committee of Inquiry, p.3.

6. In fact since individuals could not qualify for the second or third part of the proposed program without first having qualified for and exhausted their benefits under the initial part, the structure of the entire program was considerably narrowed.

7. Committee of Inquiry, p.106.

8. ibid., p.106-7.

9. ibid., p.107.

10. ibid., p.108.

11. ibid., p.110.

12. The logic underlying this recommendation relies, once again, upon the notion of indemnity for loss. It "cannot be held that a person has lost wages during an idle period when his past work pattern shows he had no expectation of working during that period." Committee of Inquiry, p.131.

13. The prevailing requirements were 30 weeks of insurable employment in the previous 2 years with 8 in the year before the claim.

14. Committee of Inquiry, p.120.

15. ibid., p.124.

16. ibid., p.150.

17. ibid., p.152.

18. ibid., p.157.

19. ibid., p.159.

20. ibid., p.158. Even though the program was in principle addressed to the problems of the unemployed the tie to the insurance based program precluded it from serving the needs of new entrants, or those involuntarily unemployed after a short attachment to employment.

21. ibid., p.159.

22. As previously stated the actual program was financed in large part by the private sector: government contributed 20% of program costs.

23. Amendments were introduced to further liberalize the program in 1968. These were not, however, related to the Committee's three part proposal.

24. Dingledine, pp.44-5.

25. ibid., p.47.

26. Unemployment Insurance in the '70s, p.6.

27. ibid., p.4.

28. ibid., p.3.

29. Civil servants at all three levels of government were included. Previously the provinces could include workers on a voluntary basis; with the new Act the choice was between including all employees, or none at all.

30. The actual amount was to be adjusted annually with increases in average wages and salaries. This provision made explicit what had always been a target of policy, the maintenance of the incomes of the unemployed relative to the incomes of the employed.

31. Unemployment Insurance in the '70s, pp.17,32.

32. Special eligibility requirements were, nonetheless, applicable in these cases. Twenty weeks of insurable employment were necessary. Further, restrictive criteria were placed upon pregnant women attempting to claim benefits. Even so, the changes were, at the time, novel and seen as a major step towards fairness and equity.

33. The maximum weekly rate for those with dependents could not exceed 2/3 of the maximum insurable earnings level for the year. A minimum benefit rate was established at $20/week.

34. The duration was structured as follows: 8 to 15 weeks of employment in the qualifying period led to 8 weeks of initial benefits; each additional week of employment led to an additional week of benefits; 20 or more weeks of employment implied 15 weeks of benefits.

35. Dingledine, p.63 provides more details.

36. One additional week of benefits was added for each 2 weeks of employment above 20 weeks.

37. Dingledine, p.65.

38. Sixteen regions based on the Statistics Canada Labour Force Survey were established. A 12 month moving average of unadjusted unemployment rate was used by region.

39. The only exception to this were individuals taking training courses designed to facilitate re-entry into the labour force.

40. The major side effect of this change was the possibility that the automatic stabilization properties of the scheme could be muted.

41. The White Paper indicated the intention of the government to proceed with such a scheme by 1974.

42. Christopher Leman, <u>The Collapse of Welfare Reform: Political Institutions, Policy, and the Poor in Canada and the United States</u> (Cambridge, Mass.: MIT Press, 1980), p.35, ff.

43. Unemployment Insurance Commission, <u>34th Annual Report</u> (Ottawa: Queen's Printer, 1975), p.1.

44. This is described in the <u>34th Annual Report</u>, pp.1-3.

45. Canada, House of Commons, <u>Debates</u>, October 27, 1975, pp.8567 and 8570.

46. Dingledine, p.93.

47. Among other things the Bill integrated the UIC with the Department of Manpower and Immigration as well as adopting a provision that repealed experience rating, and another that authorized developmental uses of the UI fund.

48. Dingledine, p.95.

49. Canada, House of Commons, Debates, 4th Session, 30th Parliament, Vol. I, November 9, 1978, p.983.

50. Also among the provisions were an increase in the penalty for program abuse and the taxation of benefits from high income recipients. Dingledine, p.100.

51. Leman, p.125.

52. The requirement was stipulated as follows:

Regional Unemployment Rate	Variable Entrance Requirement (weeks)
$u \leq 6.0$	14
$6.0 < u \leq 7.0$	13
$7.0 < u \leq 8.0$	12
$8.0 < u \leq 9.0$	11
$9.0 < u$	10

53. Regions with an unemployment rate greater than 11.5% were exempted from the provision. This supposedly was now the limit that signalled that unemployment was beyond the individual's control.

54. Under the 1971 Act the same formula applied to those with 20 weeks of employment.

55. Indeed, during the second reading of the Bill the Minister explicitly admitted that its provisions were directed to marginal groups. Canada, House of Commons, Debates, 2nd Session, 30th Parliament, Vol. III, Feb. 1, 1977, p.2591.

56. "The rationale for the change was that the number of weeks of initial regular benefits were related to the number of weeks of insurable employment and therefore directly related to insurance principles. It was felt it would improve the consistency of the financing formula if benefits similar in kind were financed in a similar way. Under this amendment, labour force extended benefits were financed in the same way as initial regular benefits. The private sector would pay the cost for these benefits up to the threshold and the federal government would take over from there." Dingledine, pp.99-100.

57. It has been noted, p.85 that these changes were originally proposed by the Conservatives in 1979.

Chapter 5
CONCLUSION

1. Eveline M. Burns, "Social Insurance in Evolution," American Economic Review, XXXIV, No. 1, Supplement Part 2 (March 1944), p.199.

2. One exception is Grubel, Maki and Sax (1975).

3. Dereck P.J. Hum, "Unemployment Insurance and Work Effort: Issues, Evidence, and Policy Directions," Toronto: Discussion Paper Series, Ontario Economic Council, 1981); Ronald G. Bodkin and Andre Cournoyer, "Legislation and the Labour Market: A Selective Review of Canadian Studies," in Herbert G. Grubel and Michael A. Walker, eds., Unemployment Insurance: Global Evidence of its Effects on Unemployment (Vancouver: Fraser Institute, 1978), 62-89. The latter reveal the uncritical fashion in which these econometric studies have been reviewed when they state in reference to an equation estimated by two stage least squares: "The numbers below the estimated coefficients,..., are the estimated t ratios; note that all six explanatory variables are statistically significant by standard criteria, which is a tour de force in itself with time series analysis." Bodkin and Cournoyer, pp.67-8. In fact, the estimated standard error of two stage least squares may be infinite. T-statistics cannot be given the interpretation that they would be given had Least Squares been used in the Classical Linear Model.

4. One such study is: James P. Cairns, "Unemployment Insurance in Canada: The Problems of Conflicting Principles", Canadian Journal of Economics and Political Science, XXVIII No. 2 (May 1962), 262-69.

5. Kesselman has also suggested that the stabilization properties of the program may be open to dispute. See Kesselman, pp.27-28, 136-38.

Appendix
DISTRIBUTIONAL CONSEQUENCES OF THE CANADIAN PROGRAM: 1978

1. Employment and Immigration Canada, "Distributive and Redistributive Effects of the UI Program," (Ottawa: Technical Study 10 of the Task Force on Labour Market Development, 1981), p.39.

2. Employment and Immigration Canada, "Income Redistribution Through UI: An Analysis by Individual and Family Income Class in 1977," (Ottawa: Technical Study 11 of the Task Force on Labour Market Development 1981).

BIBLIOGRAPHY

Aharoni, Yair. The No-Risk Society. Chatham, New Jersey: Chatham House Publishers Inc., 1981.

Arrow, Kenneth J. "Uncertainty and the Economics of Medical Care." American Economic Review, LIII, No. 4 (December 1963), 941-73.

Ashenfelter, Orley. "The Withering Away of a Full Employment Goal." Canadian Public Policy, IX, No. 1 (March 1983), 114-25.

Asimakopulos, A. The Nature of Public Pension Plans: Intergenerational Equity, Funding, and Saving. Ottawa: Minister of Supply and Services Canada, 1980.

__________ "Public Pensions, the Federal Budget and Discrimination." Canadian Public Policy, IX, No. 1 (March 1983), 105-13.

__________ "Financing Canada's Public Pensions - Who Pays?" Canadian Public Policy, X, No. 2 (June 1984), 156-66.

Asimakopulos, A. and J.C. Weldon. "On the Theory of Government Pension Plans." Canadian Journal of Economics, I, No. 4 (November 1968), 699-717.

__________ "On Private Plans in the Theory of Pensions." Canadian Journal of Economics, III, No. 2 (May 1970), 223-36.

Baily, Martin Neil. "Unemployment Insurance as Insurance for Workers." Industrial and Labor Relations Review, XXX, No. 4 (July 1977), 495-504.

__________ "Some Aspects of Optimal Unemployment Insurance." Journal of Public Economics, X (1978), 379-402.

Beach, C.M. and S.F. Kaliski. "The Impact of the 1979 Unemployment Insurance Amendments." Canadian Public Policy, IX, No. 2 (June 1983), 164-73.

Bellemare, Diane. "La Securite du Revenu au Canada: Une Analyse Economique de l'Avenement de l'Etat Providence." Ph.D. Thesis, McGill University, 1981.

Bellemare, Diane and Lise Poulin Simon. Le Plein Emploi: Pourquoi? Montreal: Presses de l'Université du Quebec, 1983.

Burns, Eveline M. "Private and Social Insurance and the Problem of Social Security." Canadian Welfare, Parts I and II (February 1 and March 15, 1953).

________ "Social Insurance in Evolution." American Economic Review, XXXIV, No. 1, Supplement Part 2 (March 1944), 199-211.

Cairns, James P. "Unemployment Insurance in Canada: The Problem of Conflicting Principles." Canadian Journal of Economics and Political Science, XXVIII, No. 2 (May 1962), 262-69.

Canada. "Unemployment Insurance in the '70s." Ottawa: Queen's Printer, Catalogue No. LV4-270, 1970.

Canada. Debates. House of Commons, various issues.

Cassidy, Harry M. "Unemployment Insurance for Canada." Queen's Quarterly, XXXVIII (1931), 306-34.

Clouthier, J.E. "The Distribution of Benefits and Costs of Social Security in Canada, 1971-75." Ottawa: Economic Council of Canada, Discussion paper 108.

Committee of Inquiry into the Unemployment Insurance Act. Report, Ottawa: Queen's Printer, November 1962.

Danziger, Sheldon, and Robert Haveman, and Robert Plotnick. "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review." Journal of Economic Literature, XIX, No. 3 (September 1981), 975-1028.

Dingledine, G. A Chronology of Response: The Evolution of Unemployment Insurance from 1940 to 1980. Ottawa: Department of Supply and Services, 1981.

Economic Council of Canada. People and Jobs: A Study of the Canadian Labour Market. Ottawa: Information Canada, 1976.

________ In Short Supply: Jobs and Skills in the 1980s. Ottawa: Minister of Supply and Services Canada, 1982.

Ehrlich, I., and Gary S. Becker. "Market Insurance, Self Insurance and Self Protection." Journal of Political Economy, LXXX, No. 4 (July/August 1972), 623-48.

Employment and Immigration. Unemployment Insurance in the 1980s. Ottawa: Minister of Supply and Services Canada, 1981.

__________ "Unemployment Insurance: Interprovincial transfers Technical Study 9, Ottawa: Task Force on Labour Market Development, 1981.

__________ "Distributive and Redistributive Effects of the UI Program." Technical Study 10, Ottawa: Task Force on Labour Market Development, 1981.

__________ "Income Redistribution through UI: An Analysis by Individual and Family Income Class in 1977." Technical Study 11, Ottawa: Task Force on Labour Market Development, 1981.

__________ National Survey of Unemployment Insurance Claimants Six Months after their Claims Ended. Ottawa: July 1978

Feldstein, Martin. "The Economics of the New Unemployment." The Public Interest, No. 33 (Fall 1973), 3-42.

__________ "Unemployment Compensation: Adverse Incentives and Distributional Anomalies." National Tax Journal, XXXVII (June 1974), 231-44.

__________ "The Effect of Unemployment Insurance on Temporary Layoff Unemployment." American Economic Review, LXVIII, No. 5 (December 1978).

__________ "Temporary Layoffs in the Theory of Unemployment." Journal of Political Economy, 84 (October 1976), 937-57.

Glenday, Graham and Glenn P. Jenkins. "Labour Adjustment: An Overview of Problems and Policies." Technical Study 11, Ottawa: Task Force on Labour Market Development, Employment and Immigration Canada, 1981.

__________ "Patterns of Duration of Employment and Unemployment." Technical Study 12, Ottawa: Task Force on Labour Market Development, Employment and Immigration Canada, 1981.

__________ "The Employment Experience of the Unemployed." Technical Study 13, Ottawa: Task Force on Labour Market Development, Employment and Immigration Canada, 1981.

Green, C. and J.-M. Cousineau. Unemployment in Canada: The Impact on Unemployment Insurance. Ottawa: Economic Council of Canada, 1976.

Grubel, Herbert G. and Dennis Maki, and Shelley Sax. "Real and Insurance-induced Unemployment in Canada." Canadian Journal of Economics, VIII, No. 2 (May 1975), 174-91.

Grubel, Herbert G. and Michael A. Walker (eds.). Unemployment Insurance: Global Evidence of its Effects on Unemployment. Vancouver: Fraser Institute, 1978.

Guest, Denis. The Emergence of Social Security in Canada. Vancouver: 1980.

Gustman, Alan. "Analyzing the Relation of Unemployment Insurance to Unemployment." Research in Labor Economics, Vol. 5, JAI Press Inc. (1982), 69-114.

Hansen, Bent. "Excess Demand, Unemployment, Vacancies and Wages." Quarterly Journal of Economics, LXXXIV, (February 1970), 1-23.

Hasan, A. and P. De Broucher. "Duration and Concentration of Unemployment." Canadian Journal of Economics, XV, No. 4 (November 1982), 735-56.

Hauser, Mark. H. and Paul Burrows. The Economics of Unemployment Insurance. London: George Allen and Unwin Ltd., 1969.

Heidenheimer, Arnold J., Hugh Helclo, and Carolyn Teich Adams. Comparative Public Policy: The Politics of Social Choice in Europe and America, 2nd ed. New York: St. Martin's Press, 1983.

Hirshleifer, J. and John G. Riley. "The Analytics of Uncertainty and Information - An Expository Survey." Journal of Economic Literature, XVII, No. 4 (December 1979), 1375-1421.

Hum, Derek P.J. "Unemployment Insurance and Work Effort: Issues, Evidence, and Policy Directions." Toronto: Ontario Economic Council, Discussion Paper Series, 1981.

Kapsalis, C. "Equity Aspects of the Unemployment Insurance Programme in Canada." Ottawa: Economic Council of Canada Discussion Paper 116 (June 1978).

__________. "Unemployment Insurance: Insurance or Welfare? A Comment." Canadian Public Policy, V. (Autumn 1979), 553-9.

Kelly, Laurence A. "Unemployment Insurance in the 70s: A Look at the White Paper." Canadian Tax Journal, XVIII (1970), 301-09.

Kesselman, Jonathan R. Financing Canadian Unemployment Insurance. Toronto: Canadian Tax Foundation, 1983.

Keynes, J.M. "The General Theory of Unemployment." Quarterly Journal of Economics. (February 1937).

Killingsworth, Mark R. Labor Supply. London: Cambridge University Press, 1983.

Knight, Frank H. Risk, Uncertainty and Profit. New York: Houghton Mifflin, 1921.

Lazar, Fred. "The Impact of the 1971 Unemployment Insurance Revisions on Unemployment Rates: Another Look." Canadian Journal of Economics, XI (August 1978), 559-70.

Leman, Christopher. The Collapse of Welfare Reform: Political Institutions, Policy and the Poor in Canada and the U.S. Cambridge, Massachusetts: Massachusetts Institute of Technology, 1980.

Maki, Dennis R. "Unemployment Insurance, Unemployment Duration and Excess Supply of Labour." Industrial Relations Industrielles, XXXI, No. 3 (1976), 368-78.

__________ "Unemployment Benefits and the Duration of Claims in Canada." Journal of Applied Economics, IX (1977), 227-36.

Mehr, Robert J. and Emerson Cammack. Principles of Insurance. 6th ed. Richard D. Irwin, 1976.

Osberg, Lars. "Unemployment Insurance in Canada: A Review of the Recent Amendments." Canadian Public Policy, V, No. 2 (Spring 1979), 223-34.

Nickell, Stephen. "Estimating the Probability of Leaving Unemployment." Econometrica, 47, No. 5 (September 1979), 1249-66.

Pal, Leslie A. "The Fall and Rise of Developmental Uses of UI Funds." Canadian Public Policy, IX, No. 1 (March 1983), 81-95.

Pauly, Mark V. "The Economics of Moral Hazard: Comment." American Economic Review, LVIII, No. 3 (June 1968), 531-37.

Rea, Samuel A. Jr. "Unemployment Insurance and Labour Supply: A Simulation of the 1971 Unemployment Insurance Act." Canadian Journal of Economics, X, (May 1977), 263-78.

Reid, Frank and Noah M. Meltz. "Causes of Shifts in the Unemployment-Vacancy Relationship: An Empirical Analysis for Canada." Review of Economics and Statistics, 61 (August 1979), 470-75.

Riddel, W. Craig, and Philip M. Smith. "Expected Inflation and Wage Changes in Canada, 1967-81." Canadian Journal of Economics, XV, No. 3 (August 1982), 377-94.

Sargent, Thomas J. Macroeconomic Theory. New York: Academic Press, 1979.

Skolnik, M.L., and F. Siddiqui. "The Paradox of Unemployment and Job Vacancies: Some Theories Confronted by Data." Industrial Relations Industrielles, XXXI (1976), 32-56.

Smith, Alister M.M., J. Eden Clouthier, and David W. Henderson. "Poverty and Government Income Support in Canada, 1971-75: Characteristics of the Low Income Population." Ottawa: Economic Council of Canada Discussion Paper 130 (April 1979).

Soderstrom, Lee. "Unemployment Compensation: A Different View." Unemployment Insurance: Another Victim of the '80s. Ottawa: Canadian Centre for Policy Alternatives, Conference Proceedings, Series No. 2 (1983), 48-59.

Standing, Guy. "The Notion of Voluntary Unemployment." International Labour Review, CXX, No. 5 (September-October, 1981), 563-79.

__________ "The Notion of Structural Unemployment." International Labour Review, CXXII, No. 2 (March-April, 1983), 137-53.

Statistics Canada. Statistical Report on the Operation of the Unemployment Insurance Act. Catalogue 73-001 Quarterly.

Struthers, James. No Fault of Their Own: Unemployment and the Canadian Welfare State 1914-41. Toronto: University of Toronto Press, 1983.

Unemployment Insurance Advisory Committee. "Special Report of the Unemployment Insurance Advisory Committee Resulting from Meeting, October 27, 1960." The Labour Gazette, LXI (1961), 122-9.

Unemployment Insurance Commission. An Explanation of the Principles and Main Provisions of the Unemployment Insurance Act. Ottawa: October 1950, revised January 1953.

_________ Annual Reports. Ottawa: Queen's Printer, various issues.

_________ Comprehensive Review of the Unemployment Insurance Program in Canada. Ottawa: 1977.

Wallace, Thomas W. "The Effects of Unemployment Insurance on the Measured Unemployment Rate." Institute for Economic Research, Queen's University, Discussion Paper, No. 155 (1974).

Watson, A.D. The Principles that Should Govern the Structure and Provisions of a Scheme of Unemployment Insurance. Ottawa: Unemployment Insurance Commission (February 1948, revised May 1954).

Weldon, J.C. "On the Theory of Intergenerational Transfers." Canadian Journal of Economics, IX, No. 4 (November 1976), 559-79.

_________ "Intergenerational Transfers and Saving." Item No. 3, 12 October 1983, unpublished lecture notes.