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# Unemployment Insurance in Canada: Some Implications of the Present System and an Evaluation of the White Paper Proposals

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RESEARCH REPORT 7025  
UNEMPLOYMENT INSURANCE IN CANADA: SOME  
IMPLICATIONS OF THE PRESENT SYSTEM AND AN  
EVALUATION OF THE WHITE PAPER PROPOSALS

by  
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## I. Introduction

" Legend has it that in the old days there lived two giants, one called "Gog" and the other "Magog." Their fates were to run around and around the world. The giant called "Gog" ran around and around the world forwards, never looking backwards. He wanted to know where he was going, he didn't care much where he had been. The giant called "Magog" ran around and around the world backwards, never turning his head to look forwards. He didn't care where he was going, he just wanted to know where he had been."<sup>1</sup>

Johnson claims further that the economist's professional role is to "play the part of Magog, steadily looking backwards with full confidence that the future will be just like the past, only more so."<sup>2</sup> Indeed much of this paper falls within the Magogian framework, only worse: we intend to investigate some of the economic implications of the unemployment insurance scheme as it has existed in the past knowing full well that the recent White Paper, Unemployment Insurance in the 70's,<sup>3</sup> will render obsolete much of the analysis. In section II we present summary data for the operations of the unemployment Insurance Act for the year 1967, and focus primarily on the transfer aspects of the scheme. In Section III we undertake an empirical investigation of the relationship of unemployment transfers to interprovincial outmigration over the time period 1958-1967. So as to

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<sup>1</sup>H. G. Johnson, "Where is the World Going," Chapter 21 in The Canadian Quandary: Economic Problems and Policies, Toronto: McGraw-Hill

<sup>2</sup>Ibid., p. 337.

<sup>3</sup>Ottawa: Queen's Printer, 1970.

regain some policy relevance we shall, in the final section, draw some implications of the analysis for White Paper proposals as well as comment in more general terms on the proposed insurance scheme as it relates both to the concept of unemployment insurance and to Canadian regional and social policy.

II. The Operations of the Unemployment Insurance Act:  
An Overview for 1967<sup>4</sup>

Interregional Transfers

Table I contains a summary view of the operations of the Unemployment Insurance Act for 1967. Rows 1 and 2 present, for Canada and for each of the ten provinces, figures on the labor force and on the persons covered by the unemployment insurance scheme as well as the percentage distribution (by provinces) of these series. Approximately 60% of the labor force was covered by unemployment insurance in 1967. The class of worker coming within the purview of the Act is the "paid-worker," the single exception being the self-employed workers in the fishing industry. Any employees earning more than \$5,460 (\$7,800 presently) are excluded unless they are paid on a hourly, daily, or piece-work basis. Also excluded are certain classes of paid workers even though they may be

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<sup>4</sup>Much of the analysis in this section is taken from the Appendix to Thomas J. Courchene, "An Analysis of Canadian Regional Economic Characteristics with Special Emphasis on Regional Unemployment Rates." Research Report 7015, Department of Economics, University of Western Ontario (April, 1970). The choice of 1967 for the analysis is admittedly arbitrary.

TABLE 1  
SUMMARY STATISTICS RELATING TO THE OPERATION OF THE UNEMPLOYMENT INSURANCE ACT, 1967

	Canada	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
1. Labor Force ('000) % distribution	7,694.0 100.0	143.0 1.86	36.0 0.47	252.0 3.30	204.0 2.7	2,196.0 28.5	2,834.0 36.8	357.0 4.6	332.0 4.3	578.0 7.5	762.0 9.9
2. Persons Covered by Unemployment Insurance (June 1, 1967) % distribution	4,734.8 100.0	97.2 2.05	16.3 0.34	159.2 3.36	119.1 2.51	1,326.3 28.02	1,890.2 39.92	211.4 4.46	136.3 2.87	286.1 6.04	496.8 10.49
3. Regular Benefit Periods Established in 1967 % distribution	955.5 100.0	28.2 2.94	4.9 0.51	39.5 4.13	37.3 3.9	305.2 31.9	334.6 35.0	33.8 3.53	25.2 2.63	42.7 4.47	104.2 10.9
4. Seasonal Benefit Periods Terminated in 1967 ('000) % distribution	249.8 100.0	22.9 9.15	4.8 1.92	19.2 7.66	21.1 8.44	68.3 27.33	62.3 24.96	8.3 3.33	7.2 2.87	8.3 3.32	27.4 10.98
5. Amount Paid-Regular Benefits (\$'000) % distribution	247,315.0 100.0	10,506.0 4.24	1,450.0 0.58	11,386.0 4.60	11,166.0 4.51	80,273.0 32.45	77,919.0 31.50	8,294.0 3.35	6,054.0 2.44	10,137.0 3.83	30,130.0 12.03
6. Amount Paid-Seasonal Benefits (\$'000) % distribution	63,034.0 100.0	7,568.0 12.00	1,507.0 2.39	5,407.0 8.57	6,010.0 9.53	15,660.0 24.84	14,271.0 22.64	1,966.0 3.16	1,623.0 2.57	1,764.0 2.79	7,227.0 11.46
7. Weeks Authorized on Regular Benefit Periods	33.2	30.8	28.7	31.1	28.0	33.7	33.6	33.8	33.3	34.6	32.1
8. Weeks Paid on Regular Benefit Periods Terminated	12.0	15.1	14.1	13.5	13.4	12.4	11.3	12.5	12.1	10.4	11.2
9. Exhaustion Ratios on Regular Benefit Periods	23.9	45.5	44.1	31.4	41.2	25.3	19.3	25.5	25.4	17.9	19.8
10. Exhaustion Ratios on Seasonal Benefit Periods	50.2	72.3	66.0	52.4	63.3	45.2	46.7	47.5	38.2	39.4	44.8
11. Average Payment for Regular Benefits (\$)		373.0	296.0	288.0	299.0	263.0	232.0	245.0	240.0	237.0	289.0
12. Average Payment for Seasonal Benefits (\$)		330.0	314.0	281.0	284.0	229.0	229.0	237.0	225.0	213.0	264.0
13. UT/LF (\$per person)	40.34	126.4	82.14	66.64	84.20	43.69	32.53	28.74	23.12	20.59	49.02
14. Y/E (\$'000 per person)		4.015	3.500	4.227	4.042	4.400	5.241	4.951	4.979	4.849	5.383
15. $\left(\frac{UT}{LF}\right)\left(\frac{Y}{E}\right)$ i.e., $\frac{13}{14}$		31.48	23.47	15.77	20.83	9.927	6.207	5.805	4.645	4.246	9.107

Notes: Row 11 does not equal row 5 divided by row 3. Rather it is the average payment on benefit periods terminated in 1967. Some periods that are established in 1967 will not be terminated until 1968 and some that are terminated in 1967 were actually established in the previous year.

Row 13 is total unemployment payments, UT, (i.e., rows 5 and 6) divided by the labor force.

Row 14 is earned income, Y, per employed person, E. See text for the definition of Y and E.

Source: Unemployment Insurance Statistics (Special Data for the Unemployment Insurance Advisory Committee) DBS Labour Division, 1967.  
26th Annual Report on the Benefit Periods Established and Terminated Under the Unemployment Insurance Act, 1967, DBS 73-201.  
National Accounts.

earning less than the ceiling, e.g., hospital workers, teachers, federal and provincial public servants, armed forces personnel and domestics. The net impact of these regulations implies that some provinces will have a considerably larger proportion of their labor force covered by the insurance scheme than will other provinces. For example, the three prairie provinces as well as the other largely-agricultural province, Prince Edward Island, all have a smaller proportion of persons covered than their proportion of the labor force. In large measure this is a result of the exclusion from the scheme of the self-employed persons engaged in agriculture.

Equal contributions are required from both employer and employee and the Canadian government augments this amount by a 20% grant. Benefits under the Act are of two basic types: regular benefits and seasonal benefits. Eligibility for regular benefits requires a minimum attachment (usually 30 weeks) to insured employment. In general, two weeks employment entitles a worker to one week of benefits with a maximum set at 104 weeks (i.e., one year of benefits). The scale of benefits depends upon the average weekly contributions as well as the dependency status of the recipient. (Table II presents data on contribution and benefit rates for 1967.) Seasonal benefits are payable only during the period from December 1 to the week of May 15. Qualifications for seasonal benefits are less stringent: an applicant need only have 15 weeks of contributions since the prior March 31 in order to qualify. In addition, any claimant whose regular benefit runs out during his  $5\frac{1}{2}$  month period is automatically eligible to receive a seasonal benefit. The benefit rate for seasonal benefits is again related to the average contribution rate. For seasonal benefits the duration regulations are also less stringent: the formula allows

TABLE II  
CONTRIBUTION AND BENEFIT RATES\*

Weekly Earnings	Weekly Contributions (employee)	Benefits			
		Weekly Benefit		Allowable Extra Earnings	
		Single	With Dependant	Single	With Dependant
	(Cents)	\$	\$	\$	\$
Under \$9	10				
\$ 9 but Under \$15	20	6	8	3	4
15 " " 21	30	9	12	5	6
21 " " 27	38	11	15	6	8
27 " " 33	46	13	18	7	9
33 " " 39	54	15	21	8	11
39 " " 45	60	17	24	9	12
45 " " 51	66	19	26	10	13
51 " " 57	72	21	28	11	14
57 " " 63	78	23	30	12	15
63 " " 69	86	25	33	13	17
69 or Over	94	27	36	14	18

\*These rates became effective in September 1959 and were in force throughout our sample period.

SOURCE: Unemployment Insurance Statistics, 1967 (D.B.S., Ottawa: Queen's Printer, 1968, p. 29.

5 weeks of benefit for every 6 contribution weeks.

Rows 3 and 4 of Table 1 indicate the number of regular benefit periods established and seasonal benefit periods terminated during 1967.<sup>5</sup> The geographical distribution of these benefit periods, especially the seasonal benefits, varies considerably over provinces. For example, with only 2.05% of total Canadian coverage, Newfoundland has 9.15% of all seasonal benefit periods. Indeed all the four Maritime provinces have a greater percentage of benefit periods, both regular and seasonal, than they do of coverage. The three prairie provinces and Ontario all have a smaller share of national benefit periods than they do of covered population. This is hardly surprising since these four provinces also have the lowest unemployment rates in Canada.

Rows 5 and 6 indicate the total payments under the regular and seasonal benefits respectively. Again the four Maritime provinces garner proportions of these benefits that are substantially greater than their respective proportions of total persons covered under the scheme. And again this variation is greater for the seasonal element of the plan. The opposite is true for the three Prairie provinces especially if the comparison is made between per

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<sup>5</sup>Not all regular benefit periods established in 1967 will be terminated in 1967. Some will be terminated in 1968. Likewise some regular benefit periods that terminate in 1967 will have been established in 1966. Data relating to amounts paid out on regular benefits (Row 5 of Table 1) refer to payments on regular benefit periods terminated in 1967. This implies that for benefit periods established in 1966 but terminated in 1967 reported payments will also include portions paid in 1966. From the published data it is not possible to sort this out in a more satisfactory manner. This need not cause too much concern, however, since the regional distribution of both the insured population and of regular benefit periods established changes very little over time (see Unemployment Insurance Statistics 1967, D.B.S., Ottawa: Queen's Printer, 1968, p. 5). To a smaller degree this overlap also applies to seasonal benefits even though all data in Table 1 relating to seasonal benefits are in terms of year of termination.



cent of total benefits and per cent of total labour force. British Columbia and Quebec are "net gainers" and Ontario a "net loser" under the scheme.

In rows 11 and 12 we present the average payments per claimant for regular and seasonal benefits respectively. Rows 7 and 10 are used to explain why the four Maritime provinces receive greater regular benefits per person under the scheme than do some of the richer provinces, like Ontario. Since the weekly benefit rate depends on the contribution rate which in turn depends on earnings it seems clear that, on average, the weekly benefit payments will be higher in Ontario than in the Maritimes. Data on benefit rates are not available, but row 14, which contains average earnings per employed person, probably has the same ranking as regular benefit rates. Furthermore, as row 7 indicates, the Maritime provinces have fewer weeks authorized (i.e., the authorized duration is shorter) on regular benefit periods established than do the other six provinces. This reflects the fact that in these provinces opportunities to build up large authorizations are less available. Benefit periods terminate when the right to benefit no longer exists. Termination by exhaustion means that the claimant draws all the benefit to which he is entitled (i.e., authorized). The principal way in which a benefit period lapses is by the claimant finding employment. Exhaustion ratios for regular benefit periods appear in row 9 of Table I. These ratios are considerably larger for the Maritime provinces. Thus, in spite of fewer weeks authorized (row 7) in the Maritime provinces, the exhaustion ratios are sufficiently large so that the claimants in the Maritimes receive benefits for a greater number of weeks (row 8). And this more than offsets the likely higher

benefit rates per week in the richer provinces so that the average payment on regular benefits is higher for the Maritime provinces (row 11).

Row 12 lists the average payment on seasonal benefits for each of the provinces. Again the higher values for the four eastern provinces reflect the larger exhaustion ratios for these provinces (see row 10). The relatively high average seasonal payment for British Columbia probably results from a higher weekly benefit rate in that province (British Columbia has the highest level of earned income per employed worker in Canada (see row 14)).

We might note in passing that a person receiving benefits can earn one-half of the weekly benefit rate without loss of any benefit (see the final two columns in Table II). Earnings above this amount result in dollar for dollar decreases in benefits. We might also note that the benefits have recently been revised substantially upward.<sup>6</sup>

#### Age and Industry Transfers

Table III presents some data relating to age (panel 1) and industry (panel 2) transfers under the Unemployment Insurance Act, again for 1967. These data do not relate to financial transfers (which are not available) but rather to a comparison for each category of the percentage of total coverage and of the percentage of total benefits, both regular and seasonal. For the age categories the "beneficiaries" for regular benefits are the youngest and oldest age groups. For seasonal benefits this relationship is more pronounced: the under-20, 55-64 and 65 and over categories benefit

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<sup>6</sup>But for the sample period relevant for the empirical investigation in Part III, i.e., 1958 to 1967, the rates listed in Table II were in effect. The last three rows of Table I also pertain to the empirical work and will be treated later.

TABLE III

Age and Industry Transfers under the Unemployment Insurance Act  
1967

Panel 1: Age

Category	% of Covered Population	% of Regular Benefits	% of Seasonal Benefits
Under 20	6.5	8.1	11.0
20 - 24	18.4	18.9	14.1
25 - 34	23.0	22.6	18.3
35 - 44	21.5	19.2	16.8
45 - 54	17.1	14.7	15.7
55 - 64	10.7	10.0	13.4
65 and over	2.9	4.0	8.2

Panel 2: Industry

Agriculture	0.5	1.1	1.3
Forestry	1.7	5.5	8.3
Fishing and Trapping	0.5	0.2	8.0
Mines, Quarries and Oil Wells	2.5	1.8	1.4
Manufacturing	36.0	34.1	24.6
Construction	8.1	19.2	17.4
Transportation and Communication	11.0	8.8	8.5
Trade	18.4	12.0	10.7
Finance, Insurance and Real Estate	4.5	2.1	1.3
Community and Personal Services	12.6	10.9	11.4
Public Administration and Defence	3.6	3.4	5.9
Miscellaneous	0.6	0.7	1.2

Source: See Table 1

at the expense of the remaining age groups. For the industry breakdown the obvious beneficiaries, as far as regular benefits are concerned, are agriculture, forestry and construction, especially the latter two, with the trade sector and to a lesser extent transportation and communication and finance insurance and real estate bearing the bulk of the transfer cost. For seasonal benefits there are even greater transfers--from trade, transportation and communication, finance insurance and real estate, and especially manufacturing to forestry, fishing and trapping, public administration and defence, and construction.

### Implications

The above three examples of transfers under the Unemployment Insurance Act are meant to be indicative rather than exhaustive--one could present tables relating say to sex, marital status and occupational transfers under the insurance scheme. Nor are we claiming that the three we chose to focus upon are the most important types of transfers under the Act. Rather the purpose of the exercise was, firstly, to demonstrate that an unemployment insurance program of the type in existence in Canada is bound to involve a considerable transfer element. Secondly, these transfers may have important implications for optimal resource allocation as well as have important spillover effects on other social and economic policies. For example, one effect of the unemployment insurance program is to subsidize industries such as construction. With the number of regular benefit periods established in construction equal to about one-half of the total persons covered by unemployment insurance in the construction industry,<sup>7</sup> the size of this transfer

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<sup>7</sup> Since it is quite possible for a covered person to establish more than one benefit period in any given year, this need not imply that one-half of the construction workers were claimants under the Unemployment Insurance Act.

is not trivial. The manner in which this subsidy is allocated between employers and employees will depend upon the relative bargaining power of the two groups. Is it appropriate for a general unemployment insurance scheme to favor particular industries and, hence, to affect the allocation of resources? We would suggest that it is not appropriate. Interestingly enough, one of the changes is the new scheme embodied in the White Paper is to attempt to mitigate these inter-industry transfers (see Section IV).

Some transfer between various groupings may well be incorporated by design into an insurance scheme, however. For example, at any point in time the youngest and oldest segments of the labor force benefit at the expense of the other age groups. But over the life span of a covered cohort of workers the net transfer may net out to approximately zero for age groups so that unemployment insurance may be a convenient vehicle for subsidizing the unemployment-prone ages of Canada's work force.

What about the inter-regional transfers implicit under the operations of the Act? Granted that there may be ample reason for subsidizing the Maritime regions, is the appropriate manner to accomplish part of this subsidy to build it into the operations of the unemployment insurance program? We do not pretend to know the answer to this question, nor indeed to the many other questions we have raised or implied. But in the next section we shall attempt to analyze one facet of this inter-regional transfer, namely the impact of unemployment insurance payments on inter-provincial migration. To this we now turn.

III Internal Migration and Unemployment Insurance Payments

In a recent paper<sup>8</sup> we hypothesized and found considerable empirical support for the proposition that migration from province  $i$  to province  $j$  will be negatively related to the level of unemployment insurance payments flowing into province  $i$ . In this section we shall investigate this proposition in considerably more detail although the specification we employ, while similar in general form, is not as complete as that utilized in the previous paper.<sup>9</sup> The theory underlying the relationship between unemployment insurance payments and outmigration is straightforward. Normally the opportunity cost of being unemployed is the wage rate. In the presence of an unemployment insurance program the opportunity cost becomes the wage rate minus any benefits received under the program. The greater the benefits under the scheme, the smaller is the cost of being unemployed and the less the incentive for geographical mobility in search of employment.

The dependent variable in the regression analysis is the annual gross outflow from province  $i$  to province  $j$  of family allowance recipients divided by the family allowance population in province  $i$ , i.e.  $\frac{FM_{ij}}{FPI}$ . For each year, then, there are 90 observations. We restrict the analysis to the years 1958-1967 - the former being the first full year after the revision of the Unemployment Insurance Act to include self-employed persons

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<sup>8</sup>T. J. Courchene, "Interprovincial Migration and Economic Adjustment," Research Report 7008, Economics Department, University of Western Ontario, to be published in the November 1970 issue of the Canadian Journal of Economics.

<sup>9</sup>The exposition of the model and the data set that follow is very brief. The interested reader can seek more detail in Courchene, ibid.

in the fishing industry and the latter being the latest year when complete data were available on the operations of the unemployment insurance scheme. The independent variables we employ in the present analysis are:

- $\left(\frac{Y}{E}\right)_j / \left(\frac{Y}{E}\right)_i$  = earned income per employed person in province j (the destination province) divided by earned income per employed person in province i (the origin province). This variable is used as a proxy for relative wage rates. Earned income, Y, is defined as those portions of provincial personal income that are associated with employment (i.e., labour income, military pay and allowances, and the net income of unincorporated business proprietors) and excludes both non-employment income (e.g., interest and dividends) and unearned income such as unemployment transfers. E is the yearly average of the number of employed persons, i.e., if the yearly average unemployment rate in a province was 4%, then E equals 96% of the labour force.
- $U_i, U_j$  = unemployment rates in provinces i and j. For the years prior to 1965 data for some provinces are not obtainable from published sources and had to be obtained from the labour division of D.B.S.
- $Ed_i$  = level of education for province i (defined as the per cent of the labor force having an education level beyond grade 10). This variable is constant over time for each province. Source: Census of Canada.
- $D_{ij}$  = distance from province i to j (defined as the distance between major cities in thousands of miles).
- $\left(\frac{UT}{LF}\right)_i$  = defined as in Table I (row 13).
- $\left(\frac{UT}{LF}\right)_i / \left(\frac{Y}{E}\right)_i$  = relative unemployment insurance transfers - defined as in row 15 of Table I.
- $S_1, S_2, S_3$  = shift variables.  $S_1$  is unity for outmigration from the four Atlantic provinces to Ontario and also from New Brunswick to Quebec.  $S_2$  is unity whenever the dependent variable is outmigration from Quebec.  $S_3$  is unity for outmigration from Saskatchewan to Alberta. For all other observations, the shift or dummy variables contain zeros.

The rate of outmigration from  $i$  to  $j$  is hypothesized to be positively related to  $(Y/E)_j / (Y/E)_i$ ,  $Ed_i$ , and  $U_i$  and negatively related to  $D_{ij}$ ,  $U_j$  and the unemployment insurance variables. Coefficients for the dummy variables  $S_1$ ,  $S_2$ , and  $S_3$  are assumed to be  $> 0$ ,  $< 0$ , and  $> 0$ , respectively.

It seems appropriate to devote some discussion to the form of the unemployment insurance variables. Even though there exist data on the average payment by province on seasonal benefits and on regular benefits (rows 11 and 12 of Table I) it is not possible to calculate an average payment per unemployment insurance recipient because there are no published data available on the number of persons who receive both types of benefits. As indicated earlier this overlap is likely to be substantial since every claimant whose regular benefit period terminates by exhaustion during the period December 1 to the week of May 15 is automatically eligible for seasonal benefit. Accordingly we abandoned the attempt to derive an "average wage rate" per unemployment insurance claimant and focused instead on the average transfer per member of the labour force. This variable,  $UT/LF$ , appears as row 13 of Table I. It equals, for each province, the sum of both seasonal and regular payments divided by the provincial labour force. In contrast to  $Y/E$  which represents earned labour income per employed person,  $UT/LF$  represents unearned income per member of the labour force. Note, however, that unemployment insurance payments represent only part of the unearned income in each province. We do not consider transfers such as family allowance payments, old age pensions, etc., which are also part of unearned income.

If  $UT/LF$  is the same for two provinces, this implies that the provincial outmigration for these two provinces will be affected to the same



extent. It seems reasonable to suggest, however, that what really matters is not the absolute level of UT/LF but rather the ratio of this variable to average income in the province. In other words, for two provinces with identical values for UT/LF the tendency for this variable to inhibit migration is greater in the province with the lower value of Y/E. Row 15 of Table I presents, for 1967, the values of  $(UT/LF)/(Y/E)$  for each province. This measure of relative transfer payments exhibits considerably more geographical dispersion than its absolute counterpart because, in general, those provinces with relatively high values for UT/LF also have relatively low values for Y/E. The coefficient for relative transfer payments should also acquire a negative coefficient and indeed to the extent that people consider relative income more important than absolute income, it should perform better than the absolute measure, UT/LF.<sup>10</sup>

#### Regression Results

Tables IV and V present the yearly cross-section regression equations for two of the models we estimated. Except for the shift variables,  $S_1$ ,  $S_2$ , and  $S_3$ , all variables enter the equations in logarithmic form. The log-linear models performed better than the linear versions so only results for the former are presented. Bracketed figures beneath the coefficients (elasticities) are t-statistics. The last column contains the value of the coefficient of determination ( $R^2$ ). Each regression equation is estimated for the full 90 observations.

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<sup>10</sup>One would like to correct unemployment transfers for differences in provincial price indices. But indices on a provincial basis are not available. Furthermore, the "bundle" of goods purchased is not identical over provinces. Deflating provincial unemployment transfers by provincial incomes can, in part, be interpreted as a method for correcting for both price differences and bundle differences among provinces.

In passing we might note that the results lend impressive empirical verification to the general postulates underlying the model. The distance elasticity is always negative and very significant. Furthermore it is relatively constant across years, averaging approximately unity in Table III and slightly higher in the Table IV regressions. The elasticity of relative incomes per employed person is also always very significant and correctly signed. Education in province  $i$  (appearing only in the Table IV equations) likewise always acquires a positive and significant elasticity. That the elasticity is declining over the years probably reflects both the fact that grade 10-and-above becomes a more inadequate indicator of education level as time passes and that by the mid-1960's the relative education levels of provincial labour forces may not be adequately reflected by the 1961 Census data. Much more can be said about the behavior time-wise of all these variables. But that is not the purpose of the present paper. The dummy variables  $S_1$ ,  $S_2$ , and  $S_3$  are all correctly signed. We shall not comment further on them because their role in the equations is dictated primarily by goodness-of-fit criteria.

The equations in Table IV embody  $(UT/LF)_i$  as the variable reflecting the operations of the Unemployment Insurance Act. Its elasticity is always negative and is significant in 9 out of the 10 years. It appears, then, that unemployment transfers to province  $i$  expressed as a ratio of the labor force in province  $i$  do indeed serve to curb provincial outmigration rates. Relative unemployment rates lagged one period  $(U_j/U_i)_{-1}$  also enter the Table III equations. By hypothesis this variable should and does acquire a negative coefficient: the greater  $U_j$  relative to  $U_i$ , ceteris paribus, the less desirable is migration to province  $j$ .

TABLE IV

LOG-LINEAR RESULTS FOR THE  $\frac{UT}{LF}$  MODEL

Year	Constant	S <sub>1</sub>	S <sub>2</sub>	S <sub>3</sub>	D <sub>ij</sub>	$(\frac{Y}{E_i}) / (\frac{Y}{E_{i-1}})$	$(\frac{UT}{LF})_i$	$(\frac{U_i}{U_{i-1}})^{-1}$	R <sup>2</sup>
1958	4.087 (2.29)	1.180 (2.48)	-1.527 (4.43)	0.488 (0.49)	-1.058 (8.47)	1.922 (4.64)	-0.7111 (2.07)	-0.2926 (1.40)	.64
1959	4.276 (2.54)	1.061 (2.34)	-1.525 (4.66)	0.677 (0.71)	-1.062 (8.94)	2.566 (6.11)	-0.7734 (2.40)	-0.3474 (2.04)	.67
1960	3.507 (2.15)	1.100 (2.43)	-1.634 (4.96)	1.023 (1.07)	-1.041 (8.75)	2.721 (5.63)	-0.6075 (2.01)	-0.1862 (1.35)	.65
1961	2.510 (1.409)	1.024 (2.205)	-1.459 (4.324)	0.551 (0.56)	-1.032 (8.52)	2.239 (4.89)	-0.4147 (1.20)	-0.3202 (1.74)	.62
1962	3.468 (2.27)	1.203 (2.80)	-1.683 (5.22)	0.9002 (0.98)	-0.9888 (8.63)	2.406 (6.12)	-0.6849 (2.44)	-0.2392 (1.32)	.66
1963	5.079 (2.86)	1.390 (3.06)	-1.532 (4.59)	1.099 (1.14)	-0.9952 (8.27)	2.620 (4.89)	-0.1086 (3.12)	-0.4088 (1.85)	.66
1964	4.941 (3.19)	1.165 (2.63)	-1.685 (5.23)	0.509 (0.55)	-0.9897 (8.56)	3.587 (5.69)	-1.096 (3.60)	-0.6349 (3.04)	.69
1965	4.544 (3.32)	1.365 (3.28)	-1.813 (5.83)	0.6439 (0.73)	-0.9463 (8.61)	4.429 (7.44)	-1.065 (4.12)	-0.2842 (1.33)	.71
1966	4.633 (2.84)	1.476 (3.31)	-1.493 (4.60)	1.005 (1.06)	-0.9061 (7.68)	3.314 (5.75)	-1.29 (3.54)	-0.3063 (1.36)	.67
1967	3.592 (2.819)	1.154 (2.75)	-1.710 (5.52)	.8364 (0.95)	-0.9073 (8.17)	4.537 (6.93)	-0.9113 (3.94)	-0.1769 (0.93)	.70

TABLE V

## LOG-LINEAR RESULTS FOR THE RELATIVE TRANSFERS MODEL

Year	Constant	S <sub>1</sub>	S <sub>2</sub>	S <sub>3</sub>	D <sub>1j</sub>	(Y/E) <sub>j</sub> / (Y/E) <sub>i</sub>	(UT/LF) <sub>i</sub> / (Y/E) <sub>i</sub>	Bd <sub>i</sub>	U <sub>i</sub>	R <sup>2</sup>
1958	-9.341 (2.02)	1.066 (3.70)	-1.020 (4.20)	.9191 (1.51)	-1.289 (16.5)	4.722 (14.6)	-2.096 (5.66)	5.808 (7.01)	1.848 (5.95)	.87
1959	-20.22 (6.53)	.9232 (3.49)	-.8686 (4.15)	.8565 (1.54)	-1.337 (18.31)	5.611 (16.22)	-1.361 (6.37)	7.618 (10.8)	1.273 (7.67)	.89
1960	-15.56 (3.84)	.9920 (2.98)	-1.214 (4.49)	1.340 (1.90)	-1.260 (13.72)	5.295 (11.09)	-.9146 (3.73)	5.827 (6.54)	1.043 (4.94)	.81
1961	-9.806 (2.03)	.9375 (2.97)	-1.167 (4.11)	.5755 (0.86)	-1.314 (14.9)	4.825 (11.6)	-2.018 (4.60)	6.249 (6.99)	2.432 (6.31)	.83
1962	-12.35 (3.02)	1.299 (3.55)	-1.144 (3.84)	1.298 (1.66)	-1.145 (11.12)	3.695 (8.78)	-1.124 (2.94)	4.958 (5.26)	1.032 (2.44)	.76
1963	+17.13 (2.30)	1.476 (4.13)	-2.258 (5.65)	1.375 (1.79)	-1.231 (12.14)	5.061 (10.46)	-4.206 (5.37)	1.967 (1.98)	3.789 (4.98)	.79
1964	-4.84 (0.54)	1.076 (3.01)	-1.545 (3.31)	0.9321 (1.25)	-1.138 (11.9)	6.749 (11.4)	-2.098 (2.59)	4.620 (3.86)	2.244 (2.51)	.81
1965	-4.091 (0.85)	1.331 (3.79)	-1.721 (5.23)	0.84 (1.13)	-1.101 (11.34)	6.461 (11.45)	-2.049 (4.17)	3.963 (4.43)	1.729 (3.17)	.81
1966	1.987 (0.19)	1.608 (4.02)	-1.318 (3.56)	1.404 (1.64)	-1.008 (9.18)	4.811 (9.39)	-2.326 (2.01)	1.971 (1.44)	1.354 (1.39)	.74
1967	.5353 (0.07)	1.106 (3.24)	-1.882 (4.48)	1.372 (1.91)	-1.020 (11.2)	6.474 (12.2)	-1.968 (3.48)	2.626 (2.30)	1.794 (2.65)	.81

Alternatively, given  $U_j$ , the lower is  $U_i$  (and, therefore, the higher  $U_j/U_i$ ) the less will be the "push" to migrate from the sending region. The choice of the lagged rather than the current form of the  $U_j/U_i$  variable was dictated by goodness-of-fit considerations. Even so in only 1 of the 10 years is the t-value greater than 2.0.<sup>11</sup> However, the consistency of sign throughout the years is evidence that unemployment rates do play a role in determining the outmigration rates. It appears then that an increase in unemployment rates in province  $i$  (which would decrease  $U_j/U_i$ ) will tend to increase outmigration from  $i$  to  $j$ . But an increase in  $(UT/LF)_i$  will offset this tendency to respond to unemployment rates.

This relationship between unemployment rates in province  $i$  and unemployment transfers to province  $i$  is very evident in the equations in Table V where the model incorporates the relative unemployment transfers version of the unemployment-insurance variable, i.e.,  $(UT/LF)_i / (Y/E)_i$ . The elasticity of gross migration rates with respect to relative unemployment transfers varies between 0.91 (for 1960) and 4.206 (for 1963). All elasticities are statistically significant. The unemployment rate for province  $i$ , i.e.,  $U_i$ , performs extremely well in the Table V model--all elasticities are of the expected (positive) sign and except for 1966 all t-values are above 2.0 and half of them are above 5.0 (more correctly, 4.94). The implications of the equations are clear. The greater the level of unemployment in province  $i$ , the greater will province  $i$ 's outmigration rates tend to be. But given the level of unemployment, a larger value for relative transfers will decrease outmigration rates. These results are, of course,

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<sup>11</sup> By varying the specification somewhat (e.g., including either  $U_i$  or  $U_j$  or else including  $U_j/U_i$  for the current year) it is possible to get the unemployment variable to acquire a significant coefficient for most years. We felt, however, that it was better from a methodological standpoint to stick to the same model throughout.

consistent with what theory would suggest. For an unemployed person the cost, in terms of foregone income, of moving to accept a new position is much less than that of an employed person. Indeed, if the employment is expected to persist, this cost is zero. Therefore, outmigration rates should be (and are) positively related to unemployment levels.<sup>12</sup> An unemployment insurance scheme reduces the benefits from moving because the cost in terms of foregone earnings is increased from zero to whatever level of benefits the scheme allows. An increase in relative transfers with  $U_i$  held constant will curb interprovincial flows, while an increase in  $U_i$  with relative transfers held constant will increase outmigration rates. It would appear, then, that the impact of the recent revision upwards in the schedule of benefits payable under the Unemployment Insurance Act will be to inhibit interprovincial migration in Canada.

An interesting question is whether or not the operations of the unemployment insurance program completely offset any tendencies to relocate geographically that arise from unemployment. From the equations in Table V, a 1% increase in relative transfers accompanied by a 1% increase in unemployment will tend to diminish outmigration (i.e., on average the elasticity for  $(UT/LF)/(Y/E)$  is larger (in absolute value)) than that for  $U_i$ . The question then becomes: what is the relationship between  $U_i$  and relative transfers. For 1958 to 1961 the relationship between these two variables was such that an increase in  $U_i$  increased the outmigration. For the last six years of the sample period, the opposite is true. To be sure this is

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<sup>12</sup>The impact of higher unemployment rates is not unambiguously in the direction of increasing migration because higher unemployment rates mean lower income and a decrease in the ability of people to finance geographically relocation. From our results the former impact dominates.

casual empiricism but it does suggest that the insurance scheme plays a very significant role in interprovincial migration.

Several variations of the model in Tables IV and V were tested empirically. For example, unemployment transfers per unemployed person, i.e.,  $UT/(LF-E)$  were included in the Table V model replacing  $(UT/LF)/(Y/E)$  and  $U_i$ . For 7 of the 10 years this coefficient acquired a negative and significant elasticity (two others were insignificant and one was positive and significant). The specification in Table V was modified to allow the relative transfer variable to become simply  $\frac{UT}{Y}$  i.e., total transfers divided by total income. As it now stands, this variable equals  $\frac{UT}{Y}$  multiplied by the ratio of employment to labor force, i.e.,  $\frac{E}{LF}$ . The results for the log-linear equations embodying  $\frac{UT}{Y}$  were virtually identical to the Table V results.

#### Some Disclaimers

In terms of the models we employed the results speak for themselves: the unemployment insurance scheme does serve to inhibit interprovincial mobility. But there are several reservations about the results that need to be aired. For one thing, the results are quite sensitive to the selection of the migration model. Consider, for example, a model which allows  $(Y/E)_i$  and  $(Y/E)_j$  to enter the equations separately rather than in ratio form. Such a model does not lead to near as good results for the unemployment-insurance variables. In fact the coefficients for these variables are usually not different from zero and not always negatively signed.<sup>13</sup> With three or four variables reflecting behaviour in province  $i$ , all of

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<sup>13</sup>In our more comprehensive analysis of internal migration, "Interprovincial Migration and Economic Adjustment," op. cit., which embodies a richer specification, the coefficients of the unemployment insurance variables remain negative and significant even with  $(Y/E)_i$  and  $(Y/E)_j$  entering the equation separately.

which are probably quite correlated, this latter model is involved in considerable multicollinearity problems. Even so, it does serve to emphasize that our results do depend on the model we specify.

Finally it is important to emphasize that even if we accept our results at face value, we cannot argue that unemployment insurance is necessarily detrimental to efficient resource allocation, e.g., we cannot argue that because unemployment insurance inhibits mobility and hence the interprovincial allocation of resources it therefore must contribute to increasing interprovincial income differences. To understand the full impact of unemployment insurance we must investigate its full role. Our purpose in this regression analysis was to focus only on one impact of unemployment insurance: its role in labor mobility. Our conclusions should be so interpreted.

Now that we have investigated some of the economic effects of the existing insurance scheme it is appropriate to analyze the proposed legislation in terms of these effects. Or in terms of the introductory quote now that we know in part where we have been we become more "Gogian" and attempt to ascertain where, in fact, we are going.

#### IV Unemployment Insurance in the 70's

Some of the salient features of the proposed unemployment insurance program Unemployment Insurance in the 70's (henceforth referred to as the White Paper) are:

- a) universal coverage, which will mean over a million more employees will come under the purview of the plan;



- b) lessened eligibility requirements for benefits. Persons with 20 weeks employment are eligible for all phases of the program. Persons with as low as 8 weeks of covered employment can (if the national unemployment rate is above 4% and they are in a region with an unemployment rate 3% greater than the national rate) collect benefits for a period of 44 weeks;
- c) increased benefits, equal to 2/3 of earnings with a \$100 maximum. For claimants with dependents these benefits increase to 75% of previous earnings (again with a \$100 ceiling) somewhere between the 18th and 25th week of benefits (depending upon the claimant's previous labor-force attachment). Under the present scheme (1969) benefits are on average, 43% of earnings with a maximum of \$53 per week;
- d) exclusion of self-employed persons with an exception continuing to be made for fishermen until a special program is enacted for them.
- e) for regions with unemployment rates 1, 2, or 3 per cent above the national average unemployment rates, benefits are extendable for 6, 12, and 18 weeks respectively;
- f) the scheme is self-financing up to a national unemployment rate of 4%. Extra costs of the program for rates of unemployment beyond 4% are borne in full by the federal government. In addition if the national unemployment rate is between 4% and 5% the claimant is eligible for 4 additional weeks of benefits, and if the unemployment rate is above 5% eligibility is extended for a further 8 weeks of benefits. These benefits do not depend on the duration of covered employment prior to filing a benefit claim, and the cost is borne entirely by the federal government. Furthermore,

the government will also assume responsibility for any "long-term" unemployment. Specifically, any claimant having 20 or more weeks of covered employment is allowed to receive additional benefits relating to the duration of previous employment - up to 18 weeks benefit for 52 weeks of previous labor-force attachment - with the government footing the bill. Benefits relating to duration of covered employment up to 20 weeks (a maximum of 12 benefit weeks for 20 weeks of previous labor-force attachment) are financed by private-sector contributions excepting of course those benefit claims that result because the national unemployment rate is above 4%. Finally, the cost of (e) above is also the responsibility of the national government. Under the present scheme the government's financial role is limited to 20% of the total cost;

- g) Contribution rates will be lower than under the present scheme but large employers will be "experience rated" according to layoff patterns. Employers with above-average layoffs will contribute twice as much as those with below-average layoff experience. Furthermore, employers will on average bear more of the cost of the program than the employees;
- h) Benefits will be taxable, contributions deductible, and persons receiving benefits will be allowed to earn up to 25% of their benefits. Earnings above 25% are offset by equivalent benefit reductions (i.e., the tax rate is 100%);
- i) Seasonal benefits will be eliminated.

These proposals represent a significant and imaginative change in emphasis from the present legislation. Our interest in the proposals, however, relates primarily to the issues raised in the first two sections of the paper, namely the degree to which the new proposals embody various types of transfers and the extent to which they will affect resource allocation, particularly human resources.

Prior to turning to these questions, it seems appropriate to revive an issue raised nearly a decade ago by Professor Cairns.<sup>14</sup> He pointed out that an unemployment insurance scheme should have an "employment-policy" objective. Specifically, when the unemployment rate rises above some critical (policy-determined) level the net impact of the plan should be expansionary, i.e., benefits should exceed contributions. He noted that in 1960 with an unemployment rate in the neighbourhood of 6 percent, the system took out in the form of withdrawals (contributions) more than the purchasing power it injected via benefit payments so that, overall, it exerted a net contractionary effect at a 6 percent unemployment level. The White Paper, in what it terms "perhaps one of the most interesting [policies] in the entire proposal" meets this problem by designating the federal government responsible for all additional costs of the plan arising because the national unemployment rate exceeds 4 percent, as well as the costs associated with items enumerated in f) above. In practice this means that the program will, on balance, exert an expansionary effect on the economy at rates of national unemployment somewhat, and perhaps considerably, below 4 percent. The theoretical rationale for the 4 percent proposal is presumably that the national government is responsible for maintaining full employment (i.e., 4 percent unemployment) and failure to achieve this goal requires the federal government to "pay" for the consequences.

Turning now to the insurance vs. transfers issue it is virtually certain that the age-related transfer will be intensified under the White Paper by the move toward universal coverage since higher-income persons will in general not be in the youngest age groups and will be less susceptible to unemployment.

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<sup>14</sup>J. P. Cairns, "Unemployment Insurance in Canada: The Problem of Conflicting Principles," The Canadian Journal of Economics and Political Science vol. 28, no. 2 (May, 1962), pp. 262-268.

But over the horizon of a working life this transfer, in theory, washes out for the age groups (although obviously not necessarily for individuals). However, the White Paper does make important strides towards removing the industry-type transfers by tying the employer contributions to past layoff patterns. Although applied at the level of the establishment it is still clear that this proposal will mean that for some industries such as construction most employers will be required to stabilize their employment patterns or else face higher contribution rates. In public finance phraseology, the White Paper is working toward a "benefit approach" to contributions. This is a step in the right direction because not only are the inter-industry transfers rather substantial (see Table III) but they have the effect of subsidizing certain industries at the expense of others. One could argue that since it is the employees who are the beneficiaries under the scheme they, rather than the employers, should have their contribution rates altered according to which industry they attach themselves for employment. The rationale for the White Paper proposal probably is that "experience rating" of layoff patterns will tend to lead to more stable employment patterns than exist now.<sup>15</sup> In theory it may not make all that much difference since in the final analysis the burden of the extra contribution will not be related so much to their incidence but rather to the relative bargaining power of the employer and employees.

One type of transfer that is definitely intensified under the White Paper proposals is that from higher-income to lower-income groups. Indeed it is the move toward universal coverage by including the higher-income and relatively unemployment-free groups which makes possible the combination of lower premiums,

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<sup>15</sup> But the White Paper offers no rationale for setting employer contributions such that on average they will account for approximately 57 percent of the total employer-employee contributions.

lessened eligibility requirements and higher benefits. At high and disparate rates of national and regional unemployment the income-redistribution aspects of the plan will be enhanced, assuming that federal funding will come out of progressive taxation. By its very nature any sort of unemployment insurance program will embody some element of income redistribution. However, the degree of insurance vs. income redistribution incorporated into the scheme can vary considerably. We shall address this issue later when we consider the White Paper in the broader context of Canada's overall social legislation. But for now we merely point out, for example, that it would have been quite possible (and more consistent, given the treatment of employers) to "experience rate" employees on the basis of their past claimant status and in this way build more "insurance" into the scheme.

The most significant, as well as the most explicit, transfer in the White Paper is that from low unemployment regions to high unemployment regions. Take the Maritimes, for example. We have already seen from Table I that the Maritimes are net "beneficiaries" under the present scheme. The White Paper proposals will increase substantially this interregional transfer. Consider first the lessened eligibility requirements as well as the fact that the duration of benefits is only partially determined by the duration of insured employment. This feature will be most beneficial to the Maritimes since from Table I claimants in this region have fewer weeks "authorized" than claimants elsewhere in Canada (e.g. 28.0 weeks for New Brunswick vs. 34.6 for Alberta). Furthermore, a far greater proportion of claimants "exhaust" their benefits in the Maritimes than elsewhere in Canada so that despite the fact that they have on average fewer authorized weeks they end up collecting benefits for a longer period (e.g. 13.4 weeks for New Brunswick vs. 10.4 weeks for Alberta). The increased

allowance for dependency status begins somewhere between the 18th to 25th week so that with greater exhaustion ratios the Maritimes stand to gain on this score too.

But the most significant regional transfer in the White Paper is that related to the extended duration of benefits for claimants residing in high-unemployment regions. For example, assume that the national unemployment rate is 4% and that the rate in region A is 7.1 percent. Under the proposals, a claimant in region A with 20 weeks of covered employment prior to becoming unemployed is entitled to receive 35 weeks of benefits whereas an identical claimant in a region with an unemployment rate of 4 percent is entitled to only 17 weeks of benefits. Furthermore, most of the additional weeks available to the region A claimant will be at a benefit rate of 8 1/3 percent above that payable for the first 17 weeks--assuming that the claimant has dependents. This raises two very important issues. First, what is the theoretical foundation for such a proposal. Given two individuals unemployed for 35 weeks, why should the person residing in the higher unemployment area be eligible for 18 additional weeks of benefits? The fact that the probability of the person obtaining a job is higher in the low unemployment region is no justification for discriminating against the unfortunate persons of this region. This runs counter to our view of the economic theory of federalism. We believe that there should be intergovernmental fiscal transfers so that each province is able to provide some agreed upon level of public services to its residents without those residents bearing unduly high rates of taxation.<sup>16</sup> But in a federal nation we

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<sup>16</sup>This proposition is embodied in the federal-provincial tax-sharing arrangements. See the statement by former Finance Minister Mitchell Sharp in Federal-Provincial Tax Structure Committee. Ottawa: Queen's Printer, 1966, pp. 11-22.

believe a citizen should not be subject to different treatment from the national government depending solely upon which part of the federation he chooses to reside in. This proposal in our view violates the horizontal equity principle. Furthermore, there already exist several national programs designed to retrain, relocate geographically, and otherwise aid unemployed persons should they desire such assistance. To discriminate in favour of a person within the context of an unemployment insurance program because he chooses voluntarily to remain in a high-unemployment area runs awry of economic logic.

#### The White Paper and Labour Mobility

The second issue relating to the heightened interregional transfers is that of their impact on the geographical mobility of labour. The contention advanced here is that the White Paper will serve to inhibit considerably the process of regional economic adjustment in Canada because of the effect of the proposals on internal migration. Consider a person who has relocated geographically from a high to a low unemployment region (perhaps under a grant from the mobility program of the Department of Manpower and Immigration). Assume further that after finding employment for a while he now finds himself unemployed. The temptation will be very great to return immediately to the high-unemployment region and to file a claim for unemployment insurance there. In terms of relative income he will be in a higher peer group in the high-unemployment region. Furthermore, he stands to collect benefits for a period up to 4 1/2 months longer. It is true that the probability of finding employment is smaller and this will have to be offset against the advantages of returning to the high-unemployment region. But this re-employment consideration also exists under the present system. On balance, then, the White Paper will tend to encourage "perverse" labour migration. And there is nothing in the

White Paper which requires that the claimant region must coincide with the region of employment.

Even if the White Paper were altered to define the benefit region to coincide with the region of covered employment and thus prevent the undesirable return migration (an alteration which will prove difficult to implement since present legislation does not require coincidence of employment and claimant region, and in any case an alteration which should be easy to circumvent) the impact of the scheme will still be to limit the outmigration from high-unemployment regions that now occurs. Any wage increase associated with migration must be offset against the possibility of a curtailed benefit period in case of unemployment, i.e., the opportunity cost of remaining in the high-unemployment region is reduced. Interestingly enough, this will affect the lower-income person more than the higher-income person since the latter is less prone to unemployment. In effect, then, one impact of the White Paper will be to encourage migration of skilled (high-income) employees relative to unskilled employees and thus accentuate what is already considered to be a serious out-migration problem for high-unemployment areas.

Recall that the regression results presented in Part III above indicated that high unemployment rates were a stimulus to outmigration from a region but that unemployment insurance payments tended to offset this mobility. If we take these results at their face value (and we will be the first to admit that many problems beset the analysis) then the proposals of the White Paper will serve to discourage outmigration even further since a) benefit rates are substantially higher and b) there are special benefits established for high-unemployment regions (see the previous paragraphs), both of which will tend to reduce the opportunity cost of being unemployed, decrease outmigration, and work against optimal resource allocation in Canada.



Thus far we have been implicitly assuming that "region" coincides with "province". The White Paper is not clear about this. Most probably, region will be defined along lines similar to the U.I.C. local area offices (perhaps with revised boundaries). If this is the case then not only interprovincial but intraprovincial migration as well will tend to be adversely affected by the proposed scheme. Under the White Paper provisions Canada stands a very good chance of creating permanent "pockets" of unemployment.<sup>17</sup> If seasonal benefits, which have a decided regional impact (see Table 1), were deleted from the White Paper because they have often "acted as indirect subsidies and supported certain occupations which have only marginal economic viability" (p. 26) and tend to "prevent people from trying to adapt to new situations and, therefore, prolong the status quo" (p. 26) then we can see no reason at all for substituting explicit regional transfers in their place.

In addition to discouraging migration the proposals are likely to dull the work incentive. Even under the present legislation the maximum benefit rate is above the minimum wage in several provinces. Maximum benefits under the proposal program, assuming a 40-hour week, correspond to a \$2.50 wage-- far above the minimum wage in any province in Canada. Granted that many or even most people will not be receiving maximum benefits the fact still remains that the benefit rate will probably be considerably above the minimum wage--

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<sup>17</sup> In a recent paper Professor Kaliski notes that there already exist significant pockets of unemployment in Canada in the sense that if a region had an unemployment rate over one standard deviation above the national unemployment rate for any one of the six years from 1960 to 1965 then chances were better than 80 percent that it would have a similar unemployment rate for each of the other five years. See S. F. Kaliski, "Structural Unemployment in Canada: Towards a Definition of the Geographic Dimension," Canadian Journal of Economics (August 1968) pp. 551-65.

a situation which will certainly pose adjustment problems in the low-productivity areas. This problem is going to intensify because Ottawa is urging all the provinces to follow the federal government's lead in establishing a common minimum wage in all provinces. Even more problematical, however, is the 100 percent tax on earnings above 25 percent of benefits while the person is still a claimant. It strikes one as odd that a program to insure against the costs of being unemployed has built-in features that will tend to ensure that the beneficiaries of the program will make use of the scheme to the fullest rather than turning to the market place for their livelihood. The scheme has the danger of instilling in much of the Canadian work force attitudes toward work that will tend to make gainful employment a supplement to unemployment insurance benefits rather than the reverse.

At this juncture it seems appropriate to take a second look at one aspect of the new scheme--the financial responsibility the White Paper allocates to the federal government--to bear the cost of all long-term unemployment, the extra cost of the program for rates of unemployment beyond 4 percent, and the cost of special regional benefits when regional rates are above the national-average unemployment rate by 1 percent or more. Is it reasonable for the Canadian people to pay for the cost of long-term unemployment when the White Paper proposals in part encourage long-term unemployment? Is it reasonable for general taxation to pay for regional disparities in rates of unemployment when the White Paper will in all likelihood serve to increase these disparities? More importantly, however, is not the federal government being given financial responsibility for regional unemployment without the equivalent power to correct the unemployment as it sees fit? Suppose the national government feels that it is appropriate to relocate geographically a substantial element of the labour

force of a particular region and suppose further that this geographical relocation crosses provincial boundaries. Will the provincial governments allow Ottawa a free hand in manpower policy? It is one thing to assign financial responsibility for disparate regional unemployment rates to the national government in a unitary state but quite another thing in a federal state where the junior governments have and wield substantial power.<sup>18, 19</sup>

#### Coordination with Other Social Programs

"The new unemployment insurance scheme...is based on the assumption that an integrated approach [with other federal programs] is vital from now on if Canada is to have a coherent and efficient social policy for the 1970's" (p. 26). Toward achieving this coordination the White Paper proposes that interviews with the claimant take place at two points in the benefit stream. These interviews will serve to inform and advise the claimant concerning various employment opportunities and government services that are at his disposal, etc. Surely there can be no quarelling with this objective. But it is important to note that this feature is a desirable objective of any plan, existing or proposed.

Given the distortions to the efficient allocation of labour that the White Paper introduces we feel that it is simply not true that "careful and coordinated use of unemployment insurance will allow regional development and manpower policies to operate with maximum effectiveness" (p. 26). It is not difficult to imagine the manpower mobility program relocating a person geographically and later having unemployment insurance considerations force him back to his original region. The heart of the matter is that lack of coordination rather than coordination pervades the spectrum of policies that fall under

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<sup>18</sup>To the extent that disparate regional unemployment rates contribute to raising the national average rate, this argument carries over to the proposals relating to the federal government's financial role when the national unemployment rate exceeds 4 percent.

<sup>19</sup>Note that this need not be an argument against the financial role assigned to the national government under the White Paper proposals. Rather it can be interpreted as an argument in favor of the provinces abdicating responsibility in the manpower field to the federal government so that the latter has power commensurate with its financial responsibility.

the label of "social" and "regional". What is the guiding and unifying philosophy behind the Canada Assistance Plan, Guaranteed Income Supplement, Family Allowance, and old-age pensions, equalization and stabilization payments among the provinces, the Atlantic Provinces Adjustment Grant, etc., and the White Paper proposals?--all of which deal essentially with the same groups of people. The answer is that there is little or no overall philosophy. How does the White Paper interpret the role of an unemployment insurance program in relation to the forthcoming Guaranteed Annual Income proposals? The Minister of Labour (responsible for unemployment insurance) denies that there is any essential element of income maintenance embodied in the White Paper proposals and suggests that Canadians must await the proposals from National Health and Welfare for the income maintenance or guaranteed annual income scheme. We submit that the White Paper embodies so many proposals that will work at cross purposes with any guaranteed income scheme that passing the White Paper will seriously jeopardize Canada's forthcoming experiment with some sort of guaranteed income. And yet the latter surely has more priority in the spectrum of social programs.

It is worth delving further into the unemployment insurance-guaranteed income relationship. While it is hard to draw the line between the two, we feel that a guaranteed income plan along the lines of any of the many proposals currently being advocated from various quarters implies a) benefit payments not related to previous or present work history and b) benefit levels independent of the salary connected with previous employment. Viewed in this light one could argue that there are no guaranteed income aspects to the White Paper since a) persons with no previous work history are not eligible for any benefits and b) the benefit level does depend on the salary level of previous employment. But

this is an extreme position to take. One could just as well go to the other extreme and suggest that the White Paper is a type of guaranteed income plan because for persons employed for at least a year and earning more than \$150 per week a) benefit duration is independent of previous work history and b) benefit levels are independent of income earned. For the in-between cases, consider the following table. With a high national and high regional

Table VI

Relationship between duration of Covered Employment and duration of Benefits

Weeks of Covered Employment	Weeks of Benefits			
	National Unemployment Rate > 5%		National Unemployment Rate ≤ 4%	
	High Unemployment Regions	Low Unemployment Regions	High Unemployment Regions	Low Unemployment Regions
8 weeks	44 weeks	26 weeks	36 weeks	18 weeks
20 weeks	51 weeks	33 weeks	43 weeks	25 weeks
>52 weeks	51 weeks	51 weeks	51 weeks	43 weeks

Note: High Unemployment Region means that the rate in the region is 3% above the national unemployment rate. Low unemployment region means a region with an unemployment rate less than or equal to that of the national rate.

unemployment rate it only takes 20 weeks of covered employment to qualify for the maximum benefit duration of 51 weeks (col. 1). For low unemployment regions the duration of benefits is more correlated with covered employment (col. 2). Note that it is possible for a person with maximum coverage to be eligible for only 43 weeks of benefits (last row of col. 4). Hence it is possible for a person with 8 weeks covered employment (row 1 col. 1) to be eligible for longer benefits than a person with > 52 weeks of covered employment (last row, last

column). Therefore, there is a considerable element of independence between the duration of covered employment and the duration of benefits and as such it represents a move away from insurance and towards income maintenance. More importantly, however, is the fact that an insurance scheme need not rely on general taxation for financing whereas a guaranteed income plan or a negative income tax is characterized largely by its income-redistribution feature. The important role played by the federal government funding in the White Paper proposals is more consistent with income maintenance than with unemployment insurance.

While the White Paper may not qualify as income maintenance it surely transcends unemployment insurance. The important issue is, as we mentioned above, whether or not an intelligent guaranteed income plan can be grafted on to the White Paper proposals. Depending on the particulars of the program, it is quite possible that unemployment insurance will become an obsolete piece of social legislation within the context of a guaranteed-income package. But it will be virtually impossible to introduce income support without dispensing with some of the White Paper proposals, in particular the explicit transfer toward high-unemployment regions. This brings us back to the question of the overall philosophy underlying Canada's social policy. Legislation in this whole area seems to be dominated by non-coordination and smacks of empire-building by the various departments responsible for their little niche of social or regional legislation. We feel that appropriate government policy at this time calls for a program of coordinated social legislation involving at the very minimum family allowance, old-age pensions, unemployment insurance and guaranteed annual income. This important goal would be best served by delaying the passage of the White Paper proposals or at least modifying them so that future legislation relating to an overall social program for Canada is neither jeopardized nor compromised.

The White Paper and Overall Economic Policy

It seems appropriate to conclude by assessing the White Paper proposals within the broader context of the goals of Canadian economic policy. These goals have been variously designated as full employment, price stability, economic growth, greater income equality, balance-of-payments equilibrium and, more recently, regional balance. Alternatively, and preferably, one can, following Musgrave,<sup>20</sup> incorporate these specific goals within the more general classification of a) distributional equity, b) allocative efficiency and c) economic stability. The government has a variety of policy instruments that can be utilized to attain these objectives. Unemployment insurance is but one of these and has in the past not been considered as one of the major policy instruments. One view of the role of unemployment insurances within overall government policy would confine it to pure "insurance" and, as much as possible, ensure that it would be neutral with respect to the three broader goals. This has not been the case in the recent past and it is surely inconsistent with the general philosophy underlying the White Paper proposals. But once a particular policy instrument attempts to be deliberately non-neutral with respect to a specific objective invariably there will be spillover effects that impinge in one way or another on the remaining objectives. We have already commented at some length in the spillovers from the White Paper on other social legislation, such as guaranteed income. Now we shall analyze some of the

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<sup>20</sup>R. A. Musgrave, The Theory of Public Finance, New York: McGraw Hill, 1959, Chapter 1. One would probably classify full employment, price stability and external balance under stabilization, long-run growth and regional balance under allocation and greater income equality under distribution although the three categories are obviously interrelated. For an application of these concepts in assessing a particular policy see B. A. Weisbrod, "Benefits of Manpower Programs: Theoretical and Methodological Issues" in Somers, G. G. and Wood, W. D. (editors), Cost Benefit Analysis of Manpower Policies, Kingston: Industrial Relations Centre, Queen's University, 1969, pp. 3-15.

spillovers within the broader context of Musgrave's tri-partite distinction, dealing with each objective in turn.

#### Distributional Equity

The White Paper is clearly attempting to redistribute income a) from higher-income to lower-income persons and b) from higher-income regions to lower income regions. But this latter distributional transfer is accomplished only at the cost of violating the "equal treatment of equals" or "horizontal equity" criterion. In addition, unlike manpower programs which can be considered not only to be income redistributive but as well to place emphasis on how the recipient obtains the income (i.e. earned rather than unearned)<sup>21</sup> the White Paper is moving unemployment insurance more towards income maintenance regardless of the source of the income.

#### Allocative Efficiency

The White Paper does not do much to affect allocative efficiency in a positive manner. One can interpret the "experience-rating" of employers as a step towards efficient allocation and the increased benefits should allow a claimant to finance a longer period of job search and <sup>thereby</sup> decrease the probability of underemployment. Increased contact with the claimant via the two interviews will establish a greater information flow and also contribute towards the allocation objective although, as we mentioned above, we consider this proposal to be desirable independent of the particulars of the scheme. On the other hand a) labor mobility will not only be decreased but the proposals will encourage "perverse" labor migration and b) the work-leisure decision will be altered considerably in favor of increased leisure by several of the proposals including the 100% tax on earned income above 25% of benefits. The net impact

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<sup>21</sup>Weisbrod argues that one of the goals within the overall redistribution objective is a Protestant - Ethic type of goal to make the poorer people better off "through working". See Weisbrod, op. cit. p. 13.



of the White Paper will be, in our opinion, a move away from efficient resource allocation and, therefore, a tendency to reduce the long-run growth prospects for Canada. Because of the regional allocative implications it is not even clear that the overall effect of the White Paper will be to reduce regional imbalance. Indeed, if one were to devise an unemployment insurance program that would have a positive impact on resource allocation (and thereby be more coordinated with the existing manpower programs) such a program would require, among other things, that benefit payments be less in the disadvantaged regions-- just the opposite of what the White Paper proposals embody.

#### Economic Stabilization

The White Paper will contribute to full employment in the sense that above some critical level (below 4%) the net impact of the scheme will be expansionary. In other words the automatic stabilizer characteristics of unemployment insurance will be enhanced. But on the supply side, the allocative implications cited above will work against the full-employment objective. In terms of price stability, then, the White Paper proposals may well be more inflationary than other types of programs which would stimulate aggregate demand to the same degree but not have adverse aggregate supply implications.

It is evident, therefore, that the White Paper proposals will have significant negative spillovers especially with respect to allocative efficiency and that the attainment of Canada's national objectives will require deliberate offsetting measures from other policy instruments. These distortions occur because the White Paper is attempting to solve too many of Canada's problems within the context of an unemployment insurance scheme--problems that if treated

in a different context need not have resource-distorting implications. For example, unemployment insurance is not the appropriate vehicle with which to subsidize Canada's disadvantaged regions because it necessarily implies allocation inefficiency. Nor is it the appropriate context to introduce large elements of income maintenance because it necessarily distorts the work-leisure decision in favor of leisure. A negative income tax could, for example, guarantee a given level of income regardless of employment status and geographical location and would not embody 100% tax features. In the previous section we argued that passing the White Paper would be a backward step in terms of Canada's overall social policy. In the broader context considered in this section we would argue that if the White Paper becomes law it would considerably complicate the conduct of Canada's overall economic policy--a needless complication since there exist superior policy instruments at the federal level to implement the concepts underlying many of the White Paper proposals.