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The Canadian Unemployment Insurance Generosity: Reflections From A Comparative Analysis

Abstract

The unemployment compensation system is at the centre of the current economic and political debate in many Western countries which, under the effects of the increase in public debt, must decide the level of their unemployment insurance while taking into account its impact on the performance of the labour market. In this article, we compare the generosity of such public policy in France and in Canada, while focusing on the experience of central and eastern Europe. By building a composite index, we show that the French unemployment insurance is more generous only in pecuniary terms, and not in its qualitative dimension.

1. Introduction

Unemployment compensation is a public policy which is current the subject of several reforms and debates in Western countries in economic crisis. For example, in France unemployment insurance is generally considered more

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generous than its Canadian equivalent, employment-insurance (EI).[1] This finding can be explained by the fundamental ideological differences between the two labour markets. Canada is a "*flexible*" market, where programs of income guarantees and social minimums are not generous, and wherein the rules relating to employment protection are less stringent. This Canadian approach claims to promote labour market participation and to reduce inequalities in access to employment.

On the contrary, France is characterized by the "rigidity" of its public policies in terms of employment protection and wage regulation, including a minimum wage level which is still relatively high compared to other OECD countries. While this rigidity is responsible for an accentuation of unemployment, it has contributed significantly to reducing income inequality (Cahuc and Zylberberg 2004; Holmlund 2006).

This being said, the continuing global economic crisis globally has imposed some international convergence in the approaches and policies of the labour market. In this sense, Amine (2011) explains that the various unemployment-insurance programs in the OECD, following some recent changes, are becoming increasingly similar. Indeed, the contrast between the characteristics of the Anglo-Saxon and European models is fading. This therefore leads us to question the validity of assumptions and suppositions that France more generously supports its unemployed than Canada. Specifically, we ask the following question: Is the French unemployment insurance system is really more generous than its Canadian equivalent, the EI? This question is particularly relevant given the current socio-economic context in the two countries.

The main purpose of this article is to compare the generosity of the French and Canadian EI systems by using OECD data and building a composite index. We first present a brief review of the literature to identify various existing methods of comparison. In the second section, we specify the parameters of our approach. Finally, we present the results of our comparison.

2. Literature Review

The most common method for assessing the generosity of EI is the net replacement rate (TRN). Popularized by the OECD since the 1990s, the TRN refers to the ratio of received non-employment income (EI) and income employment. In order to study other qualitative dimensions of the generosity of

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[1] We use the term employment-insurance (EI) indiscriminately to designate the Canadian and the French systems. EI thus refers to the concept, i.e. the object of study, and not to a specific program.

German EI, Schulze (2005) explains that EI systems consist essentially of three components: the replacement rate, the admission conditions, and the eligibility rules that define the obligations of eligible workers.

Note that other types of indicators include the budget as a proportion of gross domestic product (GDP) allocated to the EI program. However, as noted by Scruggs (2006), using expenditure alone can lead to making false conclusions, since the index is not sensitive to changes in production GDP.

In the same vein, Venn (2012) extended the measure of generosity by carefully operationalizing the more qualitative dimension of EI systems using an evaluation grid, from which he constructs a composite index. Specifically, the qualitative dimension is divided into four components (eligibility conditions, availability requirements and job research, monitoring or control, and sanctions). Using this method, Venn (2012) performed an international (not pecuniary) comparison of the qualitative generosity of EI systems. The results were surprising. Canada was ahead of France in terms of generosity and ranks among the least severe in the OECD countries. We must note, however, the fact that the composite index of Venn (2012) excludes employee benefit levels and duration.

Stovicek and Turrini (2012) studied the theoretical generosity of each country, in others words, the level of generosity that the system of each country should have taking into consideration the characteristics of their economies. The theoretical or potential generosity of each country is essentially derived from real GDP per capita and compared with the real generosity.

In the same spirit, Pallage *et. al.* (2009) used a general equilibrium model to compare the characteristics of EI systems in two different economies. However, the parameters of EI systems included in the design of their model are relatively basic.

Concerning other economies, for example Bulgaria's, Vodopivec *et.al.* (2005) explained that an individual can continue to claim unreduced benefits so long as earnings do not exceed 150 percent of the official minimum wage. By comparison, the maximum admissible level of earnings is 100 percent of the minimum wage in Hungary, and 50 percent in both Poland and Romania. Moreover, in Slovenia the replacement rate is 70 percent in the first three months, followed by 60 percent in the remaining months. A notable exception is Poland, where the benefit level is not related to previous earnings but rather set at 36 percent of the national average wage. In Estonia, until 2003 a flat fee benefit was also in place, set at a very low level (below 10 percent of the average wage). Some countries, such as Bulgaria and the Czech Republic, reward those who attend or complete training courses by offering them a higher replacement rate.

In another study in the same countries, Polakowski and Szelewa (2008) explored the unemployment compensation policies in the eight Central and Eastern Europe countries which joined the European Union in 2004. Their paper applies an

innovative comparative method and focuses on the following four dimensions: accessibility, generosity, duration of receiving benefits, and obligations of claimants.

They demonstrated that insofar as the generosity dimension was concerned, it varied quite significantly across cases and over time. They added that some patterns could however be observed. Some countries guaranteed generous benefits at the beginning of the analyzed period, only to reduce them later (and in some cases to later raise their level again). Others started with modest benefits which increased over time. The most generous country, Hungary, except for 1989 maintained very generous unemployment compensation over the analyzed period. Even though some reforms were introduced, the level of benefits was exceptionally high for this group of countries. Hungary contrasted starkly with the case of Poland, which provided quite high levels of benefits only in the beginning, subsequently reducing them to a significant extent. In Poland the flat-rate benefit was introduced already at the beginning of the 1990s, and established at the level of 36% of the average wage. In the second half of the 1990s, however, the benefit was paid in a fixed amount, which further decreased its generosity. With respect to the Czech and Slovak Republics, they pursued rather similar policies in terms of their generosity. Both countries started with a high level of benefits, reducing them in steps. The most important change in the Slovak system was the introduction of a replacement rate decreasing over time (50% for the first, and 40% for the second phase). These actions took place faster and to a greater extent in the Czech Republic - the change in Slovakia, reflected by the score results, was reversed in 2004.

The Baltic countries diverged significantly in terms of the generosity of their unemployment compensation policies. Estonia started from a quite high level, than reduced its generosity dramatically, then restored a modest level from 2002. In the mid-1990s this country had the lowest replacement rate in the region (about 7% in 1997). Its better results in 2002 and 2004 were the result of introducing an earnings-related system. In Latvia, this swing occurred faster and for a shorter time, and eventually a higher level of benefits was restored. Initially, the level of benefits in Latvia depended on the minimum wage (90%), but in the mid-1990s an earnings-related system was enacted, which set the replacement rates at two levels, which decreased over time (80% and 60%). This system was also reformed recently, and the rates were decreased to 75% and 50% respectively. Lithuania took a different path: the level of benefits was initially consistently rising and reached a high level generosity, and then from the second half 1990s onward it dropped significantly. In other words, at the beginning of the 1990s this country, had an earnings-related system with three phases of payments (70%, 60% and 50%), and afterwards it introduced more complicated system and a ceiling that significantly reduced generosity. Slovenia demonstrates an interesting pattern. The level of benefits was rather high at the beginning, and then it grew even higher.

In the same vein, Bardasi *et. al*. (1999) investigated why the targeting of benefits clearly worsened throughout the 1990s in Hungary. They showed that both the proportion of OECD unemployed with unemployment benefits, and the proportion of those with benefits who searched for work, fell in Hungary by some 15 percent points over 1993 to 1997.

Finally, Boeri and Edwards (1998) showed that non-employment rates in all central and eastern European countries, except the Czech Republic, had already bypassed those of the lowest income OECD countries.

3. The Concept of a Composite Index

In order to assess the quantitative aspect of EI systems, we use the net replacement rate (*TRN*), provided and calculated by the *Tax-Benefit Model* of the OECD (2013). Since the replacement level may vary depending on family status (single or married, with or without children), we also incorporate these demographic differences into our analysis. Furthermore, whereas previous income largely determines the importance of profits during the period of unemployment, we compare the financial generosity of the French and Canadian systems at three levels of income, 67%, 100% and 150% of median income.

It is important to note that the rates calculated by the OECD consider not only unemployment benefits but also family benefits. Family benefits are added to income offered by the EI, which explains the variation in replacement rates between different types of families. Since the net replacement rate is not sufficient to measure the monetary dimension of an EI system, we add an additional indicator reflecting another component of the quantitative generosity of systems, namely the duration of benefits. Specifically, on a scale of 1–5 we evaluate the maximum duration of benefits as provided by the current legislation in Canada and in France. A score of 1 is given to the least generous length (less than 6 months) and 5 to the most generous length (more than 24 months).

To measure the qualitative dimension of the two systems, we rely on the excellent assessment grid proposed by Venn (2012). Indeed, we combine the four components of non-pecuniary dimensions of EI system: conditions of eligibility, availability requirements and job research, monitoring and control, as well as sanctions. Each component is then evaluated based on one or more items measured on a scale of graduated severity [1-5], where 1 is the most severe situation and 5 reflects the most generous case (Table 1).

Finally it remains to weigh the various indicators in a grid summary evaluation in order to develop our composite index. In sum, we have a total of six assessed components, using 11 indicators that we want to incorporate into a summary index with a value between 0–1, i.e. a total of 11 indicators. Equal importance was given to the pecuniary and non-pecuniary dimensions. Similarly, we assign the components within each dimension equal weight.

Table 1: Weighing of the indicators

Dimensions	Components	Indicators	Weight
Pecuniary	Replacement of income	1. Net replacement rate	1/4
	Duration of benefits	2. Maximum duration of benefits	1/4
		Subtotal	**1/2**
Non pecuniary	Conditions of admissions	3. Employment Period or minimum contribution	1/16
		4. Penalties for voluntary non-employment	1/16
	Availability requirements and job search	5. Availability during participation in a PAMT	1/32
		6. Requirements for occupational mobility	1/32
		7. Requirements for geographic mobility	1/32
		8. Other valid reasons for refusing job offers	1/32
	Monitoring and control	9. Evidence of a job search	1/8
	Sanctions	10. Sanctions for refusing a job offer or participation in a PAMT	1/16
		11. Sanctions for refusing repeated offers of employment or participation in a PAMT	1/16
		Subtotal	**1/2**
		Total	**1**

Source: The table is based on Venn (2012), but we have developed our own grid by changing the weight and the score of each indicator.

4. Results

In this section, we present the results of the comparison of two EI systems.

Quantitative generosity

Fig. 1 shows the combined generosity of indicators 1 and 2, i.e. the net replacement rate (*TRN*) and the maximum duration of benefits. Regarding the net replacement rate, we chose two types of family and three income levels (67%, 100% and 150% of average income). The first type – A, is that of a single person without children, while the second type – B, refers to a married couple with two earners and two children.

Figure 1. Pecuniary generosity of Canadian and French systems
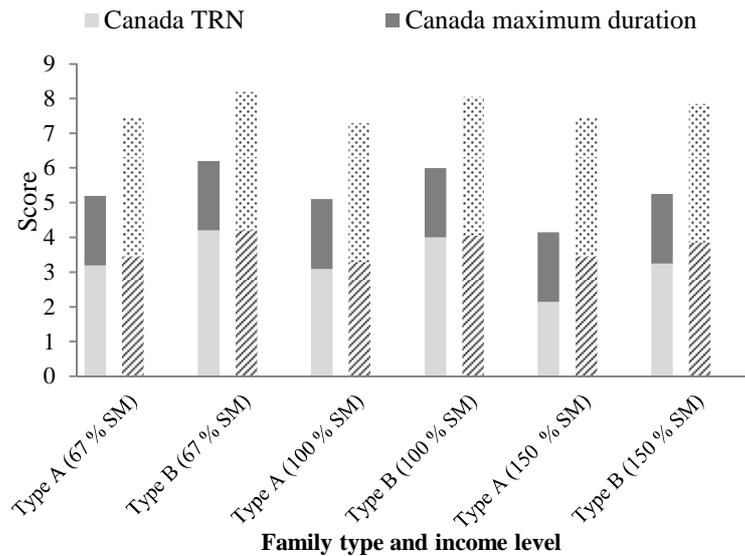
Source: The information and data needed to evaluate the indicators came mainly from the online resources of the following institutions: OECD, Service Canada and Employment and Social Development Canada, and the French Ministry of Labour, Employment Training and Social Dialogue.

In a paper which examines this aspect, Corsini (2012) studies the determinants of the duration of unemployment. In particular, he takes a comparative approach, analyzing three different countries (Italy, Finland, and Poland). In his article Poland is chosen as an example of a former transition economy that is still

facing some economic problems, unemployment being probably the most relevant. Its EI scheme is not particularly generous; it offers only minor employment services; and it does not have any job search requirements. In addition, Corsini explains that the Polish EI scheme grants benefits to registered unemployed individuals who are able and ready to take up employment. Contribution to the scheme is compulsory and workers are entitled to receive the benefits if, during the period of 18 months preceding the day of registration as unemployed, they have been employed for at least 365 days and if the end of the contract was not voluntary. The benefit amounts to 24% of the average national wage, about 151 hours per month in 2007, but it is adjusted according to the length of past employment spells so that more experienced workers receive higher benefits. The maximum duration is 6 months, but it can be increased to 12 or 18 months for individuals from areas where the unemployment rate is higher than the national average. The overall ranking in generosity of the Polish scheme, among the OECD countries, is 21st out of 29. The data used are from the EU-SILC 2008 survey, which contains detailed data on individuals and households in 2007. It is based on a sample of 195 newly unemployed workers for Finland, 536 for Italy, and 471 for Poland. An econometric analysis of unemployment duration is conducted, with a focus on the effect that unemployment benefits, wealth and financial pressure have on duration, using a cox hazard model.

Qualitative generosity

Admission conditions. In Canada, the period of employment or minimum contribution (indicator 3) is calculated in hours over a period of 12 months and varies depending on the unemployment rate in the region where the benefit claimant resides. The longest minimum period is 700 hours in a region where the unemployment rate is less than 6% and the period of the shortest contribution is 420 hours for a region with an unemployment rate of 13.1 % and more. In France, the period of minimum contribution is 122 days or 610 hours of work in the last 28 months.

With respect to penalties for voluntary unemployment (indicator 4), such a situation applies to all applicants who have access to EI benefits in Canada. In France, voluntary unemployment delays access to unemployment compensation for a period of 12 weeks, after which the applicant can receive benefits if he is able to prove that he actively sought employment during this period.

Availability requirements and job search. In France, an individual participating in an active labour market policy (indicator 5), *i.e.* training, must register as a job seeker in order to remain eligible for unemployment benefits. The obligations of job seekers are that the individual consistently demonstrates positive acts of carrying out a job search and accepts any reasonable job offer

throughout his training. In Canada, the unemployed in training programs approved by the Ministry of Human Resources and Social Development Canada (HRSDC), do not have obligation to seek and accept jobs. However, the unemployed who, on their own initiative, participate in training unrecognized by HRSDC must seek continuous employment and accept any reasonable offer in order to receive regular benefits.

In Canada, the requirements for occupational mobility (indicator 6) allow the unemployed to refuse, for a period of 18 weeks, a job that does not correspond to the same occupation as that exercised during the qualification period. After this period, the unemployed must find a similar job, in other words, an occupation with comparable functions. In addition, the requirements of professional mobility in France are determined by the personalized access to employment (PPAE) project, which defines, jointly by the job seeker and employment advisor, proper cluster training, qualifications, and skills gained in the unemployed's professional experience. A job seeker who cannot find a reasonable job, however, must agree to expand the scope of his or her job search by redefining its (PPAE) every three months.

Requirements of geographical mobility (indicator 7) also vary between the two systems. In Canada, employment insurance recipients must accept any job whose commuting time is less than two hours. For their part, the French unemployed must accept any reasonable job offer in which the travel time is less than one hour per day or less than 30 km from their home.

In France, registered job seekers may refuse a job for family reasons and physical health (indicator 8). An offer may also be refused if the wage offered is below the salary received during the reference period. However, as is the case in Canada, the wage considered suitable decreases with time spent in unemployment from 100 % (within three months of registration) and 95% (between 3 and 6 months) to 85% (between 6 months and one year). After a year, the claimant must accept any offer with a wage equal to or greater than the benefits received.

Monitoring and Control. Canadian recipients must at all times be ready and willing to work if they are able to find a suitable job. They must keep a detailed job search activities register, as Service-Canada may request evidence at any time. However, there is no systematic control as is the case in France where unemployment insurance recipients must provide monthly updates to a counselor job center, and register and submit evidence of an active job search by keeping a record of all the positive and repeated acts of searching for employment made during the period preceding the meeting.

Sanctions. In Canada, and employment insurance claimant is disqualified from receiving benefits for a period of 7 to 12 weeks if he or she does not apply for an offer of a suitable job after learning that there is a vacancy for such a job.

Also excluded is an individual who does not accept an offer of suitable job, who does not take advantage of an opportunity to obtain a suitable job, who does not appear for an interview which the Insurance Commission-Canada Employment ordered him or her to attend, or who does not follow written instructions given by the Commission regarding the job search. For the recipients of unemployment benefits in France, there is no penalty for refusing an initial suitable job offer, but after the second refusal a two month suspension is imposed. Repeated refusals may lead to a suspension of benefits from two to six months.

Total generosity

Figure 2 illustrates the relative importance of each component in assessing the generosity of an EI system. We calculated the average scores of indicators for each component in order to construct this summary figure. However, with regard to the net replacement rate, we simply used the replacement net income measured from a reference wage of 100% of the average wage for a family of type B. We also used the weighting Table 1 and the 0–1 scale of generosity.

Figure 2. Total generosity and relative importance of each component (TRN 100% SM, Family and Type B before weighting)
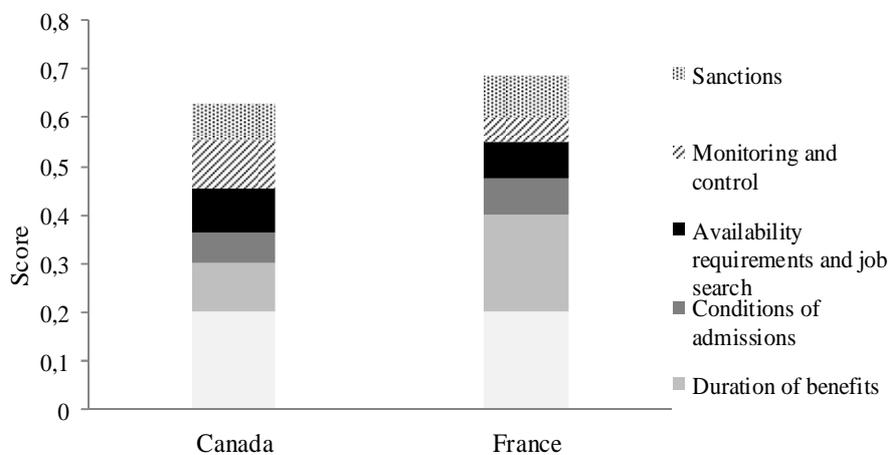
Source: The information and data needed to evaluate the indicators came mainly from the online resources of the following institutions: OECD, Service Canada and Employment and Social Development Canada, and the French Ministry of Labour, Employment Training and Social Dialogue.

Figure 2 allows us to identify the most important differences in terms of generosity between the Canadian and French systems. At the outset, we see that the "*benefit period*" (indicator 2) and "*monitoring and control*" (indicator 9) represents the levels with the most significant differences. Indeed, we have seen that the maximum duration of benefits in France is more than twice that of Canada.

In general, the French system offers more generous financial terms (quantitative generosity) at both the replacement rate and at the level of the benefit period. This result is consistent with the direction and orientation that characterize French public policy, which considers that the standard of living of jobseekers should be maintained and that the unemployment situation should not lead to a deterioration of living conditions and an increase in social exclusion. On the other hand the Canadian system, like all flexible economies, considers unemployment as a situation whose consequences should be borne largely by the individual and not by the firm. However, Figure 2 also shows the dilemma facing those countries known as "rigid". Indeed, these countries, under the impact of a significantly significant public debt, are obliged to be very strict about the rules for monitoring, control and applying sanctions. On this level (qualitative generosity), France is less generous than Canada. When we observe the reforms and the budgetary restrictions adopted by the French government to absorb the budget deficit, we easily understand the severity and rigidity of the control rules and penalties.

5. Concluding Remarks

From the replacement rate through to the sanctions, our approach has the benefit of combining pecuniary and non-pecuniary components. This advantage is rarely seen in the proposed methods in the literature. However, our approach is not without bias, related to the consideration of qualitative parameters. In other words, some of the selected indicators often reflect the theoretical generosity that is provided for in the law, and not necessarily reflected in the benefits actually received by the beneficiaries. For example, we assign to Indicator 2 a score based on the maximum duration provided by each system. However, it is clear that the average duration of benefits is less than the maximum provided in the law.

We have qualified the idea that French jobseekers benefit from an absolute generosity compared to their Canadian counterparts. As we explained in a previous paragraph, this only applies to generosity at the pecuniary level. As for the qualitative dimensions of the unemployment compensation system, Canada is more flexible in terms of rules governing sanctions, monitoring and control. We believe that this greater strictness on the part of the French is

attributable to the heavy national debt in France, where the government has launched a process of restrictive budgetary reforms.

However, although Canada could learn from European experiences from countries such as France and Poland, it is important to note that we are witnessing a convergence of public policies in terms of the labour market in all OECD countries.

Forced to combine budget and competitive imperatives, most of these countries have engaged in a process to reduce labour costs and to make the return to employment faster. We believe that the deterioration of the economic and social situation of the unemployed will grow wider and deeper in all countries, especially the European countries.

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Streszczenie

HOJNOŚĆ KANADYJSKIEGO SYSTEMU UBEZPIECZEŃ NA WYPADEK BEZROBOCIA: WNIOSKI Z ANALIZY PORÓWNAWCZEJ

System kompensacji bezrobocia znajduje się w centrum bieżącej debaty ekonomicznej i politycznej w większości krajów zachodnich. Wzrost długu publicznego zmusza te państwa do podjęcia decyzji politycznych dotyczących poziomu ubezpieczeń na wypadek bezrobocia, przy jednoczesnym uwzględnieniu jego wpływu na sytuację na rynku pracy. W tym artykule porównujemy hojność polityki państwa w tym zakresie we Francji i w Kanadzie, jednocześnie skupiając się na doświadczeniach Europy Środkowej i Wschodniej. Konstruując wskaźnik złożony pokazujemy, że francuski system ubezpieczenia na wypadek bezrobocia jest bardziej hojny tylko w ujęciu finansowym, ale nie w wymiarze jakościowym.

Słowa kluczowe*: ubezpieczenie na wypadek bezrobocia, hojność, wymiar finansowy*