



BUSINESS INDICATORS

Unemployment Insurance and Frequent Use

With the burgeoning deficits and mounting debts that the Federal government is experiencing, there has been more discussion than ever before on the state of the Canadian Unemployment Insurance (UI) program. There have been many proposals to amend the program, based on the belief that the current setup encourages a long-term dependency that causes individuals to cycle in and out of the program. This type of dependency is not only costly in terms of benefits paid out to UI recipients, but also in terms of lost opportunities with respect to the waste of human capital.

In the past there has been a tendency to point to individuals as frequent users of the system and suggest abuse on their part, but a recent Statistics Canada publication* identified the possibility that firms can be frequent users as well. Firms can either be net contributors to the program, if the amount of UI contributions made by the firm and its workers is greater than the amount of benefits collected by the workers, or net recipients if the reverse is true.

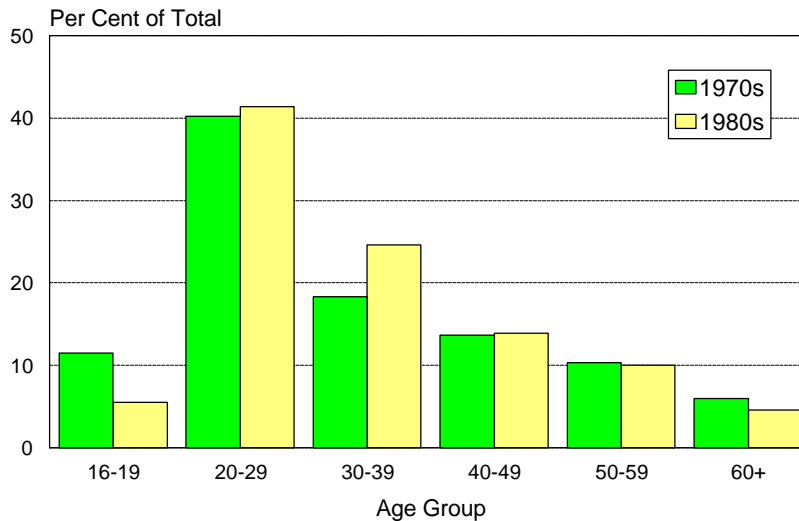
Workers as Frequent Users

The distribution of claims by age and gender has shifted over time due to social, demographic, and economic factors. In the 1970s, women accounted for only 38.7 per cent of claims, but this number increased to 42.2 per cent in the 1980s. This can be explained by the increasing female participation in the labour force. The distribution of claims by age has changed significantly as well. Claims by individuals in the 16 to 19 age group were halved from 11.5 per cent in the 1970s to only 5.5 per cent in the 1980s. At the same time, the share of claims for those 30 to 39 increased from 18.3 per cent to 24.6 per cent. This can be partly explained by the ageing of the population and the movement of baby-boomers into this age group, but there is also the possibility that there is some

* Corak and Pyper (1995), *Workers, Firms and Unemployment Insurance*, Statistics Canada Catalogue 73-505E.

kind of cohort effect happening. In other words, those people who made claims in the 1970s may also be making claims in the 1980s.

Figure 1
Participation in the Canadian Unemployment Insurance Program



Source: Statistics Canada

This idea is consistent with the evidence of frequent use exhibited by UI claimants. Data over the 1971 to 1989 period show that two thirds of claimants had more than one claim. Almost a quarter of UI claimants were collecting UI for at least the fifth time.

In looking at the characteristics of frequent users, the major conclusions are:

- Seasonal factors are an important determinant of whether or not a claimant will make another claim within a short time of completing a previous claim, but only for men. Claims by women of this type are equally likely at any time of year.
- Over a longer period, the chance of having another claim is largely determined by regional and industrial factors. There is a greater incidence of frequent use in the Maritimes, and less in Ontario and the western provinces. The probability of having a second claim within five years of the first is greater within the primary and construction industries, and less in the service industries.
- Frequent use is *not* satisfactorily explained by size of the benefit. In other words, those receiving larger benefits or collecting for a longer period of time are not more likely to be frequent users.
- Those individuals who have a history of short periods of employment followed by a period collecting UI, are more likely to be frequent users than those who held jobs for longer periods and did not previously collect UI. The greater the

number of past claims, the more likely it is that an individual will have another UI claim.

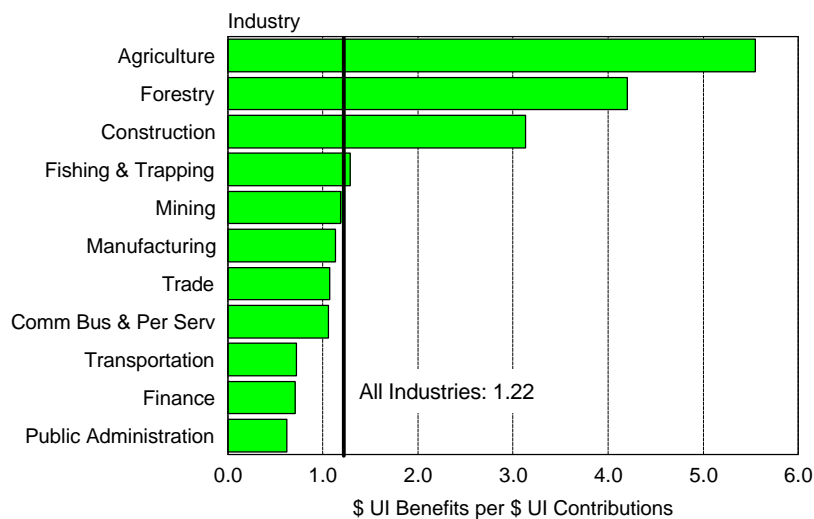
- With each additional claim, the duration of UI receipt is increased.

There are different ways to interpret these patterns of UI utilization. One explanation for the high incidence of frequent UI use could be that the same people are at risk of being unemployed time and again. These people may be working at jobs with little security, characterized by short-term employment. A second argument is that the UI system creates a dependency that traps individuals into a cycle of frequent use. These people use the program as a guaranteed income. This theory is not really supported by the data, since the level and duration of benefits had no effect on the probability of frequent use of the UI program; however, this does not preclude the possibility that the availability of UI may effect this probability over the longer term.

Firms as Frequent Users

A third possibility is that frequent use can be partially explained by the decisions of firms. Since UI premiums paid by firms are not determined by the number of times their employees make use of the program, some firms tend to lay off employees in periods of low activity, then rehire them some time later, rather than using other adjustment strategies. As a result, a variety of transfers take place through the UI program. There is a significant redistribution of income between industries with the primary and construction industries being the main recipients, and the service industries the main contributors (see Figure 2).

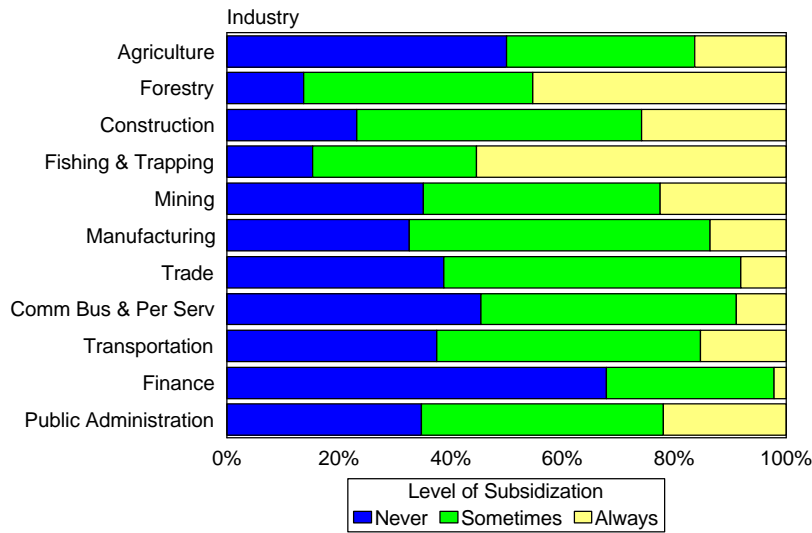
Figure 2
UI Income Transfers Between Industries, B.C.
Annual Average 1986-1990



Source: Statistics Canada

A value greater than one indicates a net transfer, a value less than one a net contribution.

Figure 3
 UI Status of Firms Within Industries
 Canada, 1986-89

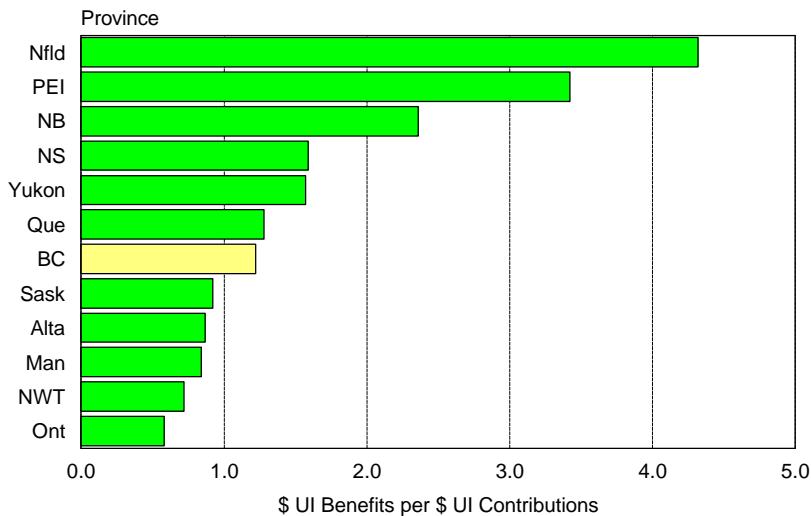


Source: Statistics Canada

In addition to between-industry transfers, there are also significant transfers among firms within those industries (see Figure 3). For example, although agriculture is one of the largest net recipients of UI benefits (first in British Columbia and third in Canada), half of all firms in agriculture are never subsidized (i.e. they *never* accounted for more UI benefits than contributions in the period studied; sometimes subsidized firms accounted for more benefits at least once during the four year period; and always subsidized firms accounted for more benefits in all four years). This indicates that those firms within agriculture that are subsidized, are subsidized quite heavily.

There are also significant transfers between provinces, generally from Ontario-west to the eastern provinces (see Figure 4). Ontario is the largest net contributor with about 2.3 billion dollars transferred out of the Ontario economy annually by the UI program. The largest net recipient is Quebec. British Columbia is a net recipient in the period covered (1986 to 1990) and this is likely due to the abundance of firms in the primary sector.

Figure 4
 UI Income Transfers Between Provinces - All Industries
 Annual Average 1986-1990



Source: Statistics Canada

A value greater than one indicates a net transfer,
 a value less than one a net contribution.

The study shows that these transfers are fairly constant over time. These patterns are not simply the result of a particular industry or firm experiencing a bad year. The same industries, and the same firms within those industries, tend to be net recipients or net contributors year after year.

It is most often the case that workers who are frequent users of the UI program work for firms that are classified as frequent users. There is frequently a pattern of workers cycling between collecting UI and working for the same firm over and over again. Again, this is probably due to the firm's decision to lay off workers temporarily when activity is depressed, rather than explore other options such as a more aggressive marketing campaign, or finding other things for the inactive workers to do. This pattern of lay-off and recall also affects the length of a UI claim. Those employees that expect to be recalled tend to collect benefits for a significantly shorter period than those that do not expect recall; however, those employees that expect to be recalled and subsequently are not, tend to collect benefits for a much longer time. This is likely because those individuals do not actively seek work, believing that they will get recalled. Once they find they are not going to be recalled, they begin searching for work, but by then they have already been collecting UI for some time.

There is further evidence that firms may not only use this pattern of lay-off and recall, but that they may actually time their recall to correspond to the period when benefits are almost exhausted. The rate of recall increases dramatically just as benefits are running out, and since recall is the prerogative of the firm, this suggests that firms time their recall accordingly.

In summary, the use of the UI program is determined by both workers and firms. Frequent users of the UI program tend to be employed by firms that are frequent users. The cycling of lay-off and recall is a big reason for the incidence of frequent use. Not only do workers end up cycling on and off of UI, but they also tend not to look for other work as long as they think that a job will be waiting for them when their benefits run out. This results in longer periods collecting UI when the workers are mistaken in the belief they will be recalled.

This study raises some interesting issues for those people who want to see the UI program revised. It points out that perhaps they have been looking at the wrong side of the labour market in their efforts to reform the system, or at least, that they have been ignoring one half of the equation. If a workable reform is to be implemented, it must deal with both workers and firms and recognize the contribution of both to usage patterns of the UI system.