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National Versus Regional
Financing and Management
of Unemployment
and Related Benefits: The
Case of Canada

David Gray

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**National versus Regional Financing and Management of Unemployment and Related Benefits:
The Case of Canada**

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JEL Classification: J64, J65, J68.

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SUMMARY

Decentralization looms large in any analysis of Canadian economic and social policy. This trend has been especially pronounced in the area of unemployment insurance (UI) and social assistance (SA) programmes. Provinces now manage SA programmes and retain 100% of any cost savings that they achieve, while the Federal government maintains full responsibility for the passive component of UI. Under a series of provincial-federal Labour Market Development Agreements, since 1997 most of Canada's provinces have taken over administrative responsibility for the employment benefit and support measures (EBSMs) targeted on UI beneficiaries. A number of articles have examined the implications for provincial SA systems of restrictive measures in the UI programme. This paper examines the possibility that provinces may shift actual and potential SA clients onto the insurance system (now called employment insurance, EI). It concludes that within the context of EBSMs, any cost-shifting of this kind is fairly marginal. However, there are some instances where provinces finance job-creation programmes that generate EI entitlement. Provinces have also, in the 1990s, developed welfare-to-work policies which encourage SA beneficiaries to find short-term employment, probably in some cases leading to qualification for EI benefits.

RESUMÉ

La décentralisation figure en tête de toute analyse de la politique économique et sociale canadienne. Cette tendance n'est nulle part plus prononcée que dans le domaine des programmes d'assurance-chômage (AC) et d'aide sociale. Les provinces maintenant gèrent les programmes d'aide sociale et récupèrent 100% de toute économie obtenue, alors que le gouvernement fédéral conserve la pleine responsabilité pour le volet passif de l'AC. Aux termes d'une série d'Ententes sur le développement du marché du travail (EDMT), depuis 1997 la plupart des provinces canadiennes ont la responsabilité de gestion pour les Prestations d'emploi et mesures de soutien (PEMS) ciblées sur les allocataires de l'AC. Il existe quelques études portant sur les conséquences des mesures restrictives appliquées au programme d'AC pour les programmes provinciaux d'aide sociale. Cet article étudie la possibilité que les provinces fassent basculer sur le système d'assurance (nommé maintenant l'assurance-emploi, AE) les clients actuels et potentiels de l'aide sociale. Il conclut que dans le contexte des PEMS les transferts de coûts de cette nature sont généralement d'envergure limitée. Il existe pourtant des cas où les provinces financent des programmes de création d'emplois pour faire ouvrir les droits à l'AE. Les provinces ont également mis en œuvre dans les années 90 des politiques de transition de l'aide sociale au travail qui encouragent les allocataires de l'aide sociale à trouver des emplois de courte durée, ce qui peut dans certains cas ouvrir les droits à AE.

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NATIONAL VERSUS REGIONAL FINANCING AND MANAGEMENT OF UNEMPLOYMENT AND RELATED BENEFITS: THE CASE OF CANADA¹

1. Introduction

1. The decentralized nature of the Canadian federation looms large in any analysis of economic and social policy. The division of spending and taxation powers, referred to as fiscal federalism, between the federal and the provincial governments plays a major role in the development and the execution of these public policies. Political forces and institutions are relevant, as well as the economic and the social aspects, in any analysis of them. In addition, from a research perspective, the decentralization of control of public policy choices to ten different provinces often provides an opportunity to make cross-sectional comparisons of policy choices, delivery mechanisms, and their outcomes.

2. This study is in the spirit of *Territorial Review: The Case of Canada* (OECD, 2002), which indicates that the power shift from the national to the sub-national level is continuing and documents the trends in revenue and expenditure decentralization. A central theme in OECD (2002) is the existence of a trade-off between economic competitiveness (as it is affected by taxation levels and economic regulation) and territorial cohesion throughout the federation. More specifically, in many policy domains, decentralization is thought to bring about closer correspondence between the revenue collected and the public services that are delivered, thus improving the accountability of politicians for the efficient provision of them. On the other hand, decentralization tends to undermine the ability of the central government to provide services of reasonably uniform quality and level, thus possibly undermining regional equity.

3. In no area was the trend toward decentralization more pronounced in Canada than in the unemployment insurance (UI) and social assistance (SA) programs. Political events as well as major economic developments combined to produce an interesting case study involving major transformation of the policy apparatus linking social assistance (SA), unemployment insurance (UI), and active labour market policy (ALMP) measures. The Federal government maintains total control of the passive component of UI and the monitoring of job search activities for those who receive them. The SA regimes now fall nearly entirely under the control of the provincial governments, while the funding and the administrative responsibility for a portion of the ALMP, called employment benefit and support measures, or EBSMs, were transferred from the federal government to most of the provinces in 1997. This devolution was consummated via a series of bi-lateral agreements between the Federal government and the provinces called the Labour Market Development Agreements (LMDAs).

4. This policy transfer and its potential impact on the spending of both levels of government is the primary focus of this paper. A number of articles (cited below) treat the implications of reductions in the

1. My sincere thanks go to David Grubb of the Directorate of Employment, Labour, and Social Affairs of the OECD, who suggested the topic and the initial framework, and who also provided me with many leads into the literature as well as detailed editing suggestions. The content and the opinions expressed in this paper are those of the author who is responsible for all remaining errors, and do not necessarily reflect the views of the OECD.

generosity of federally financed and delivered unemployment insurance benefits (now called Employment Insurance, or EI) on the provincial governments, which retain responsibility for the provision of SA. Little attention has been paid, however, to a possible effect of the transfer of ALMP measures to the provincial governments, which might give them the incentive and the means to shift costs of income maintenance programs back to the federal government. This form of “vertical fiscal competition” or “cost-shifting”, described in OECD (1999), could conceivably occur if employment benefit and support measures (EBSMs, described in more detail below) are managed so as to place clients into short-term jobs which re-qualify them for EI benefits, thus lightening the fiscal burden on the SA program.

5. The trend towards decentralization in employment policy, in particular the transfer of responsibility for ALMPs, is not unique to Canada. Indeed, the proceedings of a recent colloquium *Decentralising Employment Policy: New Trends and Challenges* (OECD, 1999) included reports from many member nations. A common theme is that decentralization allows for greater flexibility in the delivery of ALMPs such that labour supply can be better matched with labour demand at the local level, enhancing the efficiency of the labour market. It is generally considered that cooperative partnerships between local governments, employer organizations, and non-profit organizations and the provincial government agencies are well positioned to meet that challenge. Furthermore, access to employment-related services can be enhanced through “one-stop-shopping” or “co-location” of employment-related services, and duplication of government services and operations can be lessened. The functions of job placement, benefit payment, and job-search assistance are being increasingly integrated and coordinated regardless of which level of government is responsible.

6. In this paper it is argued that the framework of LMDAs, specifying the transfer of the ALMPs to the provinces, created incentives to shift costs from the provincial level onto the Federal EI system. Nevertheless, a confluence of factors suggests that such a phenomenon is not widespread. In addition to the qualitative and descriptive analysis, some preliminary quantitative evidence is presented. It seems likely, however, that both within as well as outside of the LMDA framework, there are still significant flows of clients that participate in provincial ALMP programs that subsequently claim EI benefits. There remains an important group of SA clients, or potential ones, that are ineligible for EBSMs. Furthermore, in that situation, the fact that the provincial government does not finance EI and the existence of a lack of coordination of policy interventions between the two levels of government would still be conducive to a “carrousel” effect, whereby clients are encouraged to find short-term employment facilitating a qualification or re qualification for EI benefits.

2. Context For The Transfer of ALMPs to the Provincial Level

7. The past 12 years have witnessed a number of profound transformations in the domain of social policy related to income support in Canada. In the late 1980s, there was an almost total dichotomy between the policy domains of SA (a provincial jurisdiction) and unemployment insurance (a federal jurisdiction), despite the fact that there was a degree of overlap in their beneficiaries, particularly those with unstable labour market histories or a low degree of labour force attachment. By the late 1980s and the early 1990s, both regimes were undergoing severe financial strain, which resulted in strong pressures to reduce costs and increase efficiency.² The steeply escalating costs were seen as a manifestation of underlying flaws in SA programs – which appeared to encourage long-run dependency – that called for reform. Doubts were

2. The significant fiscal deterioration during the early 1990s and the concomitant poor labour market performance are documented in OECD (1999), Wong (2001) and elsewhere. An official source for figures on expenditure, revenues, deficits, and debt is Finance Canada (figures through 1997 displayed at: www.fin.gc.ca/update97/factdebt-e.html).

raised about the relevance of the programs' primary objective of income maintenance, as well as their efficacy in achieving that objective. As Battle (2001) puts it:

“Almost all major social programs in Canada have undergone or are experiencing changes in the transition from the universal to post-welfare state [...] The post-welfare model is based on a critique of key social programs – especially UI and welfare – that sees them as costly, inefficient, and ineffective [...]”

Within this context of fiscal crisis coupled with a labour market undergoing structural change, the regimes of SA and UI simultaneously underwent profound changes.

2.1 *Evolution of Social Assistance*

8. In the case of SA, Canada overall experienced an increase of 55% in caseloads between 1990 and 1994. An oft-cited development was the persistence in the caseload in Ontario over much of the 1980s following the recession of 1982-83, despite very the favourable labour market conditions that prevailed in the late 1980s (OECD, 1999; Fortin and Crémieux, 1998; Kapsalis, 1997). Almost all provinces experienced a further sharp rise in caseloads during the recession of the early 1990s.

9. In most provinces the central tenet of SA programs has evolved during the 1990s, particularly by mid-decade, such that a majority of clients were no longer entitled to benefits based solely on an income maintenance rationale. According to the new ethos, sometimes labelled the “activation” of SA programs, recipients that were deemed employable now had an obligation to take actions to enhance their employability and find work. They were expected to draft a “welfare to work” plan in conjunction with the agency responsible for implementing active labour market programs. For those recipients that did not face “multiple barriers to employment”, the expectation was that work is the norm (HRDC, 2000a; OECD, 1999; Gorlick and Brethour, 1999). Participation in one or more forms of ALMP became compulsory, but these obligations cannot be interpreted as workfare *per se*, as in most cases concrete job placements were not provided by provincial governments. As explained in OECD (1999) and McIntosh and Boychuk (2000), even in Ontario, which along with Alberta carried out some of the most radical reforms of SA policy, the administrative constraints on the implementation of mandatory workfare are extremely heavy. Consequently, most Canadian jurisdictions do oblige SA recipients to participate in job search, job counselling, and skill training programs, but they resort to sanctions sparingly.

10. In many and probably most cases involving employable or “work-ready” SA clients, the central thrust of the ALMP interventions is broadly characterized as “the shortest route to employment” (Gorlick and Brethour, 1999; OECD, 1999). The importance accorded to interventions that are expected to pay off in the longer term, such as post-secondary education and vocational training, has diminished, perhaps because they tend to delay the return of the client into the labour market. There is a risk that such clients might cycle through a series of low-wage, low-skill jobs, to the possible detriment of successful long-term integration.

11. While the provinces all faced the pressures from growing caseloads to reform their SA programs, a policy choice made by the federal government in 1990 also provided impetus to the transformation. During the 1970s and 1980s, the federal government made fiscal equalization payments, under the Canada Assistance Plan (CAP), which were earmarked for SA payments. As described in OECD (1999, 2002) and Baker, Payne, and Smart (2003), CAP provided for open-ended matching of provincial expenditures at a dollar-for-dollar rate. As might be expected with open-ended matching grant programs, the incentive structure was conducive to rising expenditures. By the early 1990s, extreme fiscal imbalance caused the federal government to place a binding ceiling on CAP expenditures to the three wealthiest provinces. Any rise in SA expenditures beyond the cap became the sole responsibility of the province. In 1996, the CAP

was jettisoned for all provinces and replaced with an unconditional block grant called the Canada Health and Social Transfer (CHST).³ While this act had profound implications on the financing of SA programs, the provinces did gain a lot of flexibility in the design and administration of their regimes that they previously lacked under the CAP framework. The only constraint that was placed on provinces was that no residency requirement be applied to new applicants.

12. With the implementation of a block grant, the incentive structure facing the provinces was radically altered, as the marginal tax-price of rising expenditures on SA was 100% rather than 50%, and one would expect a negative impact on total spending. Baker *et al.* (2003) carry out a detailed and rigorous econometric analysis supporting that assertion, as the change in the matching rate led to a modest decline (6 to 8% lower than the counter-factual over the four-year period 1990-94) in CAP expenditures in the three affected provinces. This reduction in expenditures was realized more from restricting entry into the regime than through a reduction in benefit levels. This finding that the lower level of government responded to a change in the fiscal incentive structure as predicted by basic microeconomic theory is relevant to the cost-shifting issue raised in this paper, although there is a nuance. The CAP reform involved a change in the revenue sharing mechanism, while the cost-shifting issue involves a change in the division of mandates between two levels of government.

13. Detailed information on the impact of changes in fiscal transfers to provinces over this period is provided in OECD (1999), Table 6.1. Federal cash transfers to the provinces declined by about 35% in 1996. All in all, the provinces' SA programs underwent major change between the late 1980s and the late 1990s in terms of their method of financing, eligibility conditions, and program objectives. In the latter half of the 1990s, caseloads and expenditures decreased considerably in most provinces (OECD, 1999). According to Fortin and Crémieux (1998), this decline from the peaks reached in the early 1990s can be explained by a combination of improving labour market conditions and reductions in the generosity of SA programs in BC and Ontario.

2.2 *Evolution of Unemployment Insurance*

14. The 1990s also brought about major changes in Canada's UI system that resulted in significant spending cuts. The pressures for reform were fairly similar to those mentioned above in the context of SA, and most were set out quite explicitly in a White Paper released by the minister of HRDC (1994) entitled "Improving Social Security in Canada: A Discussion Paper". As summarized by Wong (2001), these contributing factors included five pressing UI policy issues. First, there was the phenomenon of growth over time in caseloads, especially cases of repeat users of UI. This caused a pattern of growth in expenditures, rising (as a normal automatic stabilizer) during recessions but failing to decline to pre-recession levels during recovery periods, generating a pattern of hysteresis. UI expenditures reached 3% of GDP in 1992, and by 1994 the cumulative deficit of the UI account was CAD5.8 billion (0.7% of GDP). Second, the rising program outlays necessitated steep increases in UI premiums that were thought to dampen employment growth. Third, there was concern that the UI program rules were being abused by both firms and workers to organize employment patterns with the prime objective of qualifying for UI benefits as supplementary income support after planned separations occur. In cases when the layoffs are foreseen, the payment of these benefits contravenes social insurance principles. Fourth, there was concern regarding distortionary effects on the composition of employment, the growth in part-time employment (specifically, jobs with fewer than 15 hours per week) perhaps being stimulated by exemption from UI contributions. Finally, there was a notable erosion in worker participation in the UI program through the growth in non-standard employment that was excluded from UI coverage.

3. These funds are also earmarked for health care.

15. Within the context described above, three major pieces of legislation involving UI passed in the 1990s. In 1993, the replacement ratio was reduced for all recipients, and those who left their jobs voluntarily lost all eligibility for UI benefits. Bill C-17, passed in 1994, further reduced the replacement ratio, raised the minimum entry requirements from 10 to 12 weeks in regions with the highest unemployment rates, and reduced the maximum durations over which benefits could be paid. Eligibility requirements and the maximum duration of benefits still vary according to the local unemployment rate, with generosity being directly tied to it. Entitlements were limited to two weeks of UI benefits per week of prior contributions. This reform reduced the length of the benefit period in high-unemployment regions.

16. With the passage of Bill C-12 in 1996, the name of the regime was changed from UI to Employment Insurance (EI). The primary feature of this reform is that coverage and eligibility for benefits were based on the number of hours worked rather than on the number of weeks worked, and that all hours of prior work were insurable, as opposed to only hours above a 15-hour per week threshold. These provisions are described in Nakamura *et al.* (1999), Wong (2001) and the HRDC (2000b). This important change is not typically considered to be a general cutback in the generosity of EI, but it had a differential impact depending on the number of hours per week that the claimant has worked in the qualifying period. It is likely that this provision broadened coverage of the EI regime by including more individuals with short work weeks. Bill C-12 also implemented an experience rating measure that applied to the recipients, as well as a benefit clawback mechanism that applied to higher income beneficiaries. Both of these provisions were subsequently repealed.

2.3 *Evolution of Active Labour Market Policy and LMDAs*

17. Wong (2001) traces the development of ALMP in Canada back to the late 1980s, at which time measures of this nature at the provincial level were quite fragmented and under-developed (OECD, 1999). The Labour Market Development Strategy (LMDS) was a federal initiative launched in 1989. The underlying premise was “that social policy should facilitate the adaptation to economic change by moving away from “passive” income transfers toward “active programs” that can provide a springboard for individual re-employment [...] In “making work pay”, access to income benefits increasingly becomes more tightly linked to paid employment as well as training...” (*op. cit.*, p. 18). This significant reorientation of policy necessitates the creation of new governance structures that include provincial governments as well as other affected parties. UI funds became more widely available for “developmental uses” (the term of the federal government for ALMP) such as training, relocation assistance, self-employment assistance, and re-employment incentives, up to a ceiling of 15% of total annual UI expenditures.

18. Part II of the 1996 EI Act (Bill C-12) enshrined the ALMP measures, henceforth called Employment Benefit Support Measures, while Part I dealt with the payment of passive EI benefits, for which the Federal government retained full responsibility. The Federal government then agreed to a very long-standing request on the part of the Quebec government to negotiate the devolution of active manpower policies and EBSMs from the Federal government to the provincial governments in the form of an LMDA. Most observers concur that the outcome of the 1995 referendum on sovereignty, which the federalist side won very narrowly, persuaded the federal government to concede this transfer (Lazar, 2002). Although Quebec pushed the hardest for devolution, given its emphasis on autonomous social and industrial policy that it sees as necessary to develop Quebec’s economy, almost all other provinces were eager to negotiate a bilateral LMDA with the federal government. One well-placed observer labelled the development of LMDAs “quintessential Canadian executive federalism”, characterized by the executive branch of the federal government negotiating with its counterparts at the provincial level, with little input from legislators or direct stakeholders (Lazar, 2002). In this case there was virtually no public interest or media coverage. It is notable that negotiations with the largest province, Ontario, which comprises over

40% of the Canadian labour force, were never successfully completed.⁴ The Federal government continues to fund and deliver all EBSMs in that province.

19. In 1997, when most of the LMDAs were negotiated, approximately CAD1.5 billion was transferred from the Federal government to the provinces. There were two types of LMDAs. In the cases of Alberta, Quebec, New Brunswick, Manitoba, and Saskatchewan, there was full devolution or transfer of the design and the delivery of EBSMs, which involved the transfer of staff between the two levels of government. In these cases the federal government pays the EI indemnity from part I of the regime, and pays funds to support the EBSM intervention. In the cases of British Columbia, Nova Scotia, Prince Edward Island (PEI), and Newfoundland, a co-management model was formed, whereby the EBSMs are planned and delivered jointly. Note the marked asymmetry in the governance structure for the delivery of the EBSMs. In Ontario the only player is the federal government, while in some provinces the Federal government provides the funding and shares the administration with the provincial governments. In the full transfer provinces, however, the provincial governments receive the funding and have total responsibility for design and administration. This variation in governance structure can be used to compare outcomes of EBSMs that might shed light on “best practices” in policy delivery.

20. A description of the nature of the EBSMs and the main features of the LMDAs appears in several sources, including Lazar (2002), Wong (2001), and OECD (2001, 2002). Four employment benefits and the three employment support measures can be listed (see also HRDC, 2000b):

- Targeted wage subsidy (TWS) provides a wage subsidy to encourage employers to hire workers they might not otherwise employ, such as those with a lack of experience. The wage subsidy is paid to employers, and it should not exceed 60% of the wage paid and should not exceed a duration of 78 days.
- Self-employment assistance (SEA) provides temporary income support and guidance to people with sound business ideas.
- Skills development (SD) gives people financial assistance to make their own arrangements for training that is supported with an approved return-to-work action plan. The income benefit resembles a standard EI benefit.
- Job creation partnerships (JCP) consists of short-term employment at non-profit enterprises, such as community organizations, oriented around projects that provide valuable work experience to participants. The participants can receive an EI benefit or non-insurable remuneration.
- Local Labour Market Partnerships (LLMP) provide financial assistance to improve capacity for human resource planning and labour force adjustments.

4. The reasons for the absence of an LMDA in Ontario are not known with certainty. Relations between the provincial government and the federal government have been frosty since 1995, when the conservative government assumed power at the provincial level. The provincial government rightly claims that the province is a net payer into the EI account, so perhaps it feels that it has been unable to extract commensurate funding from the federal government. According to Diane Cunningham, the provincial minister of Training, Colleges, and Universities "Our province represents close to 40 per cent of Canada's workforce, but receives only 27 per cent of federal funding for labour market programs. Two thirds of the massive EI surplus is paid for by Ontario workers and employers, and they deserve more for their dollars." (www.newswire.ca/government/ontario/english/releases/February2002/12/c1046.html).

- Employment assistance services (EAS) provide funding for short-term interventions to assist unemployed individuals, such as job counselling and job-search workshops.
- Research and innovation (RI) supports activities that identify better ways of helping people prepare for or keep employment.

21. A number of guidelines governing the transfer of responsibility were incorporated into the legislation that enabled LMDAs. First, the clients for EBSMs were to be drawn from EI clients who were currently receiving benefits from Part I of the EI regime, and “reachback” EI clients, defined as those having a claim within the past three years.⁵ In contrast to the employment *benefit* measures, the employment *support* measures are available to a broader range of job seekers. Often these support services are not individualised, both rather consist of group programming. The EBSMs at the provincial level were to be modelled after the EBSMs specified in the EI Act. Although these seven measures form a template that is supposed to harmonize them across Canada, a degree of flexibility was permitted to adapt to local preferences and labour market conditions. The premise that individuals were to assume primary responsibility for securing employment was made explicit. An ongoing mechanism for accountability for program results was specified, as well as a medium-term process for the evaluation of outcomes. The EBSMs were to be executed with localized decision making, and cooperation in the form of partnerships between provincial governments, employers, and community-based organizations was to be encouraged.

22. The accountability framework for program results is based on the following three criteria. First, within each province’s LMDA, there are targets for the number of clients served. For some provinces these statistics are broken down according to active EI claimants versus reachback EI claimants. Second, a target is set for savings in benefit payouts from the EI account. These savings stem only from active EI claimants that terminate their EI claim before the exhaustion date in order to return to work. Third, in the case of the “full devolution” LMDAs, there is a target for the percentage of EBSM participants that return to work, usually defined as a job of at least 12 weeks of duration. A common critique is that this accountability framework encourages quick reemployment at the potential expense of employability. Quantitative targets imply that other performance criteria, such as gaining long-term employment and serving those with “multiple barriers” to re-employment, may be receiving insufficient attention.

23. Evaluations are distinguished from results-based accountability in that they refer to the functioning of the LMDAs as opposed to readily measurable output. “Formative” evaluations, which were to be conducted one year after implementation, focus on the processes involved in the transfer. They deal with potential improvements to design, delivery, and supporting infrastructure, but say little about the effectiveness of these interventions in helping clients achieve independence. “Summative” evaluations are to be conducted after three years in order to measure the impacts of these EBSMs on the employment itineraries of clients, such as subsequent earnings, employment spells, unemployment spells, and EI or SA receipt. At the time that this article was written, none of the summative evaluations are released to the public domain, and New Brunswick has the most sophisticated and complete formative evaluation.

5. This eligibility restriction stems from fact that all of the funds for both parts come from the EI account. The fact that jobless individuals that do not qualify for EI benefits are excluded from these EBSMs has incited a lot of criticism.

Table 1. The incidence of unemployment benefit refusals and sanctions in fourteen countries

	Australia Jul-Nov 1997	Canada 1998 ^a	Czech Republic 1997 ^b	Denmark Q1 1997	Finland 1997	Germany 1997	Japan 1998 ^c	Sweden 1998 ^d	Switzerland 1996 ^e	New Zealand 1997/98 ^f	Norway 1998	United Kingdom 1997-98	United States 1998 ^g
As a percentage of the inflow to benefits													
Sanctions for behaviour before benefits start	2.21	4.70	8.69	..	3.44	3.62	57.26	3.09	13.12	0.50	10.55	4.32	11.13
Miscellaneous initial conditions	..	0.03	5.22	..	0.61	..	..	..	..	..	..	..	..
Voluntary unemployment ^h	2.21	4.67	3.47	..	2.83	3.62	57.26	3.09	..	0.50	10.55	4.32	11.13
Total sanctions in a year (or data at an equivalent annual rate) divided by the average stock of beneficiaries, in percentages													
Sanctions and refusals for behaviour during benefit period	14.71	4.20	0.13	14.70	4.30	1.14	0.02	0.79	40.29	0.37	10.84	10.30	56.97
<i>Labour market behavioural conditions</i>	3.30	0.78	0.13	..	2.12	1.14	0.02	0.61	38.49	0.37	7.32	5.52	35.35
Refusal of work	0.33	0.02	0.08	..	0.57	0.64	0.00	) 0.61	13.23	0.01	5.01	1.23	1.90
ALMP or related action plan	1.82	0.76	..	..	1.55	0.50	0.02	)	..	0.36	2.31	2.21	..
Evidence of job search	1.15	..	0.06	..	..	..	..	..	25.26	..	..	2.08	33.46
Administrative infractionsⁱ	11.41	3.42	..	..	..	..	0.00	0.17	..	..	3.52	4.78	21.62
.. Unknown or zero													

Table 1. The incidence of unemployment benefit refusals and sanctions in fourteen countries (*cont.*)

Notes

- a) Entries for Canada here are a corrigendum to the version of this table published in OECD (2001), Labour Market Policies and the Public Employment Service (p. 196). Statistics Canada reasons for disqualifications and disentitlements "not unemployed or no interruption of earnings", "incomplete documentation" and "other" are considered to fall into none of the categories of this table. Statistics Canada reasons "labour dispute" and "not capable or not available" are attributed to the category "miscellaneous initial conditions" of this table.
- b) Because data in the Czech Republic relate to exclusions from the job-seeker register, total registered job seekers (not beneficiaries) are used as the denominator in computing the incidence of sanctions.
- c) In Japan, some exclusions from benefit (on grounds of lack of willingness to work) may occur in cases of insufficient evidence of active job search, but these cases are not recorded.
- d) In Sweden, sanctions for behaviour during the benefit period exclude some cases not decided by June 1999. Sanctions for the reason "not available for work" have been reported here as "administrative infractions" (they are suspected to include, for example, cases where the PES was unable to contact a jobseeker in time for a referral) although this interpretation is not certain. In cases of failure to attend a regular counselling appointment, benefit may be stopped but no sanction arises (OECD, 1996c, p. 52).
- e) Total sanctions in Switzerland in 1996 are allocated to quits, job search, refusal of work and other sanctions for behaviour during the benefit period (included in this total but not in any sub-category), according to incomplete results of partial surveys conducted by OFIAMT in 1989, 1992 and 1998. Data for 1993 (a year with a similar unemployment rate) were used as the denominator in calculating incidences. New benefit claims were estimated as 72% of new registrations with the placement service (OECD, 1996b, Table 2.2, p. 103).
- f) In New Zealand, sanctions shown in the "ALMP or related action plan" category could relate to failures to provide evidence of active job search under Workplan or to failures to attend work readiness interviews.
- g) The US "active job search" sanction total includes some sanctions related to ability and availability issues. In the United States, sanction rates for ongoing claims are usually cited on a per-claimant-contact basis, where claimant contacts occur weekly. The annual rates shown here can be read as saying, for example, that the average weekly rate of sanctions applying to persons with a current claim for active job search reasons is 0.63% (i.e. 33.46% divided by 52 weeks).
- h) Voluntary unemployment includes dismissal for fault.
- i) "Administration infractions" here refer to non-attendance at interviews with the PES and failure to send necessary forms or notify changes in circumstances, including in some countries sanctions for non-declaration of income. However, where failure to attend interviews called specifically to discuss a job, programme place or action plan is assimilated to refusal of these measures, the sanctions have been left in the relevant category.

Sources: Information from national authorities, online data series D730942 and its components from CANSIM (Statistics Canada), advice from Anders Forslund and OECD Secretariat calculations.

24. Given the practices in certain other OECD countries in the domain of ALMP, one question that arises is the degree to which the provincial agencies are applying activation policies to EI clients who participate in EBSMs, and furthermore whether the transfer of EI part II expenditures from the federal to the provincial level has had any effect. Activation strategies in this context refer to measures designed to induce EI clients to search for work, accept job offers, and participate in employment counselling or other types of EBSM. They are particularly present in countries with a high concentration of long-term unemployment coupled with long-term unemployment indemnities. An example would entail job placements – referring clients to vacant jobs – supported by the threat of sanctions for those who refuse them. Canada has one of the lowest frequencies of sanction during the unemployment period among OECD countries. This suggests [see Table 1, which is a corrected version extracted from OECD (2001)⁶] a low level of recourse to activation measures for the EI regime compared to certain other countries. It is somewhat remarkable that these rates for sanctions issued during the benefit spell were not always relatively low by historical standards, as the annual number of sanctions in the mid-1970s were

6 Table 1 in this paper represents a corrected version to Table 2 in OECD (2001), p. 44. Updated data through the year 2002 (not shown) show no major breaks from historical levels.

substantially higher than in the mid-1990s for refusals of work and for failure to provide evidence of job search. Any cyclical increase in this rate that one might expect during periods of tight labour markets did not occur, and during the 1990s they were at historically low levels before and after the introduction of the LMDA arrangements.⁷

25. Discussions with program officials indicated that it was indeed rare for sanctions to be applied during the UI regime that existed before the implementation of the LMDAs, despite the fact that the federal government bore 100% of UI costs. The officials suggested that the lack of sanctions probably remains a feature of the EBSMs within Part II of the EI Act. The administrative climate in which the EBSMs are delivered is 'not designed to be punitive'. Although penalties for non-cooperation are specified under article 65.1 of the EI Reform Act, as of mid-2003 they were not correctly operational. When implemented they would most likely apply in cases where EI clients are uncooperative in regards to taking training courses.

26. For the purposes of this study, it is thus doubtful whether the transfer of the EBSMs to the provinces had much impact *per se* on the use of sanctions as an activation measure, because sanction rates were insignificantly low from the point of view of likely labour market impact – even in the years immediately preceding 1996. It does suggest that activation strategies have hardly been implemented at all into the EI system in the 1990s.⁸ The absence of UI activation measures that tend to lead to sanctions may be favoured by the split between financing (federal) and administration (provincial under LMDAs), and may be difficult to reverse under these arrangements, if ever the federal government were to favour such a direction for ALMP.

3. Off-Loading and Cost-Shifting

27. Cost-shifting is viewed as a policy implementation problem occurring at the administrative level. It occurs when one administration takes measures to ensure that another public organization assumes financial responsibility for a case, without addressing the fundamental issues of the client. In the Canadian policy context, a form of it labelled "off-loading" receives most of the attention. It occurs when the federal government cuts back on benefits or services, hence adding a fiscal burden to provincial governments. Following the reforms to the UI regime that were discussed above, a number of studies examined the extent to which the tightening of EI eligibility criteria increased the caseloads and expenditures of provincial SA regimes. In this case of "off-loading", the cutbacks to the federally financed and administered UI program stemming from the Reform Bill of 1994 and 1996 placed a burden on the SA programs. It is somewhat remarkable that these rates for sanctions issued during the benefit spell were not always relatively low by historical standards, as the annual numbers of sanctions in the mid-1970s were substantially higher than in the mid-1990s for refusals of work and for failure to provide evidence of job search. Any cyclical increase in this rate that one might expect during periods of tight labour markets did not occur, and during the 1990s they were at historically low levels before and after the introduction of the LMDA arrangements.

28. Using a cross-sectional panel of data aggregated by province (Quebec, Ontario, Alberta, and BC) between 1977 and 1996, Fortin and Crémieux (1998) estimate an econometric model of SA incidence rates as a function of the unemployment rate, the UI wage replacement rate and eligibility rules, the SA benefit

7 All the sanctions that one sees in these data after 1996 refer only to Part 1 of the EL Act.

8 US experiments with activation measures such as job-search monitoring suggest some impact on the duration of short spells of unemployment (i.e. shortening them), although these measures do not prevent significant amounts of short-term unemployment from arising (associated with turnover and economic downturns).

level, and two average wage measures. According to their estimates, all other factors held constant, including declines in the generosity of SA benefits, the cutbacks to UI increased the SA caseloads from 10 to 25% depending on the province. Using a similar approach, but this time restricting his analysis only to Quebec, Fortin (1997) concludes that the major amendments brought by the UI/EI Acts will increase the number of welfare recipients in Quebec cumulatively by about 194 000 over the period between 1997 and 2007.

29. In contrast to those findings, the EI coverage survey of 1998 (HRDC, 1998) indicates that while there was a substantial decline in the proportion of the unemployed who are entitled to EI benefits, somewhat less than 50% of that decline between 1990 and 1997 can be attributed to changes in program parameters, and that the remainder of the decline is due to changes in the composition of the population of the unemployed. The methodology of that study is quite different from that employed by Fortin and Crémieux, as it is based on micro EI administrative data rather than aggregated SA administrative data. This study reveals that the proportion of the unemployed without any work history during the preceding 12 months – who cannot regain entitlement to EI and are not much affected by the reforms – rose considerably. HRDC (2001) indicates that among EI claimants who exhaust their benefits, who constitute one in five claimants, only 12% eventually moved to SA. Finally, an empirical study (HRDC, 2001) based not on administrative data but rather on the survey called the Canadian Out of Employment Panel concludes that there is no evidence that EI reform, through changes in entitlement or eligibility, led people to greater welfare use. The analysis, based on a panel of job losers, of the take-up rates for SA showed that these rates fell for both UI/EI claimants and non-claimants after the EI Reform Bill. The empirical evidence on this question is thus mixed and probably not definitive, and is likely affected by the nature of the data set used and the empirical approach that is adopted.

30. Although the Federal government was very frequently called to task for the fiscal impact that these UI/EI reforms had on the provinces, Nakamura, Wong, and Diewert (1999) point out that for decades provincial and local governments favoured policies to extend UI benefits in ways that were not actuarially sound. For instance, the provisions that allow for repeat use in high-unemployment regions constitute a form of long-term income supplementation for individuals who habitually did not have full-year work. From this perspective, some of those former EI claimants that were “off-loaded” to provincial programs, notably very frequent users, should not have been recurrently eligible for long periods of UI benefits.

31. As mentioned above, the second type of cost-shifting would consist of EBSMs at the provincial level taking the form of job creation benefits aimed at requalifying SA recipients for UI benefits. In their analysis of use patterns of SA and unemployment insurance benefits, Barrett *et al.* (1996) mention the practice of some provincial governments or their agencies of designing job creation programs so that SA recipients (or those that might otherwise become welfare recipients) will qualify for UI, thus shifting the cost of their income support to the federal UI program. They only mention this point as a possible explanation for certain use patterns, and are not able to observe or measure the extent of that practice. In all of the LMDA documentation, including the formative evaluations and the relevant discussion papers released by the government, there is not the slightest mention of this problem surfacing, nor is there any mention of the integrity of UI account. Furthermore, within the LMDAs themselves, there are very few hints that an issue of non-compliance could arise in this area. Nevertheless, the news media does contain occasional citations of “make-work” programs – funded by certain provincial governments – whose objective is to ensure that beneficiaries qualify for EI benefits.⁹ Conversations with officials from Human

9. An example that occurred in June 2003 involves the government of New Brunswick and fish plant workers from the Acadian Peninsula. "The new agreement sees New Brunswick increase its support of the workers to CAD2 million in the form of a job creation program. Participation in the program should give workers sufficient weeks of work to earn Employment Insurance." Source: "Fish plant workers, N.B. reach deal" (www.cbc.ca/stories/2003/06/20/crab_nb030620).

Resources Development Canada indicated that while it is widely assumed that this practice does occur upon occasion, it is sometimes difficult to detect, and no studies of the extent of it exist. The funds that are used come from provincial coffers, and any recorded documentation of these measures would appear in provincial fiscal statements in an item such as job creation programs. As these measures are within the jurisdiction of the provincial governments, the federal government has no input into the policy choice and implementation, and is often not directly informed of the job creation projects.

32. Under what conditions would this form of cost-shifting be most likely to occur? It would appear as though there is a large segment of the labour force that is susceptible to it. Over the past 20 years, there has been a major shift in the composition of the unemployed from the case of the worker with a high degree of labour force attachment who is laid off and awaiting recall toward those with more precarious employment histories lacking recent work experience. Bedard *et al.* (2000) indicate that the number of unemployed without recent work is almost three times as large as the number of long-term unemployed, and the former are the largest category of the unemployed that do not qualify for EI. They conjecture that this is primarily due to structural as opposed to cyclical factors. Consistent with this development is a major increase in the share of SA beneficiaries that were considered to be employable, defined as able-bodied and either single or without young dependents. Barrett and Cragg (1998) estimate that in British Columbia, this proportion rose from 38% to 64% over 1980-92. McIntosh and Boychuk (2000) claim that figures involving employability, and particularly changes in them over time, can reflect changes in the characteristics of recipients as well as changes in the provincial definition of employability.¹⁰ It may thus be more appropriate to focus on changes in family structure: the share of the SA caseload in British Columbia comprised of either single men or childless women rose from 56% to 64% over 1980-92. Barrett *et al.* (1996) carry out a similar analysis that extends to five provinces, and find that circa 1992, there was a large overlap in the clienteles of SA and EI. Furthermore, this trend of individuals drawing on both types of benefits developed in the mid to late 1980s.¹¹ There is a significant group of SA users that also draws on EI benefits in 1992 (from approximately one third to one half in the provinces studied), but the share of EI clients that also claim SA benefits is much lower, ranging from 7 to 15%. These groups of workers at the margins of the labour force would be relatively susceptible to cost-shifting.

33. According to the “results-based accountability” criteria, at first it appears as though the incentive structure would encourage cost-shifting activities on the part of provincial agencies operating the EBSMs. They have a strong incentive to recruit as many active EI claimants as possible and to place them in jobs as soon as possible in light of the savings to the EI account criterion. They have a lesser incentive to recruit reachback EI claimants, because there are no savings to the EI account to be realized.¹² This cost-shifting strategy is feasible only in administrative regions with high EI entitlements for three reasons. First, the entry requirements are reduced, and range as low as 12 weeks of prior employment. Second, if the initial EI claim can be completed or even suspended for 12 weeks or longer through a short employment spell, a successful placement is recorded for the accountability measure even if the client resumes EI receipt shortly thereafter. Third, to the extent that clients do manage to find work in these high-entitlement regions, greater savings to the EI account can be realized due to the extended durations of benefit periods, which also is reflected in the accountability measures.

10. Note that in most provinces, the criteria for determining employability were broadened over the late 1980s and 1990s, as the age threshold for the children of lone parents tended to be lowered (McIntosh and Boychuk, 2000).

11. According to the findings of Lemieux and MacLeod (2000), the spread of patterns of repeat use of UI throughout the workforce in the 1980s reflects a long-term process of learning and adaptation to the 1971 increase in UI benefit entitlements.

12. As mentioned above, the three criteria are: savings to the EI account stemming from the placement of a current EI claimant, the number of EI clients served, and number of clients returned to work. At the current stage, there are no medium-term, not to mention long-term, accountability indicators.

34. When one is considering active labour market programs outside of the LMDA framework, however, that involve provincial funds rather than federal funds drawn from the EI account (part II), provincial agencies have a relatively strong incentive to recruit reachback EI clients (or any jobless individual) that risk falling onto the SA rolls. In this context, there is relatively little incentive to recruit from among fresh EI claimants who are still far from the point of exhausting their benefits.

35. In summary, the results-based accountability measures within the LMDA framework definitely give provincial agencies the incentive to place active EI clients as quickly as possible into jobs. There is a greater incentive to target EBSMs to active EI clients than the reachback EI clients. If these jobs turn out to be short-term and serve to re-qualify the individual for a subsequent EI claim, no penalty is imposed, and there is thus no disincentive to cost-shifting. In the majority of EI administrative regions that do not have shortened entry requirements, however, cost-shifting is likely to be quite costly for the provincial government agency, as it would entail 20 weeks of subsidized full-time employment. Outside of the LMDA framework, there is a greater incentive to target active labour market programs to reachback EI clients than the active EI clients. The incentive structure is thus markedly different depending on whether the funds for the active labour market programs come from the province or the federal government.

4. Evaluation of Cost-Shifting

36. Given the incentive structure and the existence of a rather large pool of workers that are susceptible to cost-shifting policy interventions, it is instructive to appeal to evidence regarding how these EBSMs are being applied in practice. Judging from the legalistic jargon of the LMDAs themselves, there is very little indication that either executive branch expected this problem to surface. There is a vague, very generalised clause in all of the LMDAs mentioning cooperative efforts to detect abuse, but this language probably refers to outright fraud. In their in-depth treatment of the negotiations leading to the consummation of the LMDAs, Bakvis and Aucoin (2000, p. 36) claim that the provinces were motivated primarily by a desire to obtain control and funding for a range of programs that they considered to be naturally within their jurisdiction. "The opportunity to reduce financial pressures on their social welfare budgets by being able to place some of their SA clients into EI funded active measures may have been a factor, though likely not a critical one." The preliminary, formative evaluations that followed emphasized process and operational issues involved in the transfer, such as governance, access, bilingualism, cooperation between governments, single-window service, etc. There is no explicit mention of any type of potential abuse, nor is there any mention of contingencies for compliance or lack thereof. During the conference that was held by the Canadian Policy Research Network (CPRN) and Alberta Human Resources and Employment in 2001, the topic of the interface between SA, UI and EBSMs came up often in the proceedings, but the only mention of job creation measures by Lozar (2002) suggests that it likely is not occurring:

"The idea of government solving the unemployment challenge through make-work job creation measures was not raised once during the conference. This was, in one respect, a welcome silence. Past evaluations have cast very serious doubts on the efficacy of most direct job creation schemes. The fact that none of the participants was pushing this kind of solution to unemployment problems is perhaps an encouraging sign...The implication was that 'employability' measures, not job creation, were what ALMMs should be about"

37. Independent discussions with a number of analysts who were involved in the preparation of the formative LMDA evaluations supported the view that explicit and purposeful cost-shifting is not a common practice. Both the provincial governments and the federal government were anxious to at least give the appearance that "federalism works" and can exhibit innovative flexibility. Most provinces were eager to obtain even greater levels of funding from the Federal government for the EBSMs. Since the

federal government reserves the right to terminate LMDAs, and thus essentially to regain its powers in ALMP, the provincial agencies would be unlikely to jeopardize the LMDA itself, or at least a deepening of it, by engaging in *blatant* cost-shifting practices that the federal government would view as retrograde and counter to the spirit of the new policy initiative.

38. Within the framework of strictly provincial active labour market policy measures, however, some cost-shifting activity does occur, as mentioned above. As the case of the New Brunswick fish plant workers (cited above) shows, provincial governments sometimes only need to supplement seasonal employment with a few more weeks in order to ensure qualification for EI benefits. In an inventory of welfare-to-work programs in all provinces (Gorlick and Brethour, 1999), the existence of cost-shifting activity is mentioned only in the province of PEI. No measurement of the extent of this practice is provided, but after the EI reforms were implemented, there was more tracking by welfare staff in PEI to ensure that individuals on SA qualify for EI through program placements.

39. The discussion above consists of qualitative evidence suggesting that cost-shifting from the provincial level to the federal level is not pervasive. Despite the paucity of data involving the EBSMs, some quantitative evidence is presented below. Given the fact that only about four years have elapsed since the implementation of these LMDAs and the extremely demanding data requirements that are needed in order to properly evaluate the impact of ALMP, this methodology is restricted to cross-tabulations that constitute only preliminary evidence.¹³ One sign of evidence of the existence of cost-shifting would be an empirical pattern of job spells associated with an EBSM tending to end at or near the length of the minimum entry requirements for EI entitlement in the region. This is the methodology that was implemented by Green and Riddell (1995) in their study on the impact of varying entry requirements of UI/EI on the length of employment spells, which is considered to be strong evidence that job separations are sometimes timed to coincide with the minimum job length that is required to qualify for EI benefits. The data requirements to carry out that approach are not met in the case of EBSMs.

4.1 Comparing post-intervention EI take-up rates

40. The legislation creating the LMDAs calls for the development of sophisticated summative evaluations designed to analyze the longer-term impacts of the EBSMs on outcomes such as EI receipt, earnings, and unemployment spells. At this present time, work is progressing on these projects, but they are not yet in the public domain. The design of these summative evaluations is outlined in a generic, technical working paper authored by Nicholson (2001). When they are released, a possible empirical strategy could be oriented around a comparison of the post-treatment outcomes between the province without an LMDA (Ontario), those provinces with the co-management LMDAs (Newfoundland, Nova Scotia, PEI, and BC), and those provinces with the full-devolution LMDAs (Manitoba, New Brunswick, Quebec, Saskatchewan, and Alberta). If cost-shifting is occurring, one might expect the post-EBSM EI receipt rates in Ontario to be lower than those in the provinces with co-management LMDAs, which in turn might be lower than those in provinces with the full-devolution LMDA.¹⁴

41. More specifically, the subsequent EI take-up rates have to be analysed according to the type of EBSM. Cost-shifting activity is most likely to operate through the channel of the targeted wage subsidy

13. The evaluative empirical literature on the impact of ALMP is typically oriented around a comparison of the subsequent labour market outcomes for a treatment group with the outcomes of a control group of clients that was not subjected to the ALMP measure. Establishing an appropriate control group is a difficult challenge, and ideally all subjects should be followed for several years after the treatment.

14. These EI receipt rates could be measured by a binary variable assuming a value of unity if EI benefits were received since the intervention, or by the number of weeks of EI receipt since the intervention.

(TWS) intervention, as the participant is placed in a job that normally allows for the accumulation of qualifying weeks of employment. Even in this case, however, it appears to be a rather convoluted policy instrument if the objective is to re-qualify the individual for EI benefits, because the firm would have to lay off the worker shortly after he/she attains eligibility for another spell of EI benefits. A profit-seeking employer in the private sector does not necessarily have the same objectives as the provincial employment agency, and presumably would be reluctant to lay off the worker at a specified time in the event that labour demand is strong. Furthermore, according to program guidelines, the employer is supposed to retain participants in the TWS measure after the subsidy expires, although they are not legally obligated to do so. The job creation partnership intervention (JCP) is not a suitable instrument for a cost-shifting strategy, as most of the funding is earmarked for equipment that is used for a community project involving the client. Most of these positions are very short-term, and since the client receives an EI benefit, he/she is not obtaining qualifying weeks for a new EI claim. The other two employment benefits, namely skills development and self-employment assistance, do not involve job placement at all, and thus cannot give rise to cost-shifting.

42. The final step in this exercise would involve a comparison of the subsequent EI take-up rates of those workers eligible for EBSMs that did not participate at all in an EBSM to those who participated in the four types of EBSMs. This univariate cross-tabulation analysis still remains quite simple, as gross EI receipt rates are compared, but it might be feasible to control for other determining factors.

43. To summarize this approach, the basic empirical strategy is to compare the post-intervention EI take-up rates along a number of dimensions, namely between the three configurations for an LMDA (the absence of an LMDA, the “full-devolution” LMDA, and the “co-management” LMDA), between the various types of EBSMs (TWS versus the other three types of benefit measures), and between various treatment groups and a control group of EI clients that were eligible to participate in an EBSM but did not do so.

44. Some figures are available in a very early national-scope formative evaluation (HRDC, 1999) that can at least illustrate the approach, albeit in an extremely rudimentary fashion. Nationwide, among all clients that used any type of EBSM in 1996, 24% filed a subsequent claim for EI at the time of the survey in 1997. The highest value was 28% of clients in the case of training benefits, while the lowest was 10% in the case of self-employment. The subsequent EI take-up rates were 12%, 19% and 21% for job creation partnerships, targeted wage subsidies, and employment assistance services, respectively. The formative evaluation for New Brunswick is the most developed among all of the provinces. Among the comparison group, 67% did not receive an EI benefit during the post-intervention survey period, while 33% did. The highest value of EI take-up was 63% of clients in the case of their “rural experience” measure, which consists of job placement in rural areas. The figure for the job creation partnership measure is 56%, while the corresponding figure for the targeted wage subsidy measure is much lower at 32%. Since JCP participation does not involve payment of EI premiums, JCP participants can only qualify for a new EI spell if they have separate spell of qualifying employment after their JCP intervention. Only 7% of those who participated in the job training measure received EI benefits subsequently, while 11% of those who participated in the employment assistance services did so.

4.2 *The distribution of clients by type of EBSM*

45. An examination of the composition of EBSM expenditures according to the type of intervention constitutes an indirect empirical strategy for analyzing the potential for cost-shifting activity to take place. This measure is selected as opposed to the shares of clients because it is possible for an individual to participate in more than one intervention. Furthermore, since the long-term interventions are far more substantive than the short-term interventions in terms of time and resources, it is sensible to weight them

by expenditure rather than by the number of clients. For instance, a client serviced in Employment Assistance might undergo a series of 30-minute counselling sessions, while a placement in the TWS, JCP, or SE programs commit far more in terms of the client's and the government's time and effort.

46. These shares for the EBSMs (Part II of EI Act) at the national level relative to the total expenditures are listed in Table 2 for fiscal years 1999-2000, 2000-01, and 2001-02. They are oriented primarily around training and structured job-search programs. For example, in 1999-2000 8.2% of expenditures were earmarked for the targeted wage subsidy measure, while 5.6% were destined for the job creation partnership measure. As these are the only two EBSMs that involve placing clients in employment situations, it is apparent that the scope for cost-shifting activity is limited. The expenditures allocated to skills development programs dwarf those earmarked for all other EBSMs.

47. The data presented above do give a profile of the relative importance of the EBSMs, and they seem to indicate that the potential for cost-shifting within the LMDA framework is limited. They do not reveal, however, how EI clients are selected to participate in a given type of measure. Selection into these interventions is a voluntary choice on the part of the client. All EI part 1 clients are supposed to attend an information seminar on the availability of the EBSMs, but they are under no obligation to participate. It seems likely that EI clients who have relatively low expectations of recall to their former positions are more likely to participate than some of the frequent users with seasonal but recurrent employment patterns.

Table 2. Employment benefit support measures (part II) relative to total interventions: 1999-2002 (share of total expenditures)

Employment Benefit and Support Measure	Share 1999-2000	Share 2000-2001	Share 2001-2002
Targeted wage subsidy	8.2	7.4	5.9
Self-employment assistance	7.1	6.6	6.6
Job creation partnerships	5.6	4.6	3.7
Skills development	45	46.4	50
Total – long-term interventions	66.7	65	66
Labour market partnership	11.5	11.7	9.4
Research and innovation	1	0.3	0.2
Employment assistance	20.7	22.9	24.4
Total – short-term interventions	33.2	35	34
Total – EBSM	100	100	100

Source: HRDC (2003), *2002 EI Monitoring and Assessment Report*, Table 2.11; HRDC (2002), *2001 EI Monitoring and Assessment Report*, Table 3.7; HRDC (2001), *EI 2000 Monitoring and Assessment Report*, Table 3.6. See text for a description of the long-term EBSMs. In the documentation, among the short-term interventions, expenditures are classified as labour market partnerships, research and innovation, and employment assistance, while the number of clients are reported as having participated in employment assistance, group services, and individual counselling services.

Table 3. Shares of targeted wage subsidy and job creation partnership EBSMs relative to total interventions (number of clients served)

Province	EBSM type	Share 96-97	Share 97-98	Share 98-99	Share 99-00	Share 00-01
No LMDA						
Ontario	TWS	7.1	3.2	3.1	3.8	3.7
	JCP	3.4	1.6	1.9	1.4	0.8
Full devolution LMDA						
Alberta	TWS	1.1	1.0	1.6	0.6	0.4
	JCP	1.1	1.4	3.3	1.4	1.2
New Brunswick	TWS	5.3	9.8	15.0	12.8	16.3
	JCP	11.3	5.1	2.6	12.5	10.7
Quebec	TWS	3.1	2.3	9.9	7.4	9.8
	JCP	7.3	9.2	4.7	1.7	na
Manitoba	TWS	2.5	2.8	1.6	2.3	0.9
	JCP	7.3	3.6	1.7	3.9	0.9
Saskatchewan	TWS	3.5	1.9	1.1	4.2	11.1
	JCP	3.3	1.1	0.8	4.3	0
Co-management LMDA						
BC	TWS	2.0	2.3	2.9	2.7	2.0
	JCP	5.3	3.5	2.4	2.0	0.8
PEI	TWS	8.8	11.5	10.0	10.6	8.4
	JCP	6.1	4.3	4.2	3.2	2.3
Nova Scotia	TWS	5.6	5.5	5.1	4.1	4.6
	JCP	6.4	5.1	4.1	4.0	4.6
Newfoundland	TWS	4.7	2.4	3.8	5.1	4.0
	JCP	17.6	14.3	18.3	18.7	20.8

Source: HRDC EI Monitoring and Assessment Reports, 1997-2001.

48. The shares for the two EBSMs involving job placement are listed by province for the fiscal years of 1996-97, 1997-98, 1998-99, 1999-2000, and 2000-01 in Table 3. In this table the shares reflect the number of clients relative to the total number of clients served. The five years of data availability allow one to track changes in these shares over time (moving from left to right) in search for a shifting composition among the EBSMs. Most of the LMDAs were signed in 1997 and implemented shortly thereafter, so the figures for the earliest year are drawn from the pre-LMDA period, while the latest pair of years refers to

program activity that occurred approximately two years after the implementation period. If the implementation of an LMDA incited a modification of strategy toward cost-shifting activity, one would expect to see a rise in the shares for the TWS measure in those provinces adopting the full devolution LMDA (*i.e.* New Brunswick, Quebec, Manitoba, Saskatchewan, and Alberta in the middle panel). One would not expect to witness a marked shift in the distribution in Ontario, in which no LMDA was negotiated. A “differences in differences” approach, whereby changes over this period are compared across jurisdictions, can be applied to these three different cases of LMDAs. Among the four provinces that adopted the full-devolution model, it is clear that Alberta scarcely used these two measures. The figures for Manitoba do not reveal much of a pattern, but it does seem as though Quebec and New Brunswick have increased their incidence of the TWS EBSM. Quebec appears to be phasing out use of the JCP measure.

49. The figures for the four provinces with co-managed LMDAs are listed in the bottom panel of Table 3, and few trends are apparent. While these patterns are consistent with the conjecture that two of these provinces were adopting a cost-shifting strategy, the change is not marked.

4.3 *Trends in caseloads of SA and EI*

50. The final quantitative analysis involves a comparison across provinces of the evolution of caseloads for the SA and EI regimes. These figures are presented for a two-year period following the implementation of most LMDAs in 1997, but they are not reported on the same basis. The data on new EI claims are reported on a fiscal year basis, running from April to April, and the figure listed in Table 4 reflects the cumulative change from fiscal year 1997-98 to 1999-2000. The data on SA claims are reported on a calendar year basis, and the figure listed in Table 4 reflects the cumulative change from 1997 to 1999. Nationwide, the SA caseload fell sharply by 17.9%, while the number of EI claims declined by a more modest 6.6%. This broad trend has been documented over a longer period by Schafer and Clemens (2002), who indicate that SA reciprocity rates fell by a third between 1994 and 2000 against a backdrop of substantial cutbacks in the EI program. There are a number of contributing factors that have been mentioned above for the broad trend, including major changes in eligibility conditions in both the SA and EI programs and a generally well-performing labour market.

51. The change in the governance structure brought about by the LMDAs might have played a minor role in generating these patterns. Given the secular trends of declining caseloads for both programs occasioned by a number of variables, all other factors held constant, cost-shifting would be expected to have the effect of raising the magnitude of the percent change in EI claims (*i.e.* making it less negative or perhaps even positive), while lowering the percent change in SA caseloads (*i.e.* making it more negative). One would thus search for a pattern of relatively wide divergences in the growth rates of case-loads for those provinces with the full devolution LMDAs, but the data do not appear to generate marked patterns. The largest discrepancies are realized for one province that has a co-management LMDA (Newfoundland) and one that has a full devolution LMDA (Saskatchewan). In both cases, the number of EI claimants actually rose over this period, while SA caseloads fell sharply. The smallest discrepancy was realized from BC (which has a co-management LMDA), where the evolution in both programs was quite similar. In the case of Ontario, which does not have an LMDA and therefore is not susceptible to cost-shifting, the SA caseload declined by about 21%, while the number of EI claims fell by approximately 11% – a 10 percentage point gap that is similar to that found in some other provinces.

Table 4. Evolution in SA and EI caseload during the period following implementation of LMDAs

Province	% change in EI beneficiaries between 2000/1999 and 1998/1997	% change in SA beneficiaries between 1999 and 1997
No LMDA		
Ontario	-10.5	-20.8
Full devolution LMDAs		
New Brunswick	-2.1	-12.5
Quebec	-7.5	-16.6
Manitoba	-1.8	-13.1
Saskatchewan	2.4	-16.6
Co-management LMDAs		
Newfoundland	4.9	-16.7
PEI	-4.2	-11.7
Nova Scotia	-2.3	-13.6
BC	-12.3	-14.3
Canada	-6.6	-17.9

Sources: for the SA data, Table 2 in Schafer, C. and J. Clemens (2002) « Welfare Reform in British Columbia: A Report Card » *Public Policy Sources*, number 63, Fraser Institute. For the EI data, HRDC EI Monitoring and Assessment Reports, Annex 2.

5. Conclusion

52. It has been argued above that blatant cost-shifting from the provincial agencies administering the EBSM measures to the Federal EI account is neither pervasive nor systemic. This is not to rule out the existence of other channels through which SA clients could subsequently become EI clients, such as provincially funded and controlled ALMP measures that are outside of the LMDA framework. It is notable that while generalized references to that practice do appear in the literature, very little concrete, specific evidence is documented. In addition to blatant cost-shifting, there are other mechanisms that could unintentionally have the same impact. SA clients, or potential SA clients (particularly if they are reachback EI clients), could participate in an EBSM with the objective of improving employability (as intended by the program), find a job that turns out to be precarious, and subsequently return to the EI regime. This scenario is most likely in regions characterized by high EI-entitlement, where repeat use is a common pattern. There seems to be a nearly unanimous view that the administration of SA benefits has been tightened over the past 15 years or so in Canada, encouraging many or perhaps most employable SA clients to accept employment positions that may not be suitable long-term matches. A certain amount of

recidivism to claiming EI benefits is to be expected, as not all participants will attain full and long-term re-integration into the labour force following their first EBSM intervention. This phenomenon is likely generating some degree of indirect and lagged cost-shifting activity in the aggregate.

53. Several sources cited above have indicated that there is a very significant overlap between the clients of the provincially operated SA regimes and the federally operated Part I of the EI regime, which is contrary to the traditional demarcation in which most SA clients were not deemed to be employable, and most EI clients were deemed to have a high degree of labour attachment. This situation suggests that major research into the labour market itineraries of these individuals taking account of the complex interactions between SA and EI is warranted. One such work authored by Browning *et al.* (1995) using the COEP survey mentioned above indicates that for voluntary job leavers, the two types of benefits tend to be viewed as substitutes. The dichotomy of decision-making between two levels of government for these two social insurance programs poses very serious challenges to effective policy making and delivery. In the conclusion Fortin and Crémieux (1998, p. 8) state in strong terms that “The two levels of government have made major decisions about public finances and the size and structure of income distribution...with no clear spelling out of the issues. Their structural inability to cope with the UI/SA interaction is at the core of this failure of policy management. This is new proof...that institutional reform to internalize UI/SA spillovers (and spillovers between jurisdictions) should receive careful attention”.

54. It is likely that the transfer of the ALMP measures destined to EI clients, which is one vertex of the EI-SA-ALMP triangle, constitutes an institutional reform of the type that would mitigate the spillover problem. Nevertheless, there still is, as the case of the New Brunswick fishery workers shows, some potential for cost-shifting directed at employed, seasonal workers who risk failing to qualify for a subsequent round of EI benefits. In this situation, a placement in the form of a TWS or a JCP is not likely to interest the workers if it impinges upon their regular seasonal job. If all three vertices of this triangle – including both financing and expenditures – were the domain of provincial governments, as is (for the most part) the case in the United States, however, one would likely see different policy priorities, major changes in the design and nature of the EBSMs, and perhaps changes to the eligibility requirements for SA and EI. Such a governance structure would likely lead to a much tighter coordination of this constellation of labour market policies, with more focus on developing longer term employability, greater access for non-EI clients to employment services, greater recourse to benefit sanctions and disentanglements, and greater seamlessness in application of interventions.

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