HEALTH SCIENCES ASSOCIATION
The union delivering modern health care

BULLETIN

UI fund misused by ChrÃ©tien government

February 1, 1999

The Report: February / March 1999 vol.19 num.6

Heres how the unemployed paid down the federaldeficit

by KEVIN HAYES

Unemployment Insurance is at the heart of the ChrÃ©tiengovernments fiscal strategy. Cuts in UI benefits account for over half of thereduction in program expenditures since Paul Martins first budget in 1994.

From deficit to surplus
There is no federal surplus if the UI account is pulled from the governmentsrevenues and expenditures. In the five-year journey from a $42 billion federal deficit in1993 to a surplus in 1998, millions of unemployed workers were deprived of their UIcoverage.

The cuts made to UI in the first Liberal budget in 1994, coupled withthe massive cuts made with the Employment Insurance Act in 1996, permanently reduced UIbenefits from $19 billion to about $10 billion a year.

Martin, however, has kept UI premium revenues between $19 and $20billion ... the same as the level of benefits paid out in 1992. UI payments would infact be $19 billion had there been no cuts to the program in 1993 by the Tories, and in1994 and 1996 by the Liberals.

Permanent UI reduction
These cuts are permanent. But that is not what Martin wants us to believe. Unless theprogram is reformed, benefit payments will never rise to the $19 billion that were paid in1992. The program in no way is the same as what it was in 1992.

Martin, so far, has succeeded with this formula. The UI surplus hasincreased each year. In 1994, when the unemployment rate was 10.4 per cent, the surpluswas $2.3 billion. That same year, the portion of the unemployed receiving UI dropped from65 per cent to 58 per cent.

Because the UI is central to the governments fiscal strategy,benefit payout in every budget is overstated by billions of dollars. The budget plan forthe next two years to 2000 still shows benefit payout rising.

The government knows that this is unlikely, if not impossible, underthe current program rules. Its own forecasts of the UI surplus by the UI Commission to2003 show a growing surplus even at unemployment rates of 10 per cent and 11 per cent, andwith premium rates around the current level of 2.70 per cent. The cumulative surplus staysintact, even with very low premium rates.

With this kind of juggling of numbers, it is therefore not surprisingthat most Canadians remain unaware of the depth of the UI cuts and the size of the UI Fundsurplus. And ... what many still dont know ... the new benefit structure hasmade the program extremely unresponsive to rising unemployment.

With the UI program effectively uncoupled from unemployment, benefitpayments keep falling and the surplus keeps rising, even when unemployment is above 9 percent or 10 per cent.

Human cost of a-balanced" budget
When measured in terms of the numbers of people affected, the human cost is staggering.

Between 1993 and 1997, the number of unemployed fell by less than 15per cent. But the number receiving UI dropped by 45 per cent.

Today, nearly two-thirds (64 per cent) of the unemployed do not get UI.It varies from province to province. But, as recently as 1989, 87 per cent of theunemployed were covered. The Tories cut coverage to about two-thirds of the unemployed bythe time that the Liberals had come to office in 1993.

The Liberals, however, went much further. They cut the length of thebenefit period to half of what it had been up until 1990, and about half a millionpart-time workers will have a very tough time qualifying at all.

For the declining numbers of unemployed who qualify or are covered fora short period, their UI cheque is nowhere near the 60 per cent of weekly pay. It can beas low as 25 per cent.

Given the enormous surplus in the UI Fund, there is a lot of room formaking improvements.

Coverage could be increased from the current level of 36 per cent to atleast 70 per cent, and a UI cheque could be 60 per cent of a workers weekly wage.And, even with these improvements, the $20 billion cumulative surplus would still not betouched.

According to the Actuary for the UI Commission, it would cost about $5billion to increase benefit coverage to 70 per cent of the unemployed and $1.5 billion ayear to pay benefits equal to 60 per cent of a claimants weekly earnings.

At the current premium of 2.70 per cent, insurance coverage and benefitprotection could be improved by up to $8 billion a year without touching the $20 billioncumulative surplus.

If we had a benefit system that covered most of the unemployed, wewould have a program that would be paying $19 billion. And if we wanted to keep premiumsfrom rising in a recession, the surplus should equal one years payout of regularbenefits ... about $8 billion under the current program. Regular benefits are paid forlayoff. They do not include benefits for training, maternity, parental, or fisherbenefits.

The surplus at the end of 1998, however, will almost be equal to threeyears of regular benefits. This year, more money will be paid into the surplus than willbe paid in regular benefits

If premiums are stabilized over the business cycle, it is important touse unemployment levels in determining the cycle. The commonly accepted definition of abusiness cycle is the growth in the GDP. Three consecutive quarters of negative growth isa recession.

Unemployment doesnt fall quickly, even when the economy isgrowing. Jobless growth in the 1990s is an example of why a strict definition of abusiness cycle would not be enough to estimate UI payments in a recession. Even if anunacceptably high unemployment rate of seven per cent were used as the measure of goodtimes in a definition of the business cycle, the UI Fund should have been running adeficit throughout the 1990s.

The misuse of the UI Fund to pay down the government deficit hasdemonstrated the need to have a separate UI Fund at arms- length to government.Martin has also demonstrated that there were sufficient premium revenues since 1993 tocover most of the unemployed without the need to borrow. Instead, the government chose tohave the unemployed finance the governments elimination of the deficit and build thesurplus.

Kevin Hayes is a researcher with the Canadian Labour Congress who specializes in unemployment insuranceissues.

Type:
The Report

- Print
- PDF