

PRIVATIZIZING WELFARE

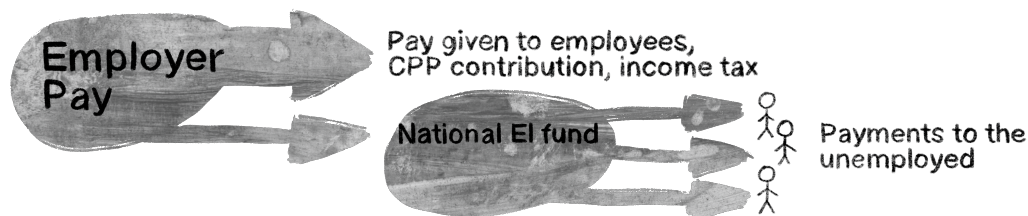


Last week, a conservative think tank called the Fraser Institute published a paper¹ advocating the privatization of unemployment insurance. Welfare state privatization is a longstanding goal of the right wing, motivated largely by a desire to destabilize the welfare system. This proposal has a number of issues.

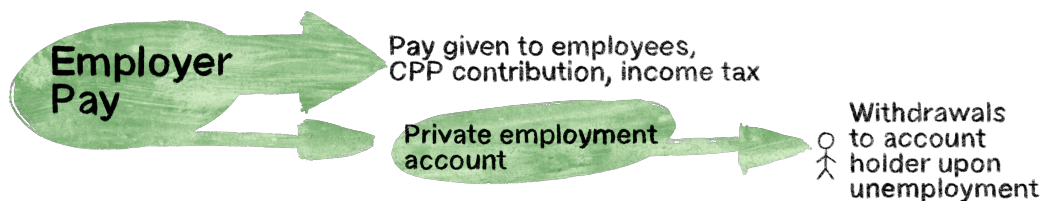
FRASER'S PROPOSAL

Fraser proposes to replace the current Employment Insurance (EI) unemployment insurance program in Canada with a system of private employment accounts. These employment accounts would replace EI with individual tax-advantaged savings accounts that accrue a fixed percentage of income taken from your earnings. Upon unemployment, you would be able to withdraw money from this account as you see fit, albeit limited by certain caps.

CURRENT SYSTEM



FRASER'S SYSTEM



For those individuals who develop a negative account balance, Fraser proposes allowing access to a "common fund" that would allow limited withdrawals. Loans would also be available. Upon death or retirement, the funds in the account would become transferable to be used for any purpose.

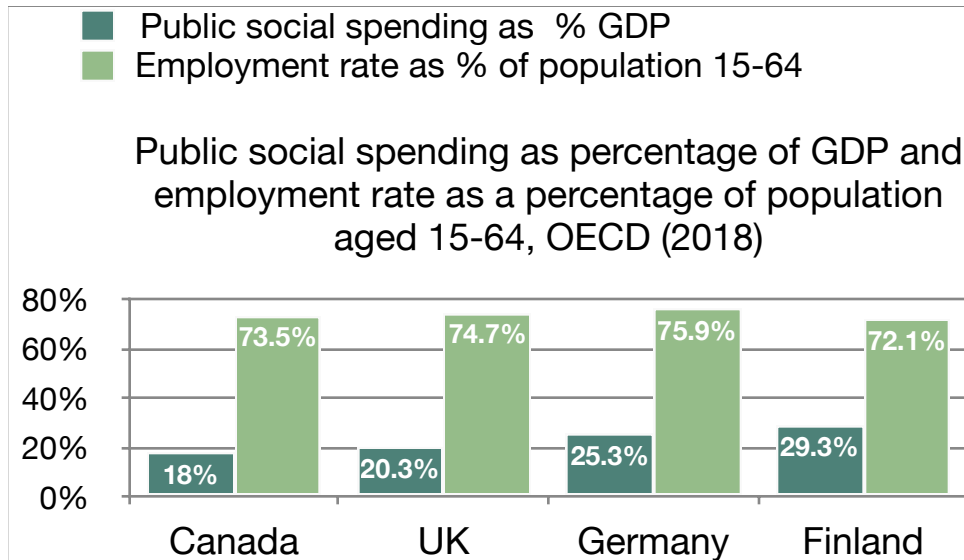
Here are my problems with this proposal.

¹ <https://www.fraserinstitute.org/studies/reforming-employment-insurance-for-the-21st-century>

"MORAL HAZARD" CONCERNS WILDLY OVERSTATED

Much of the Fraser paper is spent discussing the problem of "moral hazard", or the propensity for workers to exploit the unemployment insurance system to avoid work while still receiving income through EI. Fraser's reasoning for promoting their savings accounts system is primarily to deal with this issue.

The problem with this supposed hazard is that the rates of employment in countries with more generous unemployment systems than ours are very similar.



Much of the benefit of work is distinct from current earnings, which are the only part of work that unemployment insurance replaces. These benefits include increased societal status and career advancement. They are also related to expectations of future earnings, which typically increase corresponding to work experience. This helps to incentivize a return to work even for workers who enjoy high and predictable levels of income replacement, as is the case in some European countries.

Hitting workers with the cudgel of cutting off benefits is not necessary for reasonable labour force participation. If anything, significantly increasing EI benefits and duration would likely have little disemployment effect, judging from employment outcomes in other countries.

EASIER TO PLAN FOR INCREMENTAL LIFE EVENTS THROUGH INSURANCE

Work status is unpredictable. Across society, there is a relatively stable rate of job loss and unemployment duration. There is enormous variation for individual workers however.

It is hard for an individual to self-assess risk and consume savings appropriately as their future employment outcome is unknown, even if the general pattern of employment is known for their group. It's a good example of something that is challenging to manage individually but easy to manage collectively.

Savings accounts only function effectively for workers whose pattern of employment matches the wage withholding schedule of the savings program. Because insurance systems allow for funds to be managed collectively according to general rates of risk, they are a more appropriate tool for providing income replacement during unemployment.

SOME WORKERS HAVE STRUCTURALLY HIGH UNEMPLOYMENT

Here is an example of a low-employment and high-employment worker.

- Worker 1 works as a pipefitter in the western Canadian oil industry. Because of industry volatility, he is laid off frequently and sometimes for extended durations. His skills are specific to one industry and location. During periods of poor oil industry performance, the area he lives in suffers a general economic downturn because of the high proportion of oil workers in the area, making it difficult for him to find jobs even in non-oil industries.
- Worker 2 works as a programmer. Her skills are valued by many different industries and highly portable to different locations.

For structural reasons, the first worker is much more likely to find himself unemployed than the second worker. This is through no fault of that worker.

There are also identity-based factors that can lead to reduced employment levels. Because of race or gender discrimination, workers can find themselves with higher unemployment levels. Studies suggest

that employers discriminate against people with nonwhite names during hiring, and many minority groups have high levels of unemployment.

Our current system already disadvantages low-employment workers by putting restrictions on the period in which they can collect unemployment benefits and having a fairly strict qualification regime. We shouldn't further squeeze workers who are having issues maintaining employment.



CANADA'S EI SYSTEM IS ALREADY COERCIVE RELATIVE TO UNEMPLOYMENT SYSTEMS ELSEWHERE

Canada's EI system requires documentation of job search efforts on every day you receive EI benefits². These are relatively high requirements relative to the requirements for unemployment insurance in other jurisdictions.

In many US states, for instance, the job search requirement is that you apply to a few jobs per week. In other countries, there is a generalized requirement to do job search with no specific stipulations. Generally these requirements fall short of the requirements in Canada.

Canada's unemployment system also delivers relatively low rates for durations that are often short. A paper I wrote last year features a detailed comparison of Canada's unemployment system with the unemployment systems of several other high income countries³.

WORKERS HAVE LIMITED CONTROL OVER THEIR EMPLOYMENT STATUS

The labour market is a collective enterprise. You can maintain a preference for becoming and remaining employed, but ultimately your employment depends on the whims of your employer as well as the dynamics of the labour market. During recessions, such as the 2008 recession or the recession caused by coronavirus, many more people than usual are unemployed, at no fault of their own. During such periods, the amount of jobseekers sometimes outpaces the amount of available jobs by a ratio of 8 to 1 or more.

In addition, there is a structural rate of unemployment in high income countries that is targeted by governments. Typically, the unemployment target is between 3 and 6 per cent.⁴ A significant fraction of workers are going to be unemployed at any given time regardless of the labour force's quality and preference for employment.

² <https://www.canada.ca/en/services/benefits/ei/suitable-employment.html>

³ <https://welfareworks.ca/content/welfarenetwork>

⁴ Very low levels of unemployment are generally seen as undesirable by governments because they would increase the bargaining power of workers to high levels.

It doesn't make sense to implement an unemployment system that places the onus for finding work strictly on the unemployed person. Trying to increase the pressure on labour to find immediate work is going to have limited efficacy as they are work-limited by factors outside of their control.

POSSIBLE TO DEAL WITH EI PROBLEMS BY EXPANDING EXISTING SYSTEM

In addition to their concerns about “moral hazard”, Fraser articulates some concerns related to EI eligibility for gig workers as well as issues related to the regional adjustment of EI benefit duration.

The regional adjustment of EI benefit duration is easy to eliminate without otherwise changing the program. All you have to do is to standardize the benefit duration across regions. Most countries do not change unemployment insurance eligibility depending on regional unemployment. Canada is an aberration from the norm here.

Unemployment insurance can be expanded to cover other workers fairly easily by creating a new program or expanding an existing program to cover workers that are not formally employed. The federal Liberals have proposed⁵ the creation of such a program. Employers of gig workers like Uber could also be compelled by law or by labour action into organizing their workers as employees, thereby making them eligible for EI.

PROPOSAL IS COMPLICATED AND CREATES UNNECESSARY HASSLE

In their attempt to cover their bases with respect to lower income people and edge cases, Fraser has proposed a very complex savings accounts system. Their savings account system features the ability to take out special-purpose loans, a public fund for use when people develop negative balances, and a loan forgiveness system. This is the kind of complexity that makes it difficult for people to understand and effectively navigate the program.

⁵ <https://www.ctvnews.ca/politics/liberals-vow-wage-subsidy-extension-to-2021-revamp-of-ei-system-in-throne-speech-1.5117125>

This proposal is very complicated and requires a high level of management on the part of the user. Requiring people to manage savings accounts for unemployment adds complexity and stress for the user relative to EI.

CONCLUSION

Unemployment systems are meant to provide income replacement so workers are able to maintain reasonable standards of living during periods of unemployment. Increasing the level of coercion towards work by privatizing the unemployment system is very bad policy.