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IMMEDIATE JOB CREATION
USING UNEMPLOYMENT INSURANCE FUNDS

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IMMEDIATE JOB CREATION USING UI FUNDS

The mounting burden on general revenues of federal contributions to the Unemployment Insurance Fund highlights the need to deploy resources in programs designed to create jobs of lasting social and economic benefit. A more creative use of these resources must focus on the increasing difficulty faced by particular groups in the labour force in developing the skills and experience necessary to find and retain jobs. Moreover, there is a need to ensure that, to the extent possible, job creation and skill training focus on the private sector and its ability to provide real and meaningful employment opportunities.

- In Ontario, \$1.7 billion was disbursed in UI payments last year to an annual average of 314 thousand claimants, 239 thousand of whom were available for work.
- Among those unavailable for work, retirement, pregnancy and illness were the major causes. On average less than 2 per cent of Ontario UI claimants were on retraining programs.
- For Canada as a whole, \$3.9 billion was paid out to an average of 749 thousand claimants, 620 thousand being available for employment.

One of the principle advantages of UI benefits is to provide time for an unemployed individual to look for a job. For many, however, this strategy has only a limited pay-off.

- Among youths, where unemployment levels are particularly high, the primary need is for a chance to "learn-by-doing", not time to search for employment which generally requires skills already acquired. In 1977, Ontario claimants available for work in the 15-24 age group averaged 81 thousand.
- In high unemployment regions, UI-financed job search is unlikely to bring many employment opportunities to light. Last year, an average 63 thousand UI recipients available for work resided in Ontario's high unemployment areas - where the unemployment rate exceeded even the high provincial average of 7.0 per cent by 25 per cent or more.

UI RECIPIENTS IN ONTARIO, 1977
(000's)

	1977
Total Recipients	314
- Available for employment	239
. In the 15-24 age group	81
. In high unemployment areas	63

Source: Ministry of Treasury, Economics and Intergovernmental Affairs.

Recognition of the limited benefit which UI payouts provide to many recipients suggests that a more appropriate balance should be struck in the allocation of committed federal government funds between UI support and direct job creation programs.

- . The ballooning federal government contribution to the UI account reached \$1.8 billion in 1977, while direct job creation expenditures during the year totalled less than \$350 million. In fiscal 1978-1979, federal planned outlays on job creation programs, including the Employment Tax Credit program, are \$602 million.
- . At the same time, an important imbalance exists in current manpower training programs, where less than 12 per cent of total expenditures were allocated to industrial "on-the-job" training in 1977, the remainder financing institutional courses of instruction.

UI funds which have been paid out to facilitate job search could alternatively have been used to subsidize wage rates and finance effective training. A well-designed program could improve the near-term employability of participants while benefitting their communities. Faster absorption of the pool of unemployed labour offers the potential of reducing over time the federal government's contribution to the UI account.

- . A temporary wage subsidy could offset the inexperience of young people, opening up opportunities to acquire the skills, contacts and references necessary to hold unsubsidized jobs in the future.

- Where a natural disaster or temporary economic crisis disrupts viable employment patterns, a strategic disbursement of UI monies could maintain a work force intact and hasten its re-employment.
- Earnings additional to UI benefits, when spent, would multiply to boost demand throughout the economy.
- The UI funding of worthwhile public sector projects would create lasting social and economic benefits for the community.

FUNDING PRIVATE SECTOR JOBS

While recognizing the important contribution already being made by current UI funding of occupational training and work-sharing projects, increased use of UI monies to promote private sector employment would be of lasting benefit. The basic strategy must be to reduce the cost to employers of hiring unemployed labour through UI-financed wage subsidies.

- Care must be taken to ensure that current employees are not laid-off and then replaced by UI-subsidized labour, and to prevent roll-over of a UI-subsidized work force.
- The potential for unsubsidized employment at the conclusion of an individual's participation in the program and his exhaustion of UI entitlements is essential.

i) The Need for a Threshold Cut-off

To ensure that UI-subsidized jobs are additional -- above the normal expansion which would anyway occur -- the firm's subsidy should be related to employment gains above some minimum expansion over the base-period level. This would prevent intentional layoffs or the filling of normally-expected job openings by subsidized labour; in either case, the net effect is to force those who would otherwise have been employed onto UI rolls.

- A firm qualifying for this aspect of the program might receive the wage subsidy only if employment gains were greater than a threshold rate.
- The wage subsidy per individual could be set at, say, \$1.50 per hour. In addition, the amount of subsidy could vary by region, type of UI beneficiary or industry.

ii) Enhancing Long-Term Employment Prospects

The duration of the subsidy a firm received should not simply depend on the UI entitlements accumulated by individual employees. In many cases the firm could find the subsidization ending long before the employee's productivity had increased high enough to earn an unsubsidized wage. Moreover, the paperwork associated with a variety of subsidy durations and distortion of hiring practices would make the program unnecessarily complex. For each UI beneficiary hired above the threshold level, the firm should receive a subsidy for a fixed period, say six months, irrespective of the weeks of UI entitlement earned by the individual employee. The subsidy should be progressively reduced to zero during a second six month period.

This feature would simplify the operation of the program by eliminating variability in the duration of the subsidy. Funds available through a UI subsidy program could be combined with Canada Works or Employment Tax Credit resources to launch a cohesive and substantial attack on unemployment. An integrated program would reduce risk and red tape for businessmen and enhance UI beneficiaries' long-term employment prospects.

iii) Exemptions from the Threshold Cut-off

Restricting the employment of UI-subsidized labour to growing firms has the advantage of reinforcing success and by design "backs the winners".

The program as a whole, however, must be flexible if it is also to work in communities where few, if any, firms are growing. Moreover, the program should also retain sufficient flexibility to aid communities hit by natural disasters.

- In specified depressed communities, at ministerial discretion, the criterion for firm eligibility might be simply a declaration that the job would not be created without subsidization. The program's administration would in such cases be modelled on OYEP lines.
- Firms struck by clearly identifiable severe economic hardship should also be eligible to hire UI-subsidized labour on the basis of a declaration that the employment would not otherwise exist. While unable to demonstrate employment gains above the threshold rate, a disaster-struck firm may with aid be able to eliminate a bottleneck and thereby maintain its work-force substantially intact.

In general, it would not be worthwhile to precipitate economic difficulties to qualify for wage subsidization. However, the potential for abuse through intentional layoffs and subsequent hiring of subsidized labour by "depressed community" firms benefitting from the threshold exemption is real and must be dealt with administratively. In addition to careful scrutiny of applications, it will be necessary to establish a system of both pre- and post-audit.

iv) Dealing with Special Concerns

The threshold cut-off program can be made more flexible, at the cost of greater administrative complexity, by including optional procedures to deal with special concerns.

- Assisting industries, regions or client groups: Home insulation, tourism, the Northeast, youth or long-term UI recipients could all be considered candidates for a subsidy enriched beyond the normal \$1.50 per hour.

New employer participation: While incentives to fold current firms in order to qualify for wage subsidization must clearly be avoided, self-initiated employment by one or several UI recipients and employment by new business firms should be encouraged. Not previously self-employed persons should be able to use their \$1.50 per hour subsidy to aid their entrepreneurial ventures. Individuals should be allowed to hire UI-subsidized workers, for example, homeowners hiring a handyman. Subject to audit, new firms should be eligible to receive wage subsidies upon declaration that the jobs would not otherwise exist.

- No need for "capping": The UI budget imposes an appropriate ceiling on total program outlays and a wide disbursement of subsidies amongst firms does not contribute to the realization of the program's principal objectives. Therefore, whereas OYEP limits the subsidization to 6 employees per establishment, a threshold cut-off program with its better built-in protection against abuse should not constrain any one firm's participation.

FUNDING AN EXPANDED TRAINING PROGRAM

Skilled tradesmen are an integral part of an industrial economy. According to the 1971 census, about 12 per cent of the production work force in Ontario manufacturing were skilled workers.

Traditionally, Canada has relied quite heavily on immigration to supply skilled tradesmen. With the flow of immigrants tapering off, we will have to expand existing training programs to ensure that acute shortages in certain occupations and skills are prevented.

- A recent survey of skilled blue collar industrial workers in 75 plants in Western Ontario indicated that about 73 per cent of the skilled workers were immigrants.
- Of the total skilled category, 87 per cent fell into the 40-65 age group and only 2.6 per cent were under 34 years old.

While the federal manpower training budget is large, there is a disproportionate emphasis on institutional training, especially in comparison to

other countries. Only 10.9 per cent of the total manpower training budget of \$545 million in 1976-77 was spent on industrial training. Yet for a large number of occupations and the majority of individuals, especially young people, "on-the-job" training appears to be preferable. It offers direct work experience as well as practical and marketable skills.

Therefore, domestic firms should be encouraged to establish and expand apprenticeship and on-the-job training in the skilled trade occupations. These incentives could be in the form of wage subsidies, financed by UI monies.

- . In addition, UI claimants could be encouraged to take institutional training by topping up or extending their current UI benefits. While this proposal would increase total government outlays, it would enhance the chances of unsubsidized employment in the future if care were taken to direct trainees into trades with well-identified shortages. The identification of skill shortages could be done in conjunction with the Ontario Manpower Co-ordinating Committee.
- . Currently less than 2 per cent of UI claimants in Ontario are involved in "retraining" programs, mainly in an institutional setting.

BETTER INCENTIVES FOR PART-TIME EMPLOYMENT

Under current UI legislation, part-time employment earnings in excess of 25 per cent of the weekly rate reduce the individual's benefit by an equivalent amount. This discourages unduly an unemployed individual from taking on part-time work in the absence of finding full-time employment.

Incentives to keep skills alive could be provided by perhaps starting the deduction for part-time earnings at a lower rate, say 20 per cent, but smoothing it out incrementally over a larger amount to a prescribed maximum. The principle involved would be similar to the negative income tax scheme.

INCREASING PUBLIC SECTOR EMPLOYMENT

From the point of view of the community, large expenditures on unemployment insurance might be better spent on worthwhile projects that make a positive contribution to our social or economic well-being. These projects should focus on once-and-for-all commitments, and on activities which offer longer term economic benefit to the community.

- . Ontario's tourist and hospitality industry might well benefit from the establishment of UI-funded information centres, for example in bus and train stations, as well as in airports.
- . Reforestation projects, made viable by wage subsidies, would be labour intensive, require minimal capital investment and augment Provincial resources.
- . A UI-funded community improvement program could assist municipalities to carry out a wide variety of maintenance activities, for example removing dead elms, accelerating safety compliance programs, or improving historical sites.
- . With UI-subsidized labour, the costs of acquiring social capital would be lowered, making it attractive to speed up the rate of public investment. Highway maintenance and construction, for example, could be cheaply expanded through such a program, at a time of low private sector demand on our construction industry resources.

Crown corporations could also be encouraged to augment our social infrastructure and improve their level of service.

- . The up-grading of railroad beds and the construction of railroad crossings are examples of the enlargement of social capital. In addition, opportunities to increase personalized on-train services would be opened up by a program of wage subsidization.

Specifically, a number of programs which would involve the provincial government in sponsoring employment projects have been explored and could be developed further.