



Labour Market Matters

Special points of interest:

- The case for a wage insurance system are compelling in Canada. Study finds long-tenure workers suffer disproportionately large economic losses following displacement.
- Study finds substantial evidence that earnings losses of males displaced from manufacturing between 2000 and 2004, were higher than those of cohorts displaced during the 1980s.

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Craig Riddell
(University of British Columbia)

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Adjustment Assistance for Long-tenure Displaced Workers: Rationale for a Wage Insurance System

The Canadian economy has performed well over the past several decades, in no small part due to its dynamic labour market where workers have been able to move from sectors where they are needed and out of declining sectors with relative ease and without lengthy intervening periods of unemployment. Canadians as a whole benefit from this adjustment process. However, some individuals suffer substantially from the job losses incurred following displacement. The benefits and costs of adjusting to change are thus unevenly distributed. In a paper entitled

“Unemployment Compensation and Adjustment Assistance for Displaced Workers: Policy Options for Canada” ([CLSRN Working Paper no. 88](#)), CLSRN affiliate Craig Riddell (University of British Columbia) reviews evidence on the consequences of permanent job loss for displaced workers and their families, and examines policy options for dealing with these consequences.

Both Canadian and U.S. studies find that long-tenure workers suffer disproportionately more than short-tenure workers following displacement. Furthermore, a major part of the earnings loss arises not from post-displacement unemployment, but from re-employment at wages

substantially below their pre-displacement levels. For example, previous Canadian research found that five years after displacement, average earnings losses among high-seniority displaced workers are 25-34% for men and 35-37% for women. Riddell concludes that there is a strong case for enhanced Employment Insurance (EI) benefits for long-tenure displaced workers. Since most loss from displacement occurs after re-employment, Canada should consider adopting a “wage insurance” policy to insure against large wage losses following permanent job loss.

Those who suffer greatly from permanent job loss constitute a small minority of the unemployed. Using data from the monthly Labour Force Survey (LFS) over the period 1976-2010, Riddell finds that while job losers who have 5 or more years of job tenure constitute 5% of unemployed workers; they make up 15-20% of permanent job losers.

Riddell makes several recommendations to improve both the knowledge base regarding displaced long-tenure workers as well as how to address policy reform to better assist workers who may fall between the gaps of a system they helped support during their working years but one that may not compensate them fairly once they are displaced. To address the

gaps in research and knowledge on worker displacement, Riddell suggests that Canada should carry out a regular Displaced Worker Survey which could become an important source of data for research on the causes and consequences of permanent job loss.

Riddell also makes the case for EI benefits reform to make the system more responsive to the fact that certain workers suffer more than others following displacement. Currently, EI benefits depend only on the 12 months of employment prior to displacement and treat both long and short tenure workers in the same way. As the EI system only covers a portion of income lost during the unemployment period, it does not compensate for substantial losses that are incurred for long-tenure workers which are associated with permanently lower earnings in subsequent jobs. Riddell suggests that: “In many ways, the current EI program is similar to having automobile insurance that pays the same amount for ‘fender-benders’ as for vehicles that are totalled.” Since most loss from displacement occurs after re-employment, Riddell suggests that a wage insurance system could be a promising approach to compensate those who suffer large wage losses following displacement but are not well compensated by the current EI system.

New Renaissance of the Labour Market: Workers over-50 and laid-off?

Over the coming years and decades, many of the baby boomers will reach retirement age, creating downward pressure on labour supply, and hence output growth. Among various demographic groups, workers aged 50 – 64, have been identified as a potential source of growth for aggregate labour supply. Every year, job displacement affects several thousands of Canadian workers aged 50 and over. After being laid-off, many of these older displaced workers may permanently leave the labour force or experience substantial spells of non-employment if they have difficulty finding a new job. In order to evaluate the potential older workers can have on alleviating the coming labour shortage; a paper entitled **“Have Employment Patterns of Older Displaced Workers Improved Since the Late 1970s?”** ([CLSRN Working Paper no. 61](#)) by CLSRN affiliates Wen-Hao Chen (Organization for Economic Co-operation and

Development) and René Morissette (Statistics Canada) examine whether older displaced workers have seen their post-displacement employment patterns improve over the last two decades.

Older workers in Canada are both more educated as well as less likely to be in physically demanding jobs than they were in the late 1970s. Both these factors, together with growing labour market involvement of their spouses, could mean that older workers’ ability and incentive to remain active following job loss might have increased over time.

“[T]he growing participation of women in the labour force may also have allowed displaced husbands to retire earlier following job loss”

Using data from the Longitudinal Worker File (LFW) from Statistics Canada, the researchers made several key findings. First, the researchers found no upward trend in the re-employment rates of displaced male workers both in, and outside of manufacturing. This absence of improvement in the re-employment rates of male displaced workers took place in a period where the educational attainment of male workers rose substantially.



René Morissette
(Statistics Canada)

Census data shows that in 1980, only 7.8% of paid workers aged 50 to 54 had a university degree. Twenty-five years later, that proportion had almost tripled to 21.4%. Since highly educated workers tend to have higher re-employment rates than their less educated counterparts after job loss, the researchers believe that this suggests that re-employment rates of displaced men might have fallen within some educational groups over the period examined.

Second, the researchers found that re-employment rates of displaced women generally increased over the time-period examined. While this finding might result both from changes in labour demand and labour supply, a substantial portion is likely driven by the growing attachment of women to the labour force as well as increases in their educational attainment.

Third, the study found substantial evidence that earnings losses of males displaced from manufacturing

between 2000 and 2004, were higher than those of cohorts displaced during the 1980s. The researchers believe that this increase in earnings losses is partly related to the lower reemployment rates observed in recent years for males displaced from manufacturing. Limitations with the data meant that the researchers were unable to distinguish whether the lower re-employment rates are due to higher unemployment, higher levels of inactivity or a greater propensity of older displaced workers to retire following job loss. Interestingly, the study found that earnings losses of women displaced from nonmanufacturing firms fell over time.

Other factors, which were not studied in the paper, may explain a stagnant trend in the re-employment rates of displaced male workers. For instance, rapid development in computer-based technologies may create significant skill mismatches for older workers to reintegrate into the labour market. It is also possible that as the recent cohorts of older workers have generally accumulated more wealth than their 1980s counterparts, they might be more likely to retire following job loss. Moreover, the growing participation of women in the labour force may also have allowed displaced husbands to retire earlier following job loss as the financial impact on the family would now be cushioned by the woman’s financial contributions.



Wen-Hao Chen
(OECD)

Endnotes

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