



# Canadian Labour Market and Skills Researcher Network

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### Economic Change and Worker Displacement in Canada: Consequences and Policy Responses

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## Economic Change and Worker Displacement in Canada: Consequences and Policy Responses\*

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### **Abstract**

Change is an enduring feature of the economy and the labour market, even in normal times. The importance of adjusting to change, and of policies that promote adjustment, has been a recurring theme throughout David Dodge's distinguished career. This paper deals with "displaced workers," those who permanently lose their jobs because of changing economic circumstances. I examine what we know about displacement and its consequences, and assess policies designed to assist workers adversely affected by economic change.

A central finding of research on displacement is that long tenure displaced workers -- those who have held their jobs for an extended period of time -- suffer much more from losing their jobs than do others. Canada's Employment Insurance does not take into account this salient feature of the consequences of job loss. The paper discusses ways of addressing this deficiency in our primary social insurance program for job losers.

**Keywords:** labour market adjustment, job displacement, unemployment, unemployment insurance, adjustment assistance policies, wage insurance

**JEL Codes:** J60, J63, J64, J65, J68

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## Executive Summary

Change is an enduring feature of the economy and the labour market, even in normal times. Some firms expand their operations, while others contract or go out of business. New firms enter existing industries, and entirely new industries emerge. In recent years, structural changes due to technological change, globalization, and the shifting world economic environment have received much attention. But there is nothing new about the importance of changing economic circumstances.

Change creates new opportunities but destroys old ones. Adjustment to change can be painful for those adversely affected. This paper deals with “displaced workers,” those who permanently lose their jobs because of changing economic circumstances. I examine what we know about permanent job loss and its consequences, and assess the rationale for and consequences of policies designed to assist workers who have been adversely affected by economic change. Particular attention is paid to the Canadian experience and to older displaced workers, a group that is likely to grow in importance as the population and workforce age.

Canada’s economy performed reasonably well in the postwar period, achieving high rates of employment growth and advances in living standards. A key contributor to this good performance has been a dynamic labour market that shifts workers into sectors where they are needed and out of declining sectors without lengthy intervening periods of unemployment. Canadians as a whole benefit from this reallocation process of adjusting to changing circumstances and opportunities. However, the costs of adjustment are unevenly distributed in the population.

Despite the importance of displacement and its consequences, it is a subject that is significantly under-researched in Canada. The main reason for this is the limited data that are available on the extent and consequences of permanent job loss.

A central finding of empirical research on displacement is that some workers suffer much more from losing their jobs than do others. Those who have held their jobs for an extended period of time experience substantial earnings losses, while those who have been employed for relatively brief periods of time experience small losses. Long-tenure displaced workers experience earnings losses due to reduced income during the period of unemployment following displacement and because many become re-employed at significantly lower wages than they received in their pre-displacement jobs. Our existing social insurance programs, particularly Employment Insurance, do not take into account these salient features of the consequences of job loss.

The paper concludes with a set of modest proposals for Canada. They are intended to address both the research and knowledge gaps relating to displacement and its consequences, as well as the policy gaps in addressing this important problem. To address the gaps in research and knowledge, Canada should follow the United States and carry out a regular Displaced Worker Survey—for example, one undertaken every other year and covering permanent job loss that occurred during the previous three years. This survey could be a supplement to the monthly Labour Force Survey and,

therefore, need not be expensive. The U.S. experience with a regular Displaced Worker Survey clearly indicates its value in providing timely information on the incidence of permanent job loss, the duration of unemployment following displacement, and the consequences for individuals and their families of such events. The U.S. survey has also been an important source of data for research on the causes and consequences of permanent job loss. In a country like Canada, with significant exposure to external and internal economic shocks, the case for such a survey seems to be obvious. Indeed, it is shocking that we do not devote sufficient public resources to gathering information on the extent and consequences of permanent job loss, especially since the costs of doing so would be relatively modest.

There is also a strong case for enhanced EI benefits for long-tenure displaced workers and, more generally, a case for altering the parameters of the EI program to recognize that such workers suffer much more from job loss than do other unemployed workers. I would follow the recommendation of the Expert Panel on Older Workers and restrict the receipt or magnitude of these enhanced benefits to long-tenure displaced workers with little or no previous EI receipt. These enhanced benefits should also be designed to minimize any adverse effects on the duration and intensity of job search. For similar reasons, the benefits and support measures provided under EI, Part II should focus more on long-tenure displaced workers—especially relatively intensive interventions such as retraining and mobility assistance.

Finally, since most loss from displacement occurs after re-employment, wage insurance seems promising. Canada should carefully assess the advantages and disadvantages of such a policy. The best way to do so would be to carry out a rigorous demonstration project, preferably using random assignment to program and control groups.