



# Canadian Labour Market and Skills Researcher Network

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### Unemployment Compensation and Adjustment Assistance for Displaced Workers: Policy Options for Canada

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# Unemployment Compensation and Adjustment Assistance for Displaced Workers: Policy Options for Canada\*

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## Abstract

This paper examines the role of EI in providing support to “displaced workers,” those who permanently lose their jobs because of changing circumstances. Adjusting to change benefits Canadians as a whole. However, some workers suffer much more from job loss than do others. Those who have held their jobs for an extended period experience substantial earnings losses, while those who have been employed for brief periods experience small losses. Like other job losers, long-tenure displaced workers experience earnings losses due to reduced income during unemployment following displacement. However, unlike other job losers, many long-tenure displaced workers become re-employed at significantly lower wages. EI does not take into account these consequences of job loss.

Long-tenure displaced workers constitute a small minority of job losers. My analysis indicates that job losers with 5 or more years of job tenure constitute about 5% of unemployment and 15-20% of permanent job losers.

The paper makes several policy recommendations. Some address gaps in research and knowledge, while others recommend enhanced EI benefits for those who suffer greatly from job loss. Since most loss from displacement occurs after re-employment, wage insurance seems the most promising approach for insuring against large losses.

*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

This paper examines the role of EI in providing support to “displaced workers,” those who permanently lose their jobs because of changing circumstances. Adjusting to change benefits Canadians as a whole. However, the costs of adjustment are unevenly distributed. Some workers suffer much more from losing their jobs than do others. Those who have held their jobs for an extended period experience substantial earnings losses, while those who have been employed for brief periods experience small losses. Like other job losers, long-tenure displaced workers experience earnings losses due to reduced income during unemployment following displacement. However, unlike other job losers, many long-tenure displaced workers become re-employed at significantly lower wages. EI does not take into account these consequences of job loss.

Long-tenure displaced workers constitute a small minority of job losers. Our analysis indicates that job losers with 5 or more years of job tenure constitute about 5% of unemployment and 15-20% of permanent job losers.

The paper makes several recommendations. To address gaps in research and knowledge, Canada should carry out a regular Displaced Worker Survey.

There is a strong case for enhanced EI benefits for long-tenure displaced workers, who suffer greatly from job loss. These enhanced benefits should exclude seasonal workers, who are already richly rewarded by EI. They should also be designed to minimize adverse effects on the duration and intensity of job search.

The measures provided under EI Part II should focus more on long-tenure displaced workers—especially relatively intensive interventions such as retraining and mobility assistance. Given the mixed evidence on the effectiveness of retraining, greater emphasis should be placed on mobility assistance.

Since most loss from displacement occurs after re-employment, wage insurance seems the most promising approach for insuring against large losses. Canada should consider adopting this policy.