THE SCHOOL OF PUBLIC POLICY

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CAPSTONE PROJECT

Location Lottery:
An Evaluation of the Economic Regions of Employment Insurance

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Capstone Executive Summary

The eligibility of Employment Insurance (EI) is partially determined by the area in which the applicant lives. Based upon address, an individual can receive anywhere from 14-45 weeks of benefits with different levels of required insurable hours to qualify. The result is that the current regional policy leads to different coverage levels, and can prevent workers who have paid into the system from collecting benefits. Yet despite this, the way in which the district boundaries are determined is unclear, and has been accused of being used for political gain. The majority of analysis on the regional nature of EI has focused on which provinces benefit from the status quo, but research into how the districts compare with each other has not been forthcoming.

This capstone endeavors to add to debate about how Employment Insurance is administered in Canada. To compare the current 58 EI districts to each other, both population and standard deviation of unemployment rate have been compiled. Figures were compiled from the National Household Survey, which is collected from Statistics Canada every five years. This metric allows for more comprehensive analysis than would have been provided through studying the monthly Labour Force Survey. The majority of analysis was conducted across an urban-rural lens to determine if one method of district creation was more likely to capture a single labour market.

The main policy argument behind the regional program is that different labour markets should have differed program access. Under the current program, this ideal is being obscured in favour of administrative ease. The status quo more closely resembles an informal redistribution program that benefits some areas at the expense of others. Justification for the boundaries is nonexistent in the public sphere beyond platitudes, allowing for the potential for political interference. In order to improve the system, the boundary review process should become more transparent so that it can be evaluated independent of government. Longer term, Service Canada should find a new way of operationalizing the labour market in a way that more closely reflects the economic diversity. If they are unable to devise another framework that is administratively feasible, serious consideration should be given to reforming the qualification requirements for Employment Insurance.

Issue Background

a) History

Until 1940, provinces were responsible for the administration of Employment Insurance. However, the Great Depression had shown to the provinces, especially the smaller ones, that they were unable to adequately address unemployment on their own. The provinces unanimously agreed to amend the *British North America Act* by adding the words "employment insurance" into the list of matters falling exclusively under federal jurisdiction. Parliament then adopted the *Unemployment Insurance Act* on August 7, 1940, and federal benefits began on January 27, 1942.[1]

The earliest version of EI (then known as Unemployment Insurance) was limited in terms of coverage and scope. All workers were covered except those in professional or government work, high-income earners and casual employees. With these limitations, EI covered of approximately 42% of the workforce. Qualification for benefits required proof of unemployment and ability to work, a condition that continues to this day. However, there were differences that made the system rather more challenging to access than the one currently in operation. An applicant had to be employed for a minimum of 180 insurable days out of the last 720 to qualify for benefits. A waiting

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[1] *Look Back and A Way Forward: Actuarial Views on the Future of the Employment Insurance System. Canadian Institute of Acutaries.ca.* Canadian Institute of Actuaries, Nov. 2007. Web. Apr. 2014

period of six weeks was in force if the individual had refused suitable employment, been dismissed for misconduct, or had left their employment without just cause. Persons who were involved in a labour dispute were disqualified from receiving benefits, regardless of circumstance.

Further amendments were introduced throughout the 1940s and 1950s in order to achieve a number of social aims, such as assisting Armed Forces personnel with their transition back to civilian life, and providing seasonal benefits to those ineligible for regular benefits. Various changes to the waiting period were also introduced, as was the change in the eligibility requirements to 24 weeks of insurable employment in the past year or since the last claim. By the end of the 1969, 68% of the Canadian workforce was covered by Employment Insurance as administered by the Department of Manpower and Immigration.[2]

The current regional aspect of EI was introduced under the Trudeau government's *Unemployment Insurance Act*, 1971. Coverage was extended to almost the entirety of the workforce, benefits beyond loss of employment were implemented, entry requirements were dropped and duration periods were extended. Yet the most durable change was implemented in 1977 through the passage of the Variable Entrance Requirements (VER). This new system divided the country into various regions, and tied

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[2] Canada. Statistics Canada. *Employment Insurance in Canada: Policy Changes*. By Zhengxi Lin. Ottawa: Statistics Canada, 1998. Summer 1998. *Perspectives*. Statistics Canada. Web. Apr. 2014.

both the entrance threshold and the duration of benefits to the average rate of unemployment in that area. Functionally, it made it easier for some individuals to receive EI benefits than their peers in other regions of the country.[3]

The VER has become one of the most contested elements of the current EI program. Substantial variances in the economies of the provinces, and the regions within them result in highly divergent employment rates. For instance, the seasonal nature of industry in some parts of the Atlantic provinces, together with the VER, produces a greater dependence upon the EI system than the agrarian or resource based economies of the West. As with any public policy, the VER element of the current system will have significant advocates and detractors within both society and academia. The following section will outline the major arguments of both groups in order to gain an appreciation of the effects this policy decision has upon the nature of employment in Canada.

b) Arguments *in Favour of the VER*

The dominant argument used by those in favour continuing regional extended benefits is the different economic demands between regions. A brief glance at the employment rates for each economic region illustrates a divide between urban and rural

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[3] Courchene, Thomas J., and John R. Allan. "A Short History of EI, and a Look at the Road Ahead." *Policy Options* (2009): 19-28. Web.

centers. To use an example from Saskatchewan, the economic zone containing Regina has an unemployment rate of 4% for March 2014, while the region of Northern Saskatchewan has a rate four times that at 16.3%.[4] This speaks to the challenges involved in finding employment in different regions. In less densely populated areas it becomes more challenging to find employment than in urban, metropolitan area. Similarly, in a province with a rapidly growing economy an unemployed person will remain so for a shorter period of time than someone in a stagnant economy. Overall, if the economy is doing poorly in a given area a shortage of jobs combined with a surplus of available labour will make it more challenging to find adequate employment. The relative difficulty in obtaining a job is accounted for in this policy by giving assistance to those individuals for a period of time that is more in line with the period of time it will take them to find alternate employment.

An alternate explanation for why this policy has been in operation for almost a half century is the political ramifications that would result for the party that eliminated or flattened the VERs. A government that were to dramatically amend the VER structure could lose the support of the regions that were no longer able to qualify as easily as they had in the past. Not only would the individuals who would not qualify or would lose a

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[4] "Employment Insurance (EI) Program Characteristics." *Employment and Social Development Canada*. Government of Canada, n.d. Web. Apr. 2014.

period of benefits be negatively affected, but also so would the businesses operating in those areas. Several provincial governments would be oppose any changes in the VER as their provincial economies undergo a potentially destructive structural change that will result in more recipients on welfare in the short term. Should citizens in those regions remove their electoral support of the government, they would quickly lose the large majority of seats in Atlantic Canada, northern regions of the provinces, and the territories. For the party in power, this would make the political calculus to forming another government or speaking for that part of the country incredibly challenging.

c) Arguments Against the VER

Despite the various interests that would benefit from EI's continued reliance upon the VER to determine eligibility and duration of benefits, there are concerns that the program in its current form is harming the Canadian economy. Employment Insurance was designed to be a national program that would protect the majority of Canadian workers from short periods of cyclical unemployment. By this metric, EI is not successful in covering the vast majority of the unemployed. A 2007 EI survey indicated that approximately 60% of Canada's jobless are not covered by EI. Roughly two-thirds of these jobless workers are excluded through a deliberate policy choice to require contributions to the program, and to not cover individuals who have voluntarily left their employment. The result is that roughly 1 in 5 potentially eligible job seekers are unable to receive benefits because of insufficient hours in employment since their last

period of unemployment. Put another way, 15% of unemployed Canadians could receive EI benefits if they simply lived in another part of the country.[5]

Job seekers who face under-coverage can disproportionately be found in areas where the economy is doing well. This is the result of a lower regional unemployment rate, which raises the entrance requirements for the applicant. Based upon the current configuration of the national economy, it is easier to qualify for EI if the applicant lives in an area that is rural, in the north, and in Atlantic Canada or Quebec.[6] To use a practical example, in 2008 93.5% of those who lost their job in the region of Restigouche/Albert in New Brunswick were able to qualify for benefits compared to only 57.3% of those in Ottawa, Ontario.[7] This undermines a basic fairness principle that workers with similar employment histories and contributions should be entitled to similar access to Employment Insurance. The violation of this principle has led the Mowat Centre to state: "Many of Canada's social programs treat all Canadians equally, but the Employment Insurance system is not a neutral social benefit for workers; it retains

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[5] *Is Canada's Employment Insurance Program Adequate? TD Economics*. TD Bank, 30 Apr. 2009. Web. Apr. 2014.
[6] EI Program Characteristics.
[7] Busby, Colin, and David Gray. *Mending Canada's Employment Insurance Quilt: The Case for Restoring Equity. C.D. Howe Institute*. N.p., Nov. 2011. Web. Apr. 2014.

within its design a legacy as a program of regional support and economic development."[8]

Beyond the added complexity the VER adds to the EI system, academic research has illustrated that the regionalism of the system has had deleterious consequences for the national economy. By making it easier to stay in an area with a depressed economy, the current EI system softens incentives towards labour mobility. It may also encourage workers to stay unemployed for longer periods of time by allowing them to remain in their region, or continue looking for employment at a higher wage rate than can be supported in their area. A comprehensive study that examined the effects of EI schemes between the similar economies of Maine and New Brunswick found that roughly 75% of the differential in the unemployment rate could be attributed to variances in the generosity of the EI plans.[9] Furthermore, research has illustrated that some regions of the country continue to have high rates of unemployment, regardless of the performance of the national economy. The high unemployment rate regions have been diverging from their economically strong peers, indicating that they have been falling behind the rest of Canada.[10] By removing mobility incentives, it can be argued that the

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[8] Radmilovic, Vuk. *Postal Code Lottery: Canada's EI System Compared. Mowat Centre EI Task Force*. The Mowat Centre, Apr. 2011. Web. Apr. 2014.

[9] Kuhn, Peter, and Chris Riddell. *The Long-Term Effects of a Generous Income Support Program: Unemployment Insurance in New Brunswick and Maine, 1940-1991*. The Institute for the Study of Labour, Jan. 2007. Web. Apr. 2014.

[10] Busby, Colin and David Gray.

current EI system undermines the convergence of wages and unemployment rates around the country, and encourages millions of Canadians to stay in poor economic conditions.

d) Determining the VER

Like electoral boundaries, setting the regional districts for EI is a sensitive process that can have major effects upon the outcome of the program. Yet while the process for determining constituency boundaries is subject to public consultations and expert panels, the process for drawing EI's regional boundaries is far from transparent. The most recent iteration of the *Employment Insurance Act (1996)* states that "The [Employment Insurance] Commission may, with the approval of the Governor in Council, make regulations...establishing regions appropriate for the purpose of applying this Part and Part VIII and delineating their boundaries based on geographical units established or used by Statistics Canada." Regulation 18 of the Act requires that the government review these boundaries every 5 years.[11] There are no criteria laid out in the Act itself for determining what principles the regional boundaries should conform to, or how they should be evaluated.

[11] Employment Insurance Act, 1996, §§ 54-55 (Government of Canada 1996). Print.

According to HRSDC, there are four major criteria that are taken into account when determining the EI boundaries. The first major consideration is in place to take the variances in rural and urban economies into account. To do this, it is assumed that each Census Metropolitan Area (CMA), which is determined by Statistics Canada, constitutes its own EI region. The CMA category designates an area with at least 100,000 people arranged in a way that has an urban core and its suburbs. Rural areas are unofficially amalgamated into economic regions to comply with the second criteria of a region that is large enough to accurately estimate monthly unemployment. The third criterion is that the drawing of these boundaries must allow for "homogenous labour markets" that have similar industry make-ups and rates of unemployment. The final factor to be considered is that the regions must be contiguous and be contained within a single province.[12]

HRSDC's criteria provide no discretion in setting EI region boundaries in urban areas due to their reliance on the CMA. However, the creation of economic regions in rural areas where unemployment rates tend to be higher is open to greater interpretation. For instance, if a rural area is segmented into several small labour markets, it is unclear if the Commission will deem it more appropriate to have one large

[12] Pal, Michael, and Sujit Choudhry. "Making EI Work: Research from the Mowat Centre Employment Insurance Task Force." (2013): n. pag. *Mowat Centre EI Task Force*. The Mowat Centre, 2011. Web. Apr. 2014.

region where unemployment is easy to measure, or several smaller ones that gain a more accurate picture of the economy. This question is especially relevant in light of the recent recession in which industries such as manufacturing were disproportionately affected. If recently unemployed workers were in an economically diversified region, they would find it more challenging to qualify for benefits than their peers in smaller, more specialized ones.

The challenges presented by a lack of transparency in the boundary creation process were highlighted in early 2014 when the regional Minister for Prince Edward Island (PEI) announced changes to the boundaries in the province to begin in October of that year. Prior to the announcement, PEI was considered to be one contiguous economic region due to its small population of approximately 140,000. As of October 12, 2014 the province will be divided into two regions: one for Charlottetown and one for the remainder of the province. A press release distributed by the government indicated that the move would bring more fairness for Islanders as the areas outside of the capital region typically experience unemployment rates that are 5% lower than their peers in Charlottetown.[13]

[13] "Government of Canada Brings Fairness to EI Program in Prince Edward Island." *Employment and Social Development Canada*. Government of Canada, 20 Feb. 2014. Web. May 2014.

The changes to the PEI economic regions are particularly interesting from a process perspective because new boundaries appear to circumvent the final criteria HRSDC uses to determine the regions. As Charlottetown is located in the approximately center of the province, the rural region will be split by the urban one. The rural PEI region will not be contiguous, and other cannot be accessed without going through another economic region. Provincial and municipal politicians on the Island, have questioned the motives behind the change. Provincial Minister Roach has suggested that the change was a political move designed to disadvantage the opposition MPs on the Island. Minister Shea, who holds the only government seat in the province, represents a rural area where it will be easier to qualify for EI after the changes take effect. The other three ridings, currently represented by the Liberal Party, will have constituents that face steeper entrance requirements to qualifying for EI.[14] Without transparency around how the decision was made, these accusations of political interference are almost impossible to effectively address.

For an example about the political damage that can be done to a government by introducing wider structural reforms to the EI system, the 1996 Chretien changes provide a cautionary tale. Motivated by poor economic conditions, the government was

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[14] Wright, Teresa. "New EI Rules Disadvantage Urban Islanders: Roach." *The Guardian.* The Guardian, 20 Feb. 2014. Web. May 2014.

determined to make the system more efficient while reducing operating costs. One of the reforms that was brought in was the "intensity rule" which took into effect the applicant's work history and period spent unemployed. This, among other measures, saved the government approximately $2 billion annually in benefits, yet it came with a political cost.[15] In the election the following year, the Liberals were punished in Atlantic Canada through the loss of twenty seats in that region. The political fallout of the decision was judged to be so severe that the government reversed its decision on the intensity rule leading up to the 2000 election, and Prime Minister Chretien apologized for the original decision on the campaign trail.[16]The Liberal experience with EI reforms is a significant factor about why subsequent governments have been content to make piecemeal reforms to this significant portion of government expenditure.

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[15] Geddes, John. "Can the Conservatives Make EI Reforms Work?" *Macleans.ca*. Macleans Magazine, 5 June 2012. Web. June 2014.
[16] "Chretien Regrets EI Cuts." *CBC News*. CBC/Radio Canada, 06 Nov. 2000. Web. June 2014.

Methodology

a) Research Design

The central issue with any sort of public policy evaluation is determining the best way to translate an abstract objective into something that can be concretely measured. In the case of this project, the challenge is how best to determine if the "fairness ideal" is embodied in the 58 current EI regional boundaries. Are the EI boundaries, as they are currently drawn, representative of similar labour markets, or do they cluster dissimilar areas together? As the region where an individual lives is central in determining eligibility and duration of benefits, it is important for each district to face similar market conditions. For instance, the principles which the regional policies of EI are based on would be undermined if a highly performing economic area were placed in the same region as a poorly performing one. In this hypothetical example, the residents of the more depressed area would face greater challenges in qualifying for benefits than they would with different district boundaries. Assuming the two groups are roughly equal, the residents in areas with better market conditions would find it easier to qualify for benefits than their peers in other areas. If the boundaries are drawn poorly, the stated policy objective of providing EI coverage relative to the challenges present in the labour market will be undermined.

The so-called "cornerstone" factor in determining the regional boundaries is the use of the Census Metropolitan Area as its own economic region. According to Statistics Canada, "other adjacent municipalities must have a high degree of integration with the core, as measured by commuting flows derived from previous census place of work data" in order to be included in the CMA. Specifically, a minimum of fifty percent of the employed labour force living in the census subdivision (CSD) works in the core of the given CMA.[17] This allows for the outer suburbs and bedroom communities to be included in the nearby city for the purposes of Statistics Canada's evaluation and data collection. As this process is relatively transparent in providing the metrics used for determining the boundaries, further evaluation of this portion of the EI boundary creation process is unnecessary.

A similar issue is at hand in the contiguity criteria. A possible reason this was included in the list is to ensure that the groups of workers represented in a region are subject to the same regulatory environment. Workers living in a province with higher provincial tax rates and more restrictive health and safety codes will face greater challenges in obtaining employment than those in a more business friendly province. Including these two groups of workers in the same EI region would leave the workers in

[17] "Census Metropolitan Area (CMA) and Census Agglomeration (CA)." *Census Dictionary*. Statistics Canada, n.d. Web. June 2014.

the higher tax environment at a relative disadvantage. At a glance, it becomes apparently that all 58 EI economic regions are contained within a single province or territory. The implications that can be drawn from evaluation of these criteria would be superficial at best, and would yield minimal insight into the fairness or lack thereof present in the boundary creation process.

The two remaining criteria used by the Employment Insurance Commission to determine the boundaries are open to greater levels of interpretation. "Ensuring that the districts have labour forces large enough to allow accurate monthly estimates of regional unemployment" is left intentionally vague to account for innovations in the way in which that data is collected. Yet at any given time, it is unclear what minimum sample size Statistics Canada requires to gain an accurate picture of the regional unemployment rate in their monthly surveys. It is also unclear as to what constitutes a "homogeneous labour market." While this provision was intended to ensure that like regions are treated in a similar fashion, it is very difficult to determine if a region is truly homogenous due to the number of factors that can be measured. For instance, rates of education, employment, and participation can all be used to garner understanding of a labour market's make up. Comparing the populations and labour market homogeneity of the different regions can be interpreted in multiple ways, leaving them open to potential manipulation.

The figures used for the remainder of the paper have been derived from the 2011 Canadian census. Statistics Canada captures a wide variety of metrics, which are then broken down into census subdivisions (CSDs). Each CSD is determined by the municipal boundaries set by the province. In the event of unorganized territory or First Nations reserves, Statistics Canada determines an area to be treated as a municipal equivalent based upon population levels. These are the building blocks used by the Employment Insurance Commission to put together the EI regions, and are the smallest geographical breakdown used by Statistics Canada.[18] Various metrics for each CSD are available through the National Household Survey (NHS), which takes place every five years. Population, languages spoken in the home, citizenship, and employment rates are among the information collected during the NHS. For the purposes of this project, information from the 2011 national census was downloaded in a spreadsheet format. All metrics save for the unemployment rate and population were removed for each region as they fell beyond the scope of the project. Once the population numbers and unemployment rates for each CSD were organized, the Service Canada website was used to map CSDs on EI districts. Once the groupings were completed, the data could be used for drawing conclusions about the character of each EI region.

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[18] Census Dictionary.

The method used to calculate unemployment rate in the National Household Survey (NHS) is identical to that used in the Labour Force Survey (LFS) administered every month. In this definition, the unemployed as a percentage of the labour force over the age of fifteen is calculated over a set period of time to gain a snapshot of joblessness in a given area. The period examined in the 2011 National Household Survey is from the week of May 1 to May 7 of that year. The exception is for "remote, isolated parts of the provinces and territories" which took place from February through April of 2011.[19] There are some variations in how the data was collected between the two surveys. For instance, the NHS is a voluntary survey while the LFS is mandatory, which could result in different numbers due to a self-selection bias. The sample size of the NHS is substantial at 4.5 million households, or roughly one-third of all households, which should reduce these concerns. By contrast, the monthly LFS sample size is roughly 55,000 households, which does not allow for the amount of accurate segmentation provided by the NHS.[20]

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[19] "Comparability of the 2011 National Household Survey Labour Force Status Data with Those of the Labour Force Survey." *Statistics Canada*. Government of Canada, n.d. Web. June 2014.
[20] Ibid.

b) Limitations

The use of the unemployment rate to measure similarity of the labour markets is often subject to controversy as an incomplete measure. The definition of the rate is "the percentage of the total labour force that is unemployed but actively seeking employment and willing to work."[21] By only capturing those workers who are looking for a new job, the unemployment rate does not capture those that have chosen to leave the labour force entirely. While this is often voluntary, such as the case where parents opt to stay home with their children, during long-term economic downturns many individuals cease looking for a job. This can often give the misleading impression that the economy is improving, when in fact conditions remain largely the same. Unfortunately statisticians have not developed a mechanism for accurately determining the reasons for people dropping out of the labour force, leaving the flawed unemployment rate to be the best metric available.

The use of the 2011 census is another decision that will limit the scope of the implications that can be drawn from this research. As only one time period is being studied, it is possible that many of the regions were experiencing abnormal economic conditions to their long-term trend. High levels of standard deviation may be due to a

[21] "Unemployment Rate Definition." *Investopedia.com*. Investopedia, n.d. Web. June 2014.

faster or slower than normal recovery than in other parts of the EI region. This fact is especially relevant in light of the fact that during the time that the 2011 census information was being collected, Canada's economy was recovering from the 2007-2009 recession which had lingering effects on the labour market. Yet the level of detail required for analysis of labour market trends at the CSD level is only available through large-scale data collection efforts, such as the national census. Were the scope of the project wider, it would be worthwhile to compare the EI regions for several censuses, as the boundaries have remained largely unchanged since 2000.

Although the 2011 census information was mostly thorough enough to complete the analysis described in the project design, there are gaps that will undermine the efficacy of the study. The CSD list found on the Service Canada website uses the division names that were in force in 1996. While mapping software was employed to place the new or modified CSDs, some EI regions had changed too much in the fifteen years between censuses to reasonably determine their make up. For instance, the CSDs of neither Chicoutimi nor Jonquiere are currently being used by Statistics Canada, which provided an incomplete picture of the EI region of Chicoutimi-Jonquiere. For that reason, the results will be included in the tables that follow in the interest of completeness, but will not be included in the analysis. The removal of Chicoutimi-Jonquiere means that only 57 of the 58 economic regions will be studied for their populations.

The census data also experiences gaps in terms of the unemployment rates. By in large the CSDs without employment data were smaller communities in which an accurate rate could likely not be determined. In EI regions where this is the case, only the unemployment rates available were included in the standard deviation. Yet no unemployment rates were given at the CSD level for Saskatchewan, including for the CSD of Regina, 2011 population of approximately 200,000. As unemployment rate is the mechanism being used in this project to determine homogeneity of labour markets within an EI region, its absence makes it impossible to evaluate in the same way as the other regions. It is for this reason that Saskatchewan's four EI regions will not be included in the following comparative analysis of the labour markets. After the removal of Chicoutimi-Jonquiere and the four Saskatchewan regions, 53 economic regions will be examined for their labour force homogeneity.

Analysis

a) Population

The population of the region was determined through adding the 2011 populations of each CSD in the given region together through a basic Excel function. Employment statistics for each CSD could not be compared in the same fashion, as the summed and weighted unemployment rate for each CSD would provide no new information beyond what is already publicly available from Service Canada as part of their normal operations.

Table 1. Population in Urban (CMA) Economic Regions, 2011 [22]

District Number	District Name	Population
27	Toronto	5,583,064.00
16	Montreal	3,726,500.00
52	Vancouver	2,236,712.00
46	Calgary	1,214,839.00
47	Edmonton	1,140,274.00
22	Ottawa	925,449.00
11	Quebec	749,861.00
39	Winnipeg	722,880.00
33	Kitchener	477,160.00
30	London	408,550.00

[22] "Information on Employment Insurance (EI) Economic Regions." *Human Resources and Skills Development Canada*. Government of Canada, n.d. Web. June 2014.

29	Saint Catharine's	392,184.00
6	Halifax	390,290.00
53	Victoria	359,895.00
26	Oshawa	356,177.00
34	Huron	345,345.00
20	Hull	305,934.00
7	Fredericton-Moncton-Saint John	296,850.00
32	Windsor	282,744.00
43	Saskatoon*	260,600.00
31	Niagara	220,758.00
28	Hamilton	211,806.00
42	Regina*	210,556.00
51	Abbotsford	174,604.00
14	Sherbrooke	167,102.00
36	Sudbury	160,668.00
12	Trois-Rivieres	149,707.00
2	St. John's	142,312.00
24	Kingston	123,363.00
37	Thunder Bay	121,596.00

The study of the urban districts yields relatively few insights as they are determined by Statistics Canada's definition of a CMA. Using this as a benchmark, there is little discretion that can be exerted in drawing the boundaries of these districts. A large range in population is to be expected if a single city is to be considered one labour market due to natural differences between municipalities. If only the urban districts are considered, the current configuration is consistent with the objective of drawing EI boundaries around labour markets.

Table 2. Population in Rural Economic Regions, 2011[23]

District Number	District Name	Population
25	Central Ontario	1,265,711.00
17	Central Quebec	1,038,468.00
49	Southern Alberta	1,000,616.00
50	Southern Interior British Columbia	633,341.00
35	South Central Ontario	586,471.00
19	Lower Saint Lawrence and North Shore	572,731.00
54	Southern Coastal British Columbia	555,950.00
15	Monteregie	512,773.00
38	Northern Ontario	512,375.00
5	Western Nova Scotia	387,487.00
1	Newfoundland/Labrador	362,238.00
23	Eastern Ontario	347,867.00
55	Northern British Columbia	329,922.00
44	Southern Saskatchewan*	317,674.00
40	Southern Manitoba	312,122.00
48	Northern Alberta	273,040.00
18	North Western Quebec	250,455.00
45	Northern Saskatchewan*	240,947.00
9	Restigouche-Albert	188,897.00
10	Gaspesie-Iles-de-la-Madeleine	177,674.00
4	Eastern Nova Scotia	161,806.00
13	South Central Quebec	156,497.00
3	Prince Edward Island	144,782.00
41	Northern Manitoba	121,545.00
8	Madawaska-Charlotte	100,667.00
57	Northwest Territories	41,462.00
56	Yukon	34,019.00

[23] Ibid.

58	Nunavut	31,906.00

Study of the rural districts yields more insights than examining their urban counterparts due to the level of discretion present in drawing those boundaries. Some districts can have limited conclusions drawn from them, including Prince Edward Island[24] and the three territories, due to the criteria that a district must be self-contained within a single province or territory. However, the remaining districts illustrate a substantial degree of population variance that merits further comment. Population differences in rural districts are more relevant than in their urban counterparts due to a lack of connecting infrastructure that exists in urban centres. A higher population also raises the likelihood of varied labour market conditions throughout the district, which undermines the solution the EI districts were meant to prevent.

The most populous districts are found in Ontario, Alberta, and British Columbia, with the least populous found in the maritime provinces and northern regions of the provinces. Quebec is unique in that it simultaneously has some of the most populous and least populous rural districts, with the smaller regions located in the north and closest to New Brunswick. West of Ontario, the northern districts are uniformly smaller

[24] Analysis for this project will be of the boundaries in place prior to the division of the Island into two EI boundaries on October 12 due to a lack of data available about the new district at the time of writing.

than their rural amalgamated counterparts in the south of the province. For instance, the district for northern Manitoba is 39% of the population of the district for southern Manitoba.

A direct comparison to the urban and rural districts illustrates that Service Canada was relatively successful in mirroring rural district population size with those found in urban centres. The breakdown of urban regions illustrates that 52% of the districts are between 150,000 and 400,000 people, with the comparable figure for rural regions sitting at 46%. Once the territories and PEI are removed, this figure rises to a more comparable 54%. This illustrates that in terms of population, the urban and rural ridings achieve relative levels of parity. What cannot be determined from this analysis is whether the clustering of districts based upon population is an appropriate mechanism to capture similar labour markets within one employment insurance district.

b) Deviation in Unemployment Rates

In order to evaluate the homogeneity of the labour market in a way that could be compared to the other regions, standard deviation of the unemployment rate was chosen. Standard deviation is a mathematical tool used to measure dispersion of a set of data from its average. For instance, if three CSDs in an EI region all had the same unemployment rate, the standard deviation would be 0. If their unemployment rates were ten points removed from one another, the standard deviation would be

significant. Unemployment rates were chosen as the metric to evaluate homogeneity because of the importance of the rate in determining the length and duration of benefits, as well as the relative ease in accessibility of the data.

Calculating only the standard deviation present in an economic region presents an incomplete picture. The more CSDs present in an economic region, the higher the probability that there would be a greater standard deviation. Conversely, it is easier to achieve the appearance of greater homogeneity in regions with fewer CSDs. The following table illustrates that the rural amalgamated regions contain significantly more CSDs than their urban counterparts.

Table 3. Number Census Subdivisions per Employment Insurance District, 2011[25]

Region Number	Province	Region Name	Number of CSDs
44	Saskatchewan	Southern Saskatchewan	584
17	Quebec	Central Quebec	380
1	Newfoundland and Labrador	Newfoundland/Labrador	343
45	Saskatchewan	Northern Saskatchewan	274
49	Alberta	Southern Alberta	257
38	Ontario	Northern Ontario	236

[25] "Information on Employment Insurance (EI) Economic Regions." *Human Resources and Skills Development Canada*. Government of Canada, n.d. Web. June 2014.

19	Quebec	Lower Saint Lawrence and North Shore	226
55	British Columbia	Northern British Columbia	201
54	British Columbia	Southern Coastal British Columbia	188
50	British Columbia	Southern Interior British Columbia	180
18	Quebec	North Western Quebec	177
40	Manitoba	Southern Manitoba	159
48	Alberta	Northern Alberta	118
3	Prince Edward Island	Prince Edward Island	112
15	Quebec	Moneregie	112
10	Quebec	Gaspesie-Iles-de-la-Madeleine	112
9	New Brunswick	Restigouche-Albert	107
25	Ontario	Central Ontario	104
41	Manitoba	Northern Manitoba	89
16	Quebec	Montreal	85
13	Quebec	South Central Quebec	78
8	New Brunswick	Madawaska-Charlotte	74
5	Nova Scotia	Western Nova Scotia	66
35	Ontario	South Central Ontario	52
7	New Brunswick	Fredericton-Moncton-Saint John	49
57	Northwest Territories	Northwest Territories	40
23	Ontario	Eastern Ontario	40
56	Yukon	Yukon	36
52	British Columbia	Vancouver	33
47	Alberta	Edmonton	32
58	Nunavut	Nunavut	30
53	British Columbia	Victoria	23
27	Ontario	Toronto	23
43	Saskatchewan	Saskatoon	23
4	Nova Scotia	Eastern Nova Scotia	23
11	Quebec	Quebec	21
34	Ontario	Huron	21

42	Saskatchewan	Regina	16
39	Manitoba	Winnipeg	9
29	Ontario	Saint Catherine's	9
31	Ontario	Niagara	9
2	Newfoundland and Labrador	St. John's	8
46	Alberta	Calgary	8
37	Ontario	Thunder Bay	7
14	Quebec	Sherbrooke	6
51	British Columbia	Abbotsford	6
12	Quebec	Trois-Rivieres	5
33	Ontario	Kitchener	5
20	Quebec	Hull	5
32	Ontario	Windsor	4
22	Ontario	Ottawa	4
26	Ontario	Oshawa	3
30	Ontario	London	3
28	Ontario	Hamilton	3
36	Ontario	Sudbury	2
6	Nova Scotia	Halifax	2
21	Quebec	Chicoutimi-Jonquiere	2
24	Ontario	Kingston	1

The study of the deviation of unemployment rates within EI districts is able to partially address the question about if they are representative of the market conditions they are meant to reflect. Once the standard deviation of the CSDs within a district was determined, the district figure was averaged to gain an understanding of the distribution. Of the fifty-two districts for which information is available, thirty-eight of them fall below the average standard deviation, indicating that the divisions which make up the respective districts have more similar unemployment rates than the

average. Conversely, it also means that the majority of the variation in the nationwide figure is due to a small number of highly diverse unemployment regions.

The following table examines the standard deviation of employment rates within an Employment Insurance district. In order to address the problem of comparing districts with numerous CSDs with districts with very few, districts with five or fewer CSDs have been eliminated from further analysis.

Table 4. Standard Deviation of Employment Rate within an Employment Insurance District, 2011[26]

District Number	District Name	Standard Deviation
51	Abbotsford	16.6367
1	Newfoundland/Labrador	16.4605
55	Northern British Columbia	15.2445
10	Gaspesie-Iles-de-la-Madeleine	14.0707
56	Yukon	13.9392
54	Southern Coastal British Columbia	13.7055
41	Northern Manitoba	13.5851
50	Southern Interior British Columbia	13.3782
57	Northwest Territories	12.9538
48	Northern Alberta	12.0276
38	Northern Ontario	11.6922
40	Southern Manitoba	10.6608
9	Restigouche-Albert	10.1974
18	North Western Quebec	9.3447
53	Victoria	8.9657

[26] Ibid.

4	Eastern Nova Scotia	8.5072
49	Southern Alberta	8.4273
3	Prince Edward Island	8.3345
8	Madawaska-Charlotte	8.2678
47	Edmonton	7.9443
58	Nunavut	7.4788
7	Fredericton-Moncton-Saint John	7.3298
19	Lower Saint Lawrence and North Shore	7.2328
5	Western Nova Scotia	6.6769
52	Vancouver	6.5985
35	South Central Ontario	6.5910
34	Huron	5.6450
17	Central Quebec	5.2901
15	Monteregie	4.8740
25	Central Ontario	4.6461
31	Niagara	4.2439
13	South Central Quebec	3.6761
23	Eastern Ontario	3.5335
37	Thunder Bay	3.2483
2	St. John's	3.1263
14	Sherbrooke	2.9402
46	Calgary	2.3509
33	Kitchener	2.0635
16	Montreal	2.0243
11	Quebec	1.9626
29	Saint Catharine's	1.9126
27	Toronto	1.7735
20	Hull	1.5980
39	Winnipeg	1.2441

The region with the least deviation is Kingston, which is indicative of a trend for the districts that fall below the average towards urban areas. Only seven of the thirty-eight are rural areas with average standard deviations of the unemployment rates in their districts, and all but one of those amalgamated districts is in either Ontario or Quebec.

These results are logical because of the figures the standard deviation was calculated with. The CMA is counted as one CSD, and a small number of bedroom communities are added to create the EI district. The fewer CSDs contained within a district means that less variation between their unemployment figures becomes more likely to achieve. Kingston, with its one CSD, is the most obvious example of this phenomenon.

The districts with standard deviations above the mean are overwhelmingly rural, at 83% of the remaining 23 for which data is available. Urban exceptions are Abbotsford, Edmonton, Sudbury and Victoria. The districts with the greatest variety are Abbotsford, Newfoundland and Labrador, and Northern British Columbia. However, a closer examination of the data from Abbotsford indicates that the variation is caused by the inclusion of one district with a very high unemployment rate, the population of which comprises approximately 1% of the district total. As such, concern about the homogeneity of the labour market should not be present in Abbotsford to the same extent as it should be in the other districts with far more diverse district results.

Table 5. Average District Standard Deviation of Unemployment Rate by Province, 2011[27]

Province	St.Dev. UER
British Columbia	12.42
Newfoundland /Labrador	9.79
New Brunswick	8.60
Manitoba	8.50
Prince Edward Island	8.33
Alberta	7.69
Nova Scotia	6.73
Quebec	4.67
Ontario	3.62
Saskatchewan	unknown
Nationwide	7.82

A nationwide comparison of the variations by province illustrates that two of the largest provinces, Ontario and Quebec, have districts with the smallest average variation. What is interesting about these two provinces is the degree of variation that they have with the other provinces. Ontario has the least average standard deviation at 3.62, which is roughly half the standard deviation of Alberta, and slightly more than one-quarter of the respective figure for British Columbia. On the other end of the spectrum, Newfoundland and Labrador, and British Columbia have the most diversity. Interestingly, the results do not split evenly to demonstrate a regional distinction as

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[27] Ibid.

easily as might be expected. Alberta and Nova Scotia are both found below the mean (not including the territories), while the three remaining Atlantic provinces can be found above the mean, along with Manitoba. When comparing the variance across districts, it appears as though the urban-rural divide is far more compelling than that of the east and west.

The level of variation illustrated in tables 4 and 5 raise questions about how much is too much for a district to be truly representative of a single labour market. Newfoundland/Labrador, for instance, contains every CSD except for the eight surrounding St. John's. If unemployment rate is the primary metric of determining labour markets, the high standard deviation figure should result in the district being redistributed into more representative configurations. Rural districts face greater levels of diversity within their borders than their urban counterparts, which in turn has implications for provincial comparisons. The provinces with high levels of urbanization relative to total population, Ontario and Quebec in particular, have low levels of standard deviation. Provinces where more of the population lives in rural areas, such as Newfoundland and Labrador, are more diverse.

Recommendations

Study of the population and standard deviation of unemployment rates in the EI districts questions the efficacy of administering the program in the current fashion. First and foremost, the segmentation of the national labour market into relatively arbitrary districts under the auspices of capturing single labour markets is difficult. A standard definition of a "labour market," supposedly the backbone of the current EI program, is either unavailable or does not exist beyond simplistic measurements of unemployment rates. The nuance of economic prospects for an area, education levels and demographics are never taken into account in the distribution of CSDs into districts. Without looking at metrics such as these, the officials responsible for drawing the EI boundaries will only gain an incomplete picture of the true economic conditions of a given area.

Providing additional challenges to the status quo is the inconsistent review process for the boundaries. Once the districts are set, there is no evaluation of the appropriateness of the boundaries beyond a snapshot provided every five years. This infrequent evaluation has administrative benefits, but can disadvantage some groups over others. For instance, if a factory moves into one end of a geographically large district, the benefits will not be distributed equally across the district. Workers near the factory will benefit from direct employment and economic spin offs. Those in other areas of the district may find it more challenging to qualify for EI due to a lower district

unemployment rate despite yet be unaffected by the new growth elsewhere. Through oversimplifying the economic diversity present in rural Canada, the current, rigid method of setting boundaries undermines the consistency of program coverage.

The caveat to the rigid structure of boundary setting is when things are done outside of the normal process as appears to be the case with Prince Edward Island and Charlottetown. These changes were highly controversial on the Island because of the perception that they would benefit the incumbent and regional minister in the next election. If they were the result of the 2013 district evaluation, it would have provided a level of cover for the decision that was never used. Further, the announcement would likely not have taken place closer to the time the decision was made, not in the February of 2014. The perception that the boundary review changes were made for political reasons was only reinforced by the complete lack of information about what role the established process played in determining the new boundaries.

A number of avenues are available that address the problems raised in this paper with the current Employment Insurance system. The most politically challenging solution would be to change the way in which individuals could qualify for benefits to be more representative of their opportunities for employment. If the current system remains in place, the temptation will be to add more districts as populations grow and data gathering techniques become even more sophisticated. Yet as illustrated earlier in this paper, the use of dividing the nation into districts based upon blunt measurements inadequately captures the complexities presented by individuals and smaller economic

trends. Dismantling the status quo in favour of a system where benefits are based on an individual's employment history would overcome the issues presented in this paper. It would also address concerns about the moral hazard present in the current EI system.

The political costs of abandoning the status quo in favour of a more individualized approach are very high, as the Chretien government's experiment with the experience rating illustrates. There are a few ways in which the system can be improved without radically overhauling the way in which the program operates. The first would be to require Service Canada to find a new way to operationalize their stated aim of capturing homogenous labour markets in EI districts. A possible solution could consider commuting times from regional centers or urban hubs where employment rates are likely to be lower than in more rural areas. The current approach appears to be based on ease of collecting information instead of a trying to ensure fair and consistent national coverage across divergent labour conditions. If the Service Canada is unable to devise a more appropriate metric, or the costs of administering it would be prohibitively expensive, serious consideration must be given to the idea of eliminating the regional aspect of the program altogether.

At a minimum, the way in which the current boundaries are determined and evaluated must be given greater transparency. The greatest challenge faced by anyone who would like to understand how the Employment Insurance system operates is gaining the information to evaluate it. This is unacceptable for a program that levies premiums upon almost every worker and business across the country, and is a major

component of Canada's social safety net to operate in with such opacity. Before the debate can move beyond platitudes and rhetoric, the data needs to be made available to do so.

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