

UNEMPLOYMENT INSURANCE AND THE LABOR SUPPLY  
TO THE MINING INDUSTRY IN MANITOBA

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by

Shirley Lyon

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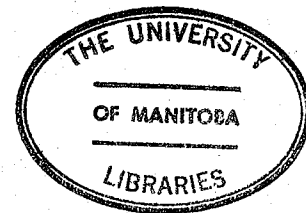
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MASTER OF SCIENCE

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## CHAPTER I

### INTRODUCTION

Modification of the Unemployment Insurance Act of 1971 has been cited as a contributing factor of the rising unemployment rate in recent years.<sup>1</sup> However, the unemployment rate is an average figure incorporating all regions and all sectors within the economy and says little of the situation in any specific sector. In spite of the high unemployment rate, the mining industry has experienced serious labor shortages, causing mining managers to question the disincentives to work present in the Act of 1971 and subsequent revisions. The high labor turnover<sup>2</sup> in the industry plus the cyclical nature of the demand for mining manpower become further complicated by possible disincentives to labor present in the various forms of social security, the central objective of which is to

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<sup>1</sup>H.G. Grubel, D. Maki, S. Sax. "Real and Insurance Induced Unemployment in Canada," Canadian Journal of Economics, Vol. III, No. 2, May 1975, 174-193. See also, the comment by S.F. Kaliski, and reply by Grubel et.al, Canadian Journal of Economics, Vol. VIII, No. 4, November 1975, pages 600-605.

<sup>2</sup>The national average level of gross annual turnover, (the sum of hiring and separation), was 80 percent in 1972, with an average quit rate of 35 percent and hires for replacement of 40 percent. Gross annual turnover cost \$36 million for metal and non-metal mines in 1972. See J.A. MacMillan, J.R. Tulloch, D. O'Brien, and M.A. Ahmad, Determinants of Labor Turnover in Canadian Mining Communities: Research Report No. 19. Center for Settlement Studies, University of Manitoba, 1974, page 4. The regional variation in turnover characteristics are shown to be related to differences in the labor market when all industries are considered. See Wayne Thirsk, Regional Dimension of Inflation and Unemployment: Research Report Prepared for Prices and Incomes Commission, Ottawa: Information Canada, 1973.

provide an acceptable basic income, "essential if a person is to live in decency and in dignity."<sup>3</sup>

Unemployment insurance (UI), like any transfer programme, reduces the price of leisure relative to the price of work, and is likely to provide a disincentive to labor,<sup>4</sup> according to the received wisdom from previous theoretical models. However, characteristics similar to a wage subsidy cause a substitution of work for leisure which acts as a stimulus to labor force participation. This study, by examining in detail the population of unemployed miners<sup>5</sup> in Manitoba on active claim with the Unemployment Insurance Commission (UIC) during June 1975, seeks to increase knowledge of individual labor supply and identify the net effects of the insurance program on the supply of labor. Information gained raises questions as to the applicability of previous aggregate theory and analyses to the micro-economic problem of labor supply.

#### DEFINITION OF THE PROBLEM

Unemployment insurance is designed to provide income continuity to those suffering the contingency of unemployment, and while neither an income supplement nor a wage subsidy in the direct sense, it has features of both. If the worker is employed for only part of the year,

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<sup>3</sup>Marc LaLonde. Working Paper on Social Security, 2nd ed., Ottawa: Queen's Printer, 1973, page 4.

<sup>4</sup>Grubel et al, op.cit., page 176.

<sup>5</sup>The occupational classification of miner is that used by the Census of Canada, 1971, based on the Canadian Classification and Dictionary of Occupations. The relevant categories are given in Appendix C with a discussion on possible errors in such occupational classification.

and eligibility for benefits is established and maintained, he receives an income supplement in the form of UI benefits. If unemployed and receiving benefits, the level is a function of wage and the number of weeks worked, and the wages received whilst working, and qualifying for UI, are analogous to a wage subsidy.

Given the traditional income-leisure analysis, accepting leisure as a normal good, the worker's supply of labor is dependent upon his income, earned and unearned, as he seeks to maximize his utility from leisure and work activities, subject to a fixed time constraint.<sup>6</sup> Analyses of income supplements and wage subsidies indicate that the income and substitution effects of an income supplement combine to provide a disincentive to work while in the case of a wage subsidy the effects are in opposition.<sup>7</sup> The relative magnitudes of the disincentive and incentive to work is an empirical issue.

The research problem is to:

1. Specify in detail a theoretical model of individual labor supply.
2. Test the model by analyzing changes in work and unemployment duration induced by the parameters of 1971 UI Act.

Effects of changes in the UI parameters proposed in Bill C-69, 1975, can then be estimated and the implications of such changes for labor turnover in the mining industry may be drawn.

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<sup>6</sup>In a study of the allocation of time, time is classified in terms of time at work (work activities) and time at home (consumption activities). See G.S. Becker, "A Theory of Allocation of Time," Economic Journal, Vol. LXXXV, September 1965, 493-517.

<sup>7</sup>E.K. Browning. "Alternative Programs for Income Redistribution: the NIT and NWT," American Economic Review, LXIII, No. 1, March 1973, 38-49.

## RESEARCH AND OBJECTIVES

At this time no analysis of the impacts of UI on regional individual labor supply of a specific sector has been published. There is a need to identify and, if present, quantify any disincentive to work implicit in the 1971 changes of the UI Act, as evidenced by the behaviour of miners. It is expected that a regional sector analysis of individuals will circumvent the regional and sectoral aggregation problems characteristic of national analysis.

The duration of unemployment reflects the individual's labor supply, i.e., willingness to accept employment, as well as the demand for labor. Given, for a cross-section analysis of individual data, that the demand conditions are constant, the duration of claim, subject to the constraints imposed by UI regulations, is a proxy for the individual's supply of labor. It is possible, given liberal interpretations of UIC requirements of 'suitable' employment,<sup>8</sup> and the assumption that unemployment is leisure, for the worker to vary the duration of unemployment so that his utility from leisure and work activities is maximized. The options facing the worker include:

1. year round employment,
2. a major attachment of 20 weeks work that entitles a worker to 30 weeks of benefits,
3. a series of minor work attachments (8 weeks) followed by periods of unemployment.

---

<sup>8</sup>Employment classified as 'not suitable' by UIC is outlined in Appendix B.

It is important to note that the decision being analyzed is economic and not a question of morals implicitly implied in popular discussion of UI "rip-offs." The claimant is behaving in a rational economic manner by buying more leisure which has become cheaper.

The length of time an individual recipient is on active claim is hypothesized to be a function of wage expectations after taxes, relative wages, level of benefits after taxes, the probability of finding employment in the mining industry, the number of weeks of benefit entitlement, waiting period, community size and demographic characteristics.

Data was obtained from UIC on all miners who were on active claim the first week of June 1975. Each miner was followed for a 52 week period of labor force activity ending with employment after the most recent UI claim, or until the claim becomes dormant due to disqualification or disenfranchisement.

The existence of both disincentive and incentive effects on work effort are implied by economic theory. The research objective is to:

1. Specify a theoretical model relevant to analyzing the impact of 1971 UI regulations on individual labor supply in the Manitoba mining industry.<sup>9</sup>
2. Estimate the empirical significance of 1971 UI regulations on individual labor supply in the mining industry in Manitoba.
3. Apply the results to manpower planning problems of
  - a. mining companies,
  - b. Government manpower programs,
  - c. UIC, in light of the proposed changes in Bill C-69.<sup>10</sup>

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<sup>9</sup>See Appendices A and B for a brief history of unemployment insurance and regulations of the UI Act, 1951.

<sup>10</sup>See Appendix E for summary of Bill C-69.

## IMPLICATIONS OF RESULTS

There is a scarcity of knowledge concerning the effects of social programs on individual labor supply, and this lack has resulted in considerable academic, government and business controversy.<sup>11</sup> Evidence and quantification of disincentives in UI will facilitate manpower planning policy by mining companies as they seek to reduce turnover costs and gain more stability in their labor force. The results have implications for Government manpower programming and should also be useful in assessing disincentive effects of alternative revisions proposed in the current Act. The results of national aggregate analysis currently available are inadequate in these respects.

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<sup>11</sup>Evidence of this is to be found in the exchange between H. Grubel and Bryce Mackasey in Financial Post. See Financial Post, February 16, 1974, page 6, column 3; and March 16, 1974, page 6, column 3. See also, F.C. Burnett, Vice President, employer relations, International Nickel Co. of Canada, expressed the opinion that "social welfare ... provided as a matter of right, rather than need," contributed to labor shortages. Northern Miner, November 28, 1974, page 20, column 4.



## CHAPTER II

### LABOR SUPPLY THEORY AND REVIEW OF RELATED STUDIES

Unemployment insurance and other social security programs of income supplementation require extensions of the traditional theoretical analysis of the supply of labor. Much work has been done on the relative merits and disincentives to labor of income supplements and various wage subsidy schemes that will provide a guaranteed level of income,<sup>12</sup> but far less study has focused on the impacts of UI on the individual's labor supply.

UI is unique in that it has attributes of both a wage subsidy and an income supplement, so the theory pertaining to both will be reviewed briefly before reviewing the UI studies and examining a model specific to the UI program.

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<sup>12</sup>See E.K. Browning. "Alternative Programs for Income Redistribution: The NIT and NWT," American Economic Review, LXIII, No. 1, March 1973, 38-49; see also Irvin Garfinkel, "A Skeptical Note on 'The Optimality of Wage Subsidy Programs'," American Economic Review, LXIII, No. 3, June 1973, 447-453. Also Jonathan Kesselman, "Labor Supply Effects of Income, Income Work, and Wage Subsidies," Journal of Human Resources, IV, No. 3, Summer 1969, 275-292, and "Conditional Subsidies in Income Maintenance," Western Economic Journal, 9, March 1971, 1-20; see also Richard J. Zeckhauser, "Optimal Mechanisms for Income Transfer," American Economic Review, LXI, No. 3, June 1971, 324-334.

## WORK INCENTIVE EFFECTS

It can be shown diagrammatically that in the case of an individual beneficiary, more work will be supplied with a wage subsidy (WS) than a negative income tax (NIT) program if either his post subsidy welfare, post subsidy income or his subsidy is the same under the two programs. Before following this analysis in Figure 1, the budget constraints facing an individual,

1. with income only from earnings,
2. income from earnings plus NIT grants,
3. income from earnings plus WS

can be expressed algebraically as follows:<sup>13</sup>

1.  $Y = HW$
2.  $Y = G + (1-m)HW$  for  $Y \leq \frac{G}{m}$ , otherwise  $Y = HW$
3.  $Y = [g + (1-n)W]H$  for  $W < \frac{g}{n}$ , otherwise  $Y = HW$

where

$Y$  = net income

$H$  = hours worked

$W$  = hourly wage rate

$G$  = income guaranteed by the Government

$m$  = marginal tax rate ( $0 < m < 1$ ) in NIT program

$g$  = guaranteed wage rate

$n$  = marginal tax rate ( $0 < n < 1$ ) in WS program.

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<sup>13</sup>Garfinkel, op.cit, page 447.

Individuals with earnings above  $\underline{G}_m$ , the break even level of income in

NIT programs, and wage rates above  $\underline{g}_n$  in WS programs receive no assistance.

Effects of WS and NIT with Equal Post-Subsidy Welfare

Diagrammatically in Figure 1, income is measured along the vertical axis, hours worked along the horizontal axis, and initially all income is assumed earned and the original budget restraint is given by the wage line OW, with original equilibrium at  $E_0$ . An NIT guarantee of OG dollar moves the budget restraint to OGBW. Assume the new equilibrium lies along BG at  $E_1$  where  $I_2$  is tangent. A wage subsidy that would leave the individual indifferent between  $E_1$  and a new equilibrium  $E_2$  will be on the same indifference curve  $I_2$ , and will pivot the wage line upwards from OW to OY. A wage subsidy increases the equilibrium net wage with the result that OY is steeper than GB. Assuming indifference curves with a diminishing marginal rate of substitution<sup>14</sup> between leisure and income,  $E_2$  lies to the left of  $E_1$  indicating a greater supply of labor with a wage subsidy relative to an income supplement.

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<sup>14</sup>Equilibrium can only be established when indifference curves are convex to the axes, i.e., diminishing marginal rate of substitution. See J.R. Hicks, Value and Capital, 2nd Edition, Oxford: Clarendon Press, 1946, page 21.

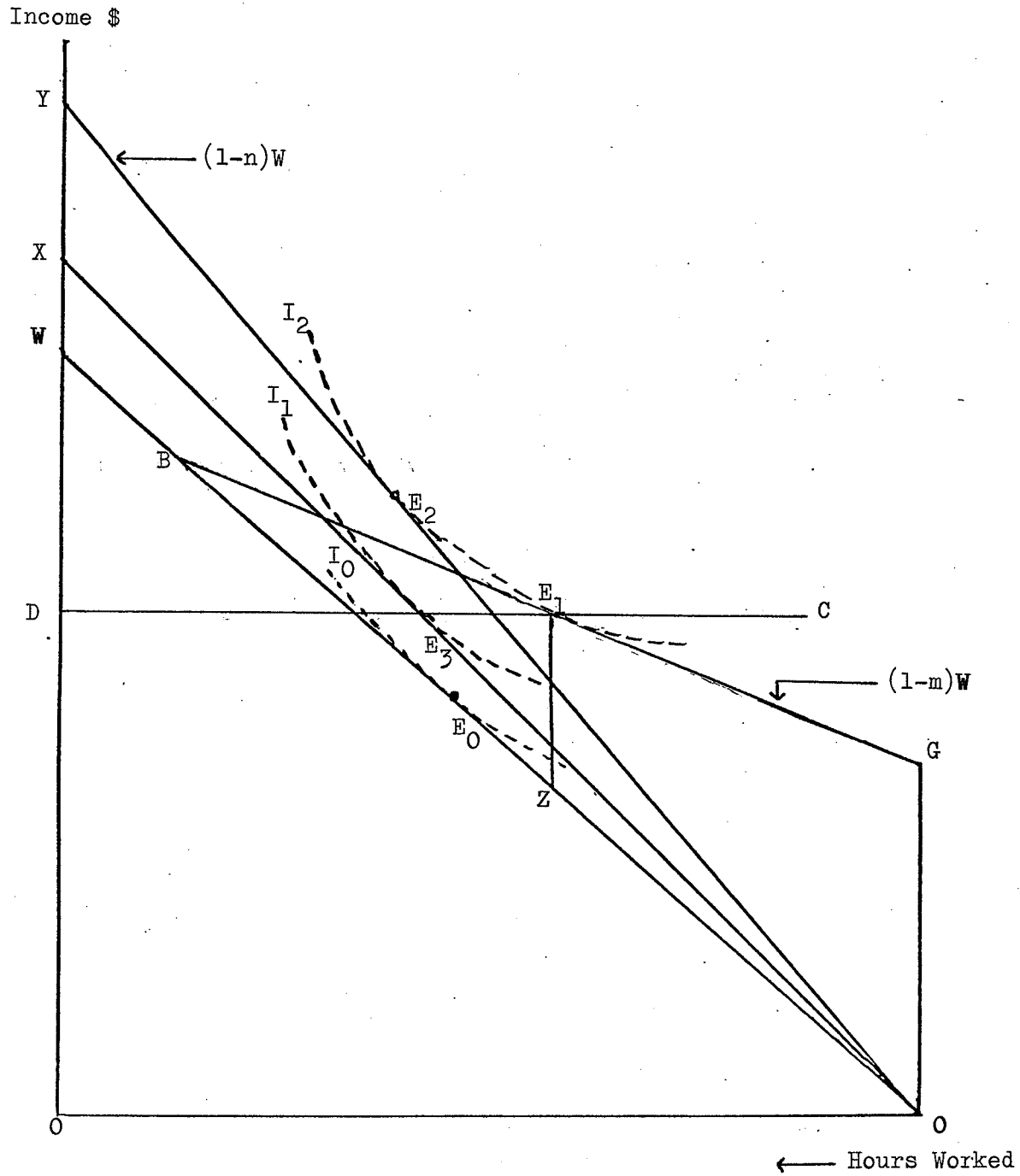


Figure 1

Work Incentive Effects of WS and NIT Programs  
for Single Beneficiary

Source: I. Garfinkel, "A Skeptical Note in 'The Optimality of Wage Subsidy Programs'," American Economic Review, LXIII, No. 3, June 1973, page 448.

The movement from  $E_0$  to  $E_1$  and  $E_0$  to  $E_2$  can be decomposed to identify the substitution and income effects in each case.<sup>15</sup> Assuming the price of leisure falls, the individual may wish to substitute leisure for work because (a) leisure has become cheaper and (b) the fall in the price of leisure is equivalent to an increase in the consumer's income.

In the case of an income supplement, Figure 2, the movement from  $E_0$  to  $E_1$  ( $R_0$  to  $R_2$ ) is composed of moving  $E_0$  to  $S$  ( $R_0$  to  $R_1$ ) and from  $S$  to  $E_1$  ( $R_1$  to  $R_2$ ). From  $E_0$  to  $S$  is the substitution effect which describes the reallocation between work and leisure if the reduced price of leisure is compensated by a simultaneous income change which forces the individual to remain on the same indifference curve. From  $S$  to  $E_1$  is the income effect. Both act in the same direction to decrease the supply of labor by a net effect of  $R_0R_2$ .

When there is a wage subsidy, Figure 3,  $E_0$  to  $S_1$  ( $T_0$  to  $T_2$ ) is the substitution effect, and  $S_1$  to  $E_2$  ( $T_2$  to  $T_1$ ) the income effect. These act in the opposite direction, and since the substitution effect is dominant, the net effect is  $T_0T_1$ , and more labor is supplied.

#### Effects of WS and NIT with Equal Post-Subsidy Income

To evaluate the effects of a wage subsidy that will give the individual the same income as the NIT program, equilibrium must be along  $DC$  which passes through  $E_1$  and indicates a constant level of income, Figure 1. Assuming normal indifference curves, only curves which intersect

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<sup>15</sup>James M. Henderson and Richard E. Quandt. Microeconomic Theory, 2nd Edition, New York: McGraw-Hill Book Co. 1971, page 33.

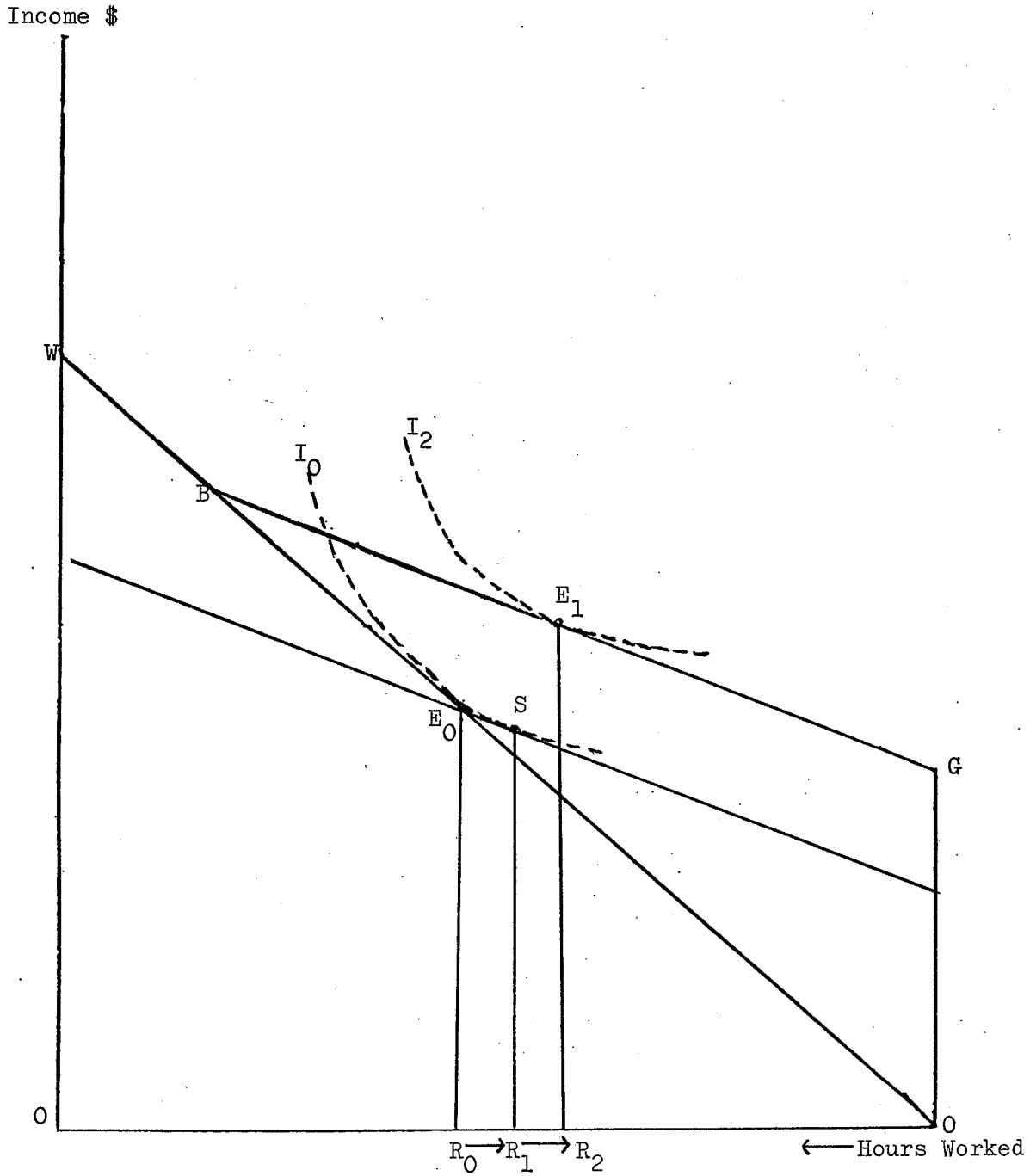


Figure 2

Income and Substitution Effects of NIT Program

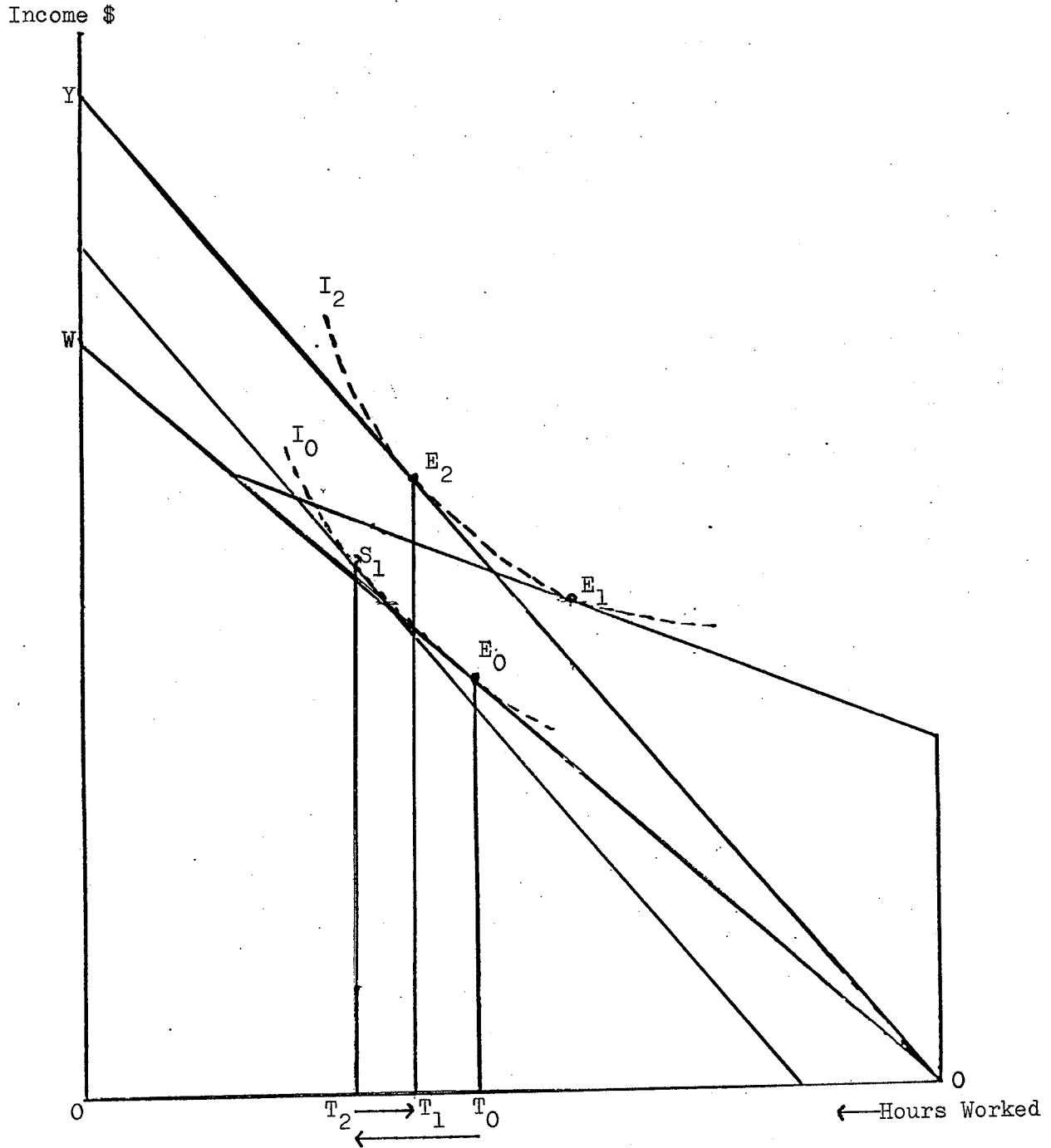


Figure 3

Income and Substitution Effects of WS Program

DC to the left of  $E_1$  will be steeper than GB. The new equilibrium will lie to the left of  $E_1$  at  $E_3$  where OX is tangent to  $I_1$ . The individual thus supplies more labor, and being on a lower indifference curve is worse off under the wage subsidy.

#### Effects of WS and NIT of Equal Cost

The cost of the NIT program will be  $E_1Z$ , Figure 1. If the programs are of equal cost, a WS program of value  $E_1Z$  must lie to the left of  $E_1$  indicating a greater labor supply from the wage subsidy.

#### Relevance to Unemployment Insurance

Relating this analysis to UI, the income effect generated by benefits received which reduces the price of leisure, provides a disincentive to the supply of labor and may indeed cause the individual to cease work. The possibility of receiving benefits is analogous to a wage subsidy only as long as the individual continues to work, and later is unemployed. If the supply of labor ceases, in cases other than UI, there is only a substitution effect which acts as an incentive to work. However, for the UI beneficiary no longer working, both effects still exist since the level of wages and amount of time worked influence the level and duration of benefits, and therefore the total income, earned and unearned, for the time period in question.

As pointed out by Garfinkel,<sup>16</sup> there is no a priori statement that can be made about the disincentives/incentives to labor of various

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<sup>16</sup>Garfinkel, op.cit, page 449.



programs once the analysis is extended beyond the individual beneficiary case. The individual analysis, as above, is made holding the individual's welfare and income constant, an assumption that cannot be made for many beneficiaries. For this reason a generalization cannot be made, and since the effects are equivocal only empirical analysis can provide the solution.

In addition, Garfinkel's model of individual labor supply is extremely narrow, and a more comprehensive exploration of labor supply behaviour will be proposed later in the chapter.

#### REVIEW OF RELATED STUDIES

Previous studies of the incentive effects of UI can be divided into two groups, those that examine the duration of unemployment at the microeconomic level, and those that examine aggregate unemployment rates.

There are only a few studies based on microeconomic data, and none based on Canadian data has been published to date. Munts (1970)<sup>17</sup> examined partial benefit schedules of Wisconsin UI recipients to study differential effects on work behaviour, and found that adaption to schedules did exist. In a sample of Arizona workers Kingston and Burgess (1971)<sup>18</sup> found that the benefit-wage ratio has a negative effect on the duration of job search, whilst the opposite conclusion was

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<sup>17</sup>Raymond Munts. "Partial Benefit Schedules in Unemployment Insurance: their effect on work incentive," Journal of Human Resources, V, No. 2, Spring 1970, 161-176.

<sup>18</sup>J.L. Kingston and P.L. Burgess. "Unemployment Insurance, Job Search and the Demand for Leisure: Comment," Western Economic Journal, 9, December 1971, 447-450.

reached by MacKay and Reid (1972)<sup>19</sup> in a study of unemployment duration in Great Britain. They found that a lump sum Redundancy Pay had no effect on duration, whilst the weekly UI benefit rate had a significant positive effect.

Chapin (1971)<sup>20</sup> regressed the duration of unemployment claims on the average benefit-wage ratio, the unemployment rate, and the maximum duration of claims, using aggregated U.S. data, collected at the state level, for the years 1962-1967. The benefit rate had the expected positive sign but was only statistically significant in a regression that pooled annual data. A one percentage point in the benefit-wage ratio increased the duration of unemployment by only one twentieth of a week.

There are three recent published Canadian studies aimed at evaluating the impact of the 1971 UI Act on measured unemployment rates.

Grubel, Maki and Sax (1975)<sup>21</sup> constructed a four equation model designed to predict the response of the unemployment rate, the ratio of benefits to wages and overall labor force participation rate to changes in the UI Act. Model simulations over 1972 and 1973 suggest that the Act induced an increase in the measured unemployment rate of approximately 0.8 percentage points, but had no effects on labor force participation over this period.

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<sup>19</sup>D.L. MacKay and G.L. Reid. "Redundance, Unemployment and Manpower Policy," Economic Journal, Vol. 82, no. 328, December 1972, 1256-1272.

<sup>20</sup>Gene Chapin. "Unemployment Insurance, Job Search and the Demand for Leisure," Western Economic Journal, Vol. IX, No. 1, March 1971, 102-107.

<sup>21</sup>Grubel, Maki and Sax, op.cit.

Green and Cousineau, (1974)<sup>22</sup> in a study prepared for the Economic Council of Canada, investigated the impact of the 1971 Act by both an economy wide approach, and by examining aggregate data pertaining to UI claimants. From the first approach, aggregate equations for the unemployment rate and labor force participation were estimated, and formed the basis for finding that the increase in benefit rates associated with the 1971 Act added 0.64 and 0.36 percentage points to the measured unemployment rates in 1972 and 1973 respectively. The omission of consideration of aggregate demand effects was recognized by the authors as a shortcoming, and they cautioned that their estimates were subject to revision. They also attempted, from data on UI claimants, to analyze the extent of voluntary unemployment, and estimated this to range from 0.4 to 0.7 percent of the labor force in 1972-1973. These figures were interpreted as supportive of their more aggregative findings.

The third aggregative study by Wirick, Dunnet and Wallace (1974)<sup>23</sup> led to the conclusion that the 1971 Act was responsible for increasing measured employment rates by 1.7 percentage points in 1973. However, this study did not fully reflect the changes in the 1971 Act, and quarterly data was aggregated from 1962-1973, a period during which two different Acts were in force, making the conclusions suspect.

The above review illustrates the various approaches to analysis of UI and work incentives that have been made. This study approaches

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<sup>22</sup>C. Green and Jean-Michel Cousineau. Report on the Impact of Unemployment Insurance on the Unemployment Rate. Ottawa: Economic Council of Canada, 1974. (mimeographed)

<sup>23</sup>R. Wirick, B. Dunnet, and C. Wallace. "The Impact of the 1971 Changes in Unemployment Insurance Legislation on the Measured Unemployment Rate." Ottawa: Treasury Board of the Government of Canada, 1974 (mimeograph).

the topic at a microeconomic level, from the point of view of an individual in a specific industry in one province, in an attempt to analyze the determinants of the duration of active benefit claims for miners in Manitoba, and predict the effects of changes in these parameters on claim duration. To do this it is necessary to consider the income leisure model within the framework of the 1971 UI Act.

#### LABOR SUPPLY THEORY AND THE 1971 UI ACT

The provisions of the 1971 Act include a benefit rate set at two-thirds of weekly earnings for those without dependents with a maximum of \$124 in 1975.<sup>24</sup> The duration of benefits depends on the number of weeks work during the qualifying period, and regional and national unemployment levels.

In the standard income leisure diagram the individual, in the absence of UI, faces a budget constraint of ABCD (Figure 4). He maximizes his utility between income and leisure by establishing an equilibrium point where his indifference curve is tangent to the budget constraint. Given a decision period of 52 weeks, and assuming unemployment is all leisure,<sup>25</sup> introduction of UI will shift the budget constraint to the right. The degree of this shift will depend on further initial assumptions. Assuming the individual,

1. has no other income

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<sup>24</sup>See Appendix B for UI regulations, benefit schedules, etc.

<sup>25</sup>Since it is impossible to identify the proportion of leisure that is 'non-leisure' activity, such as job search, this simplifying assumption is made.

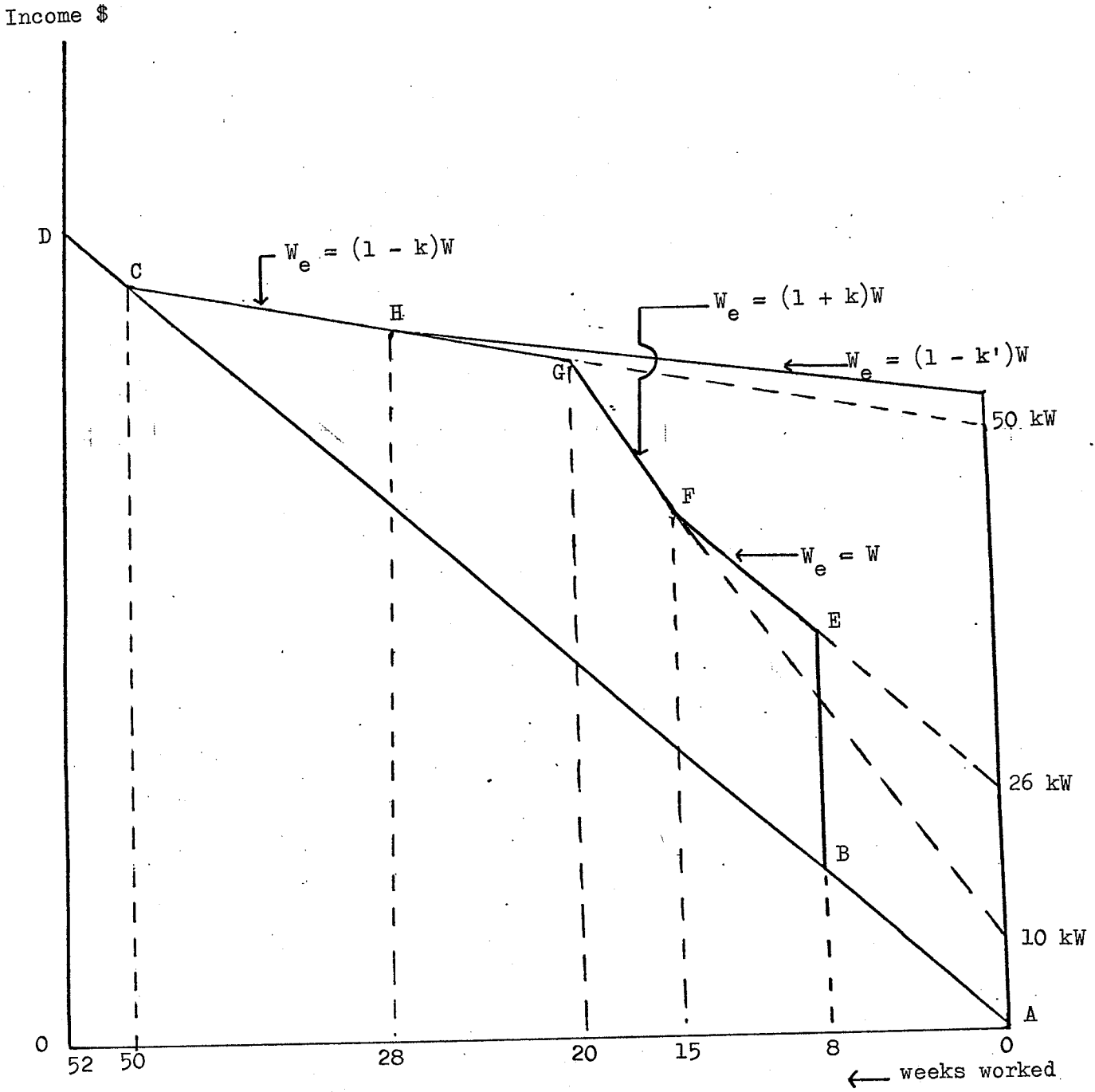


Figure 4

Work Incentive Effects of UI Act, 1971 For Single Beneficiary, 52 Week Decision Period

Note: Duration of unemployment (i.e., 52 less weeks worked) is the dependent variable in this empirical study. However, to be consistent with the diagrams of the earlier theoretical sections the axes are reversed.

2. no dependents
3. only 1 benefit period in the year
4. national unemployment level exceeds 4 percent

the constraint imposed by the 1971 Act is represented by ABEFGCD. After the minimum qualification period of work in insurable employment (8 weeks) the claimant is entitled to 26 weeks of benefits. Additional weeks of work do not increase benefit duration until 15 weeks (F). Benefits increase one week for each additional week of work until there are 20 weeks of work, 30 weeks of benefits and a two-week waiting period. Beyond 20 weeks additional work necessarily reduces the duration period.

For those normally working fewer than 8 weeks, there is a positive incentive to increase the weeks worked. Assuming leisure to be a normal good, and that the claimant is informed and maximizing his utility, he will work exactly 8 weeks. For those on EF, the effective wage,  $W_e$ , is still the marginal wage but they are eligible for an income effect of  $26 kW$  where  $k = \frac{2}{3}$  = the benefit earnings ratio. The income effect on EF will provide less disincentive to work than for those on GC where the effective wage has been reduced. Along GC the program is equivalent to an NIT program with an income guarantee of  $50 kW$ . An extension of the waiting period decreases the guarantee to  $(52 - \text{waiting period}) kW$ , and reduces the disincentive to work.

For those on GF, the additional weeks of benefits caused by additional weeks work raise the effective wage to  $(1 + k)W$ , and the program acts like a wage subsidy. If the utility from leisure exceeds

utility of income from work a disincentive to labor exists for the workers who quit. An incentive may exist for entry due to the increased wage effect.

Thus for the worker who remains fully employed, the budget restraint remains ABCD, and

$$Y = 52 W.$$

For the worker who works 20 weeks and draws benefits for 30, (operating on segment GF in Figure 4), his effective wage  $W_e = (1 + k)W$  and he received an income guarantee of  $10 kW$ . Thus,

$$Y = 20 [(1 + k)W] + 10 kW$$

For those on segment EF, where the number of weeks employed (WE),  $8 \leq WE \leq 15$ , the effective wage equals the actual wage, and the worker receives an income guarantee of  $50 kW$ . Thus,

$$Y = WE (W) + 50 kW.^{26}$$

Relaxing the assumption of no dependents means a higher benefit earnings ratio,  $k'$ , during the extended benefit period, causing a shift out of the budget constraint to the right of H (Figure 4).

If regional unemployment exceeds the national unemployment rate the benefit period is extended. The extension may be up to 18 weeks if the regional rate is more than three percent in excess of the national rate. The extra benefits shift the constraint over and the effective wage becomes  $(1 - k)W$  sooner, at 12 weeks. Figure 5 assumes the regional

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<sup>26</sup>Dollar figures are applied to these equations in Chapter 5, using figures obtained from the analysis.

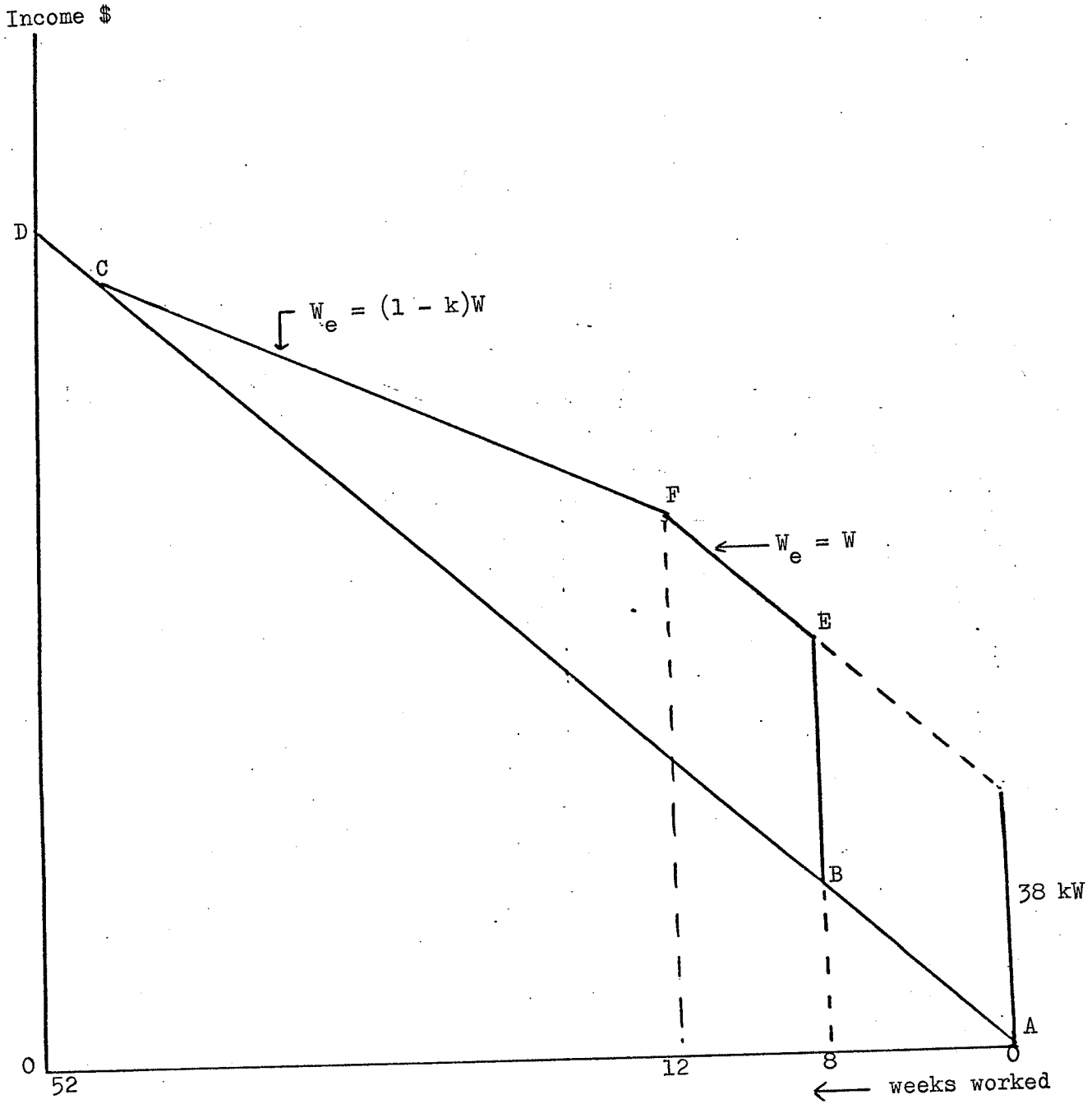


Figure 5

Work Incentive Effects of UI Act, 1971, over Five Percent  
 National Unemployment Rate, Regional Unemployment  
 Rate Exceeds National by Two-Three Percent  
 No Dependents



rate exceeds the national rate by two-three percent when 12 more weeks of benefits are available. This provides strong incentives to enter the labor force, since 38 weeks of benefits are available after only eight weeks of work. Since a marginal tax on earnings is effective after only 12 weeks and the income effect is larger, the extended benefit period is likely to lower the weeks worked for those working eight to 12 weeks.

The individual seeks to maximize his utility from income of work activities, and leisure activities, subject to a time constraint. Given a more liberal social policy with emphasis on job satisfaction, the duration of UI claims, subject to eligibility regulations, can be considered to be variable by the individual depending upon his personal indifference curves. If benefits are increased, the income effect is likely to prolong the duration of UI claims, and add to the labor shortages and turnover problems of the mining industry. Reduction of benefits may increase the labor supply and reduce shortages as the substitution effect of the wage subsidy acts to increase the number of weeks worked. The net result of the two effects, income and substitution, of UI is an empirical issue rather than a theoretical one.

The possibility exists that there will be no empirically significant results. Should this be the case, it may be due to the fact that the labor supply of miners is not a purely economic decision, and/or their knowledge of the regulations and implications of UI is incomplete.

## CHAPTER III

### MODEL SPECIFICATION

Studies of the Graduated Work Incentive Experiment, more commonly known as the New Jersey-Pennsylvania negative income tax experiment, have shown that the simplistic model as outlined by Garfinkel (1973)<sup>27</sup> is an inadequate account of the labor supply effects, and that empirically "the results ... are more complex and more ambiguous than anticipated."<sup>28</sup> The following model is intended as a more comprehensive explanation of the individual's labor-leisure choice.

The length of time any miner is an active UI claimant is hypothesized to be a function of the recipient's expected wage after taxes, the relative attractiveness of mining wages, the level of benefits after taxes, the probability of finding work, the UI regulations applicable to the individual in the form of number of weeks worked in insured employment and waiting period, the community size and demographic characteristics.

The following relationship is to be estimated:

$$D = f([1 - t]W, [1 - t]B, W', V, I, P, U, A, E) \quad (3.1)$$

where

D = duration in weeks of receipt of benefits in 52 week period

t = tax rate

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<sup>27</sup>Garfinkel, op.cit.

<sup>28</sup>Albert Rees. "An Overview of the Labor Supply Results," Journal of Human Resources, Vol. IX, No. 2, Spring 1974, page 167.

- W = previous wage rate used as a proxy for potential wage available to each recipient (expected earned income in dollars per week if fully employed)
- B = level of benefits paid to recipient, average dollars weekly
- W' = relative attractiveness of mining wages as  $\frac{\text{mining wage}}{\text{construction wage}}$  in dollars per week
- V = probability of finding employment in mining in Manitoba
- I = number of weeks of work in insured employment
- P = waiting period imposed by UIC before collection of benefits
- U = urbanization of community in which miner is resident
- A = demographic characteristics of the miner
- E = error term

#### HYPOTHESIS AND DESCRIPTION OF VARIABLES

##### Duration of Benefits (D)

The length of time, in weeks, the miner received benefits is used to approximate the amount of labor withdrawn. The duration of benefits variable reflects the number of weeks of his total time the recipient has chosen to allocate to activities other than a job.<sup>29</sup> Recipients who returned to work voluntarily before exhaustion of their entitlement were separated from those with claims disqualified and/or exhausted to test the hypothesis that unemployment duration is variable by the individual.<sup>30</sup>

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<sup>29</sup> Since it is impossible to distinguish between spare time, pure leisure, job search, relaxation, etc., all non-work time is assumed to be leisure.

<sup>30</sup> At a national level, 79 percent of claimants did not exhaust their benefits in 1973 (UIC operational statistics).

Potential Wage (W)

The average weekly wage, adjusted by the tax rate, of the miner during the weeks prior to becoming unemployed is used as a proxy for the wage likely to be received on return to full employment.

Tax Rate (t)

Tax rate is estimated from actual dollars deducted by UIC from claimant's benefits.

Level of Benefits (B)

The level of benefits are determined by previous wage. Earnings in excess of \$170 per week are not insurable, and thus the relationship between level of benefits and wage is not constant for higher wage earners, although some multicollinearity between these variables is expected.

Wage and income changes have three types of impact on the duration of benefits. A rise in the potential wage increases the price of leisure and duration of unemployment is likely to be shorter as there is substitution of work for leisure. In addition, the higher wage increases the individual's wealth, and assuming leisure to be a normal good, i.e., not inferior, induces him to purchase more leisure. The substitution and income effects of a wage change operate in opposite directions.

The wealth of any recipient, no matter what his attachment to the labor market, increases with the amount of income guaranteed to him by UI, and an income effect so produced leads to the additional consumption of leisure at a lower opportunity cost. Thus the duration of benefit claims is likely to be prolonged by higher levels of benefits.

The relative magnitude of the income and substitution elasticities must be estimated to predict the impact of changes in wages and benefit levels on the labor supplied by the miners of this sample.

#### Relative Attractiveness of Mining Wage (W')

The ratio of the individual mining wage to the average construction wages is a variable included on the grounds that depending upon this ratio, the likelihood of an unemployed miner switching to another industry may be estimated. From a ratio greater than one it is hypothesized that there will be a positive relationship to the duration of benefits, as the miner is more likely to stay in the mining industry.

#### Probability of Finding Work (V)

Many studies include the level of unemployment as an indicator of the ease or difficulty the worker is likely to experience in finding alternative employment. However, for a cross section study of individuals in one industry in one province, the level of unemployment is constant, although hiring policy by different companies in different communities may vary. Thus a community 'vacancy' variable is included to indicate whether vacancies in a similar type of occupation exist in the miner's home community or elsewhere in the province of Manitoba. Duration can be expected to be longer if no vacancies exist and the miner must consider re-location or transfer to another industry and necessary training.

### Weeks of Insured Employment (I)

The number of weeks of benefit to which the worker is entitled is a function of his previous work attachment and the national and regional unemployment levels. The 1971 UI Act saw a marked reduction in the length of qualifying period for benefits, (weeks in insured employment was reduced from 30 to 8), thus making UI more accessible to workers with a shorter work history. Duration is expected to be positively related to number of weeks of insured employment.

### Waiting Period (P)

The waiting period prior to receiving benefits may be the minimum of 2 weeks, or may be extended up to 5 weeks by penalties imposed by UIC, e.g., voluntary termination without just cause.<sup>31</sup> An extension of this waiting period, for whatever reason, is likely to act as an incentive for the worker to return to work, and a negative sign for this coefficient is hypothesized.

### Urbanization (U)

The size of the community serves as an indication of the degree of urbanization and amenities, and it has been argued by Brehm<sup>32</sup> that the degree of urbanization may serve as a proxy variable for the severity with which benefit eligibility requirements are applied.<sup>33</sup> In contrast, Chapin<sup>34</sup>

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<sup>31</sup>Disqualification or disqualification may be imposed for reasons outlined in Appendix B.

<sup>32</sup>C.T. Brehm and T.R. Saving. "The Demand for General Assistance Payments," American Economic Review, LIV, No. 4, page 1009.

<sup>33</sup>This is not true of UIC regulations in Canada. Eligibility requirements are constant, but benefit control regulations vary with the size of community. See Appendix B.

<sup>34</sup>Chapin, op.cit., page 104.

notes that in a more urbanized area there is less likelihood of the unemployed worker being forced to engage in job search in order to maintain his eligibility for UI benefits and less social stigma to the receipt of benefits.<sup>35</sup> In addition, the demand and supply conditions of the labor market are not constant in all areas, and those unemployed in a less urbanized area are hypothesized to have a longer period of duration of benefits.

#### Demographic Characteristics (A)

The socio-economic characteristics of income is already incorporated in the equation. Educational level is not available from UIC data but is considered to be closely correlated to income. Age of the claimant, and whether he has dependents, are the additional variables included. Age is hypothesized to be negatively related to duration, i.e., the duration of benefits is likely to be extended for younger workers. This is supported by a study of labor turnover in mining communities with 50.9 percent of total quits being in the under twenty-five category.<sup>36</sup> It is hypothesized that dependency status will also be negatively related to duration.

Other socio-economic characteristics such as unearned income from other sources and income earned by other family members are variables that should be included but this data was not available. Bias due to such omissions will be considered.<sup>37</sup>

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<sup>35</sup>UIC operational statistics indicate the reverse to be true in Canada, i.e., duration of UI benefits is shorter in more urbanized areas.

<sup>36</sup>MacMillan et al, op.cit., page 58.

<sup>37</sup>For discussion of specification bias, the reader is referred to A. Koutsoyiannis, Theory of Econometrics, London: The Macmillan Press Ltd., 1973, pages 245-248.

## REGRESSION ANALYSIS

The relationship between the duration of UI claim and the factors hypothesized to influence it is analyzed using ordinary least squares technique from data from UIC files of all miners with an active claim during the first week of June 1975. A 52 week period ending with return to work after the most recent UI claim will be examined. The relationship to be estimated is:

$$D = k + b_1(1-t)W + b_2(1-t)B + b_3W^2 + b_4V + b_5I - b_6P - b_7U - b_8A - b_9S + E \quad (3.2)$$

The coefficient of the benefit variable is the income parameter as it describes the change in duration due to an increase in the benefits received, i.e., a change in income.

$$\frac{\partial D}{\partial B} = b_2 = \text{income parameter} \quad (3.3)$$

A positive sign is hypothesized for this coefficient.

The substitution effect must be derived from the wage coefficient,  $b_1$ , referred to as the uncompensated wage effect,<sup>38</sup> which includes both an income and substitution effect.

$$\frac{\partial D}{\partial W} = b_1 = \text{uncompensated wage effect} \quad (3.4)$$

By definition  $b_1$  may be expressed as

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<sup>38</sup>J.F.D. Rowlatt. Welfare and the Incentive to Work: The Alberta Case. Edmonton: Human Resources Research Council of Alberta, 1971, page 25.



$$b_1 = \frac{\partial D}{\partial W} = S + \frac{\partial D}{\partial Y} \cdot \frac{\partial Y}{\partial W} \quad (3.5)$$

where:

S = substitution effect

Y = total earned income in 52 weeks period.

If H = number of weeks worked in 52 week period then

$$Y = H.W \text{ and } \frac{\partial Y}{\partial W} = H \quad (3.6)$$

Substitution (3.6) in (3.5)

$$\frac{\partial D}{\partial W} = S + H \frac{\partial D}{\partial Y} \quad (3.7)$$

$$\text{and } S = \frac{\partial D}{\partial W} - H \frac{\partial D}{\partial Y} \quad (3.8)$$

$$\text{where } \frac{\partial D}{\partial W} = b_1 \text{ and } \frac{\partial D}{\partial Y} = b_2 = \frac{\partial D}{\partial B}$$

since income effect is constant for the individual. Thus S, the substitution effect can be derived from the regression results as

$$S = b_1 - \bar{H}b_2$$

where  $\bar{H}$  = the average number of weeks worked by the recipients. The substitution effect will be negative although the final sign of  $b_1$  is ambiguous.

Elasticities at the mean values of all variables can be derived to estimate the relative responsiveness of the duration of claim to changes in UI parameters.

## CHAPTER IV

### DATA COLLECTION

There were 78 active UI claimants with an occupational coding of miner,<sup>39</sup> registered with the UIC in Manitoba during the first week in June 1975. By October 30, 63 of these claimants were in the dormant classification and no longer receiving benefits. These 63 claimants were taken as the raw data for analysis. Before examining this data in detail the steps involved from termination of employment to receiving UI benefits are reviewed.

### CLAIM PROCEDURE

Termination of employment may be due to:

- (a) voluntary quit,
- (b) laid off,
- (c) fired.

These workers then may or may not apply to the UIC for UI benefits. For those that do not apply, it is hypothesized that they either:

- (a) find alternative employment immediately,
- (b) know they do not qualify for UI benefits,
- (c) do not know of UIC,
- (d) remain unemployed but do not wish to claim benefits,
- (e) withdraw from the labor force.

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<sup>39</sup>See comments of footnote 5.

Registration with UIC does not necessarily guarantee the disbursement of benefits. The claimant must meet the criteria of qualification, and comply with job search requirements as specified by UIC Benefit Control.<sup>40</sup> A claimant may be disqualified from receiving benefits initially, or the claim may be terminated by disqualification at a later date.<sup>41</sup>

Figure 6 gives a flow diagram of the claim procedure. Where available, the number of claimants and percentage of sample is given. Table 1 compares the figures of this sample with those published for the Canadian population.

#### THE DATA

Data on the 78 individual UI claimants was obtained from the Claims Pay Status Report (UIC-CAC 30-03) supplied by the Regional Office, Winnipeg. Information on this form is compiled from the claimants initial application form, the Record of Employment, and the UIC data on benefit payments made.<sup>42</sup>

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<sup>40</sup>The number of job applications the claimant is required to make is a function of his occupation and the size of the community in which he is resident.

<sup>41</sup>Reasons for disqualification and disentitlement are listed in Appendix B. The most common reasons are:

- i. not capable of or available for work;
- ii. voluntary quit;
- iii. not unemployed or no interruption of earnings;
- iv. incomplete documentation;
- v. failure to search for work.

<sup>42</sup>A Copy of these forms is included in Appendix B.

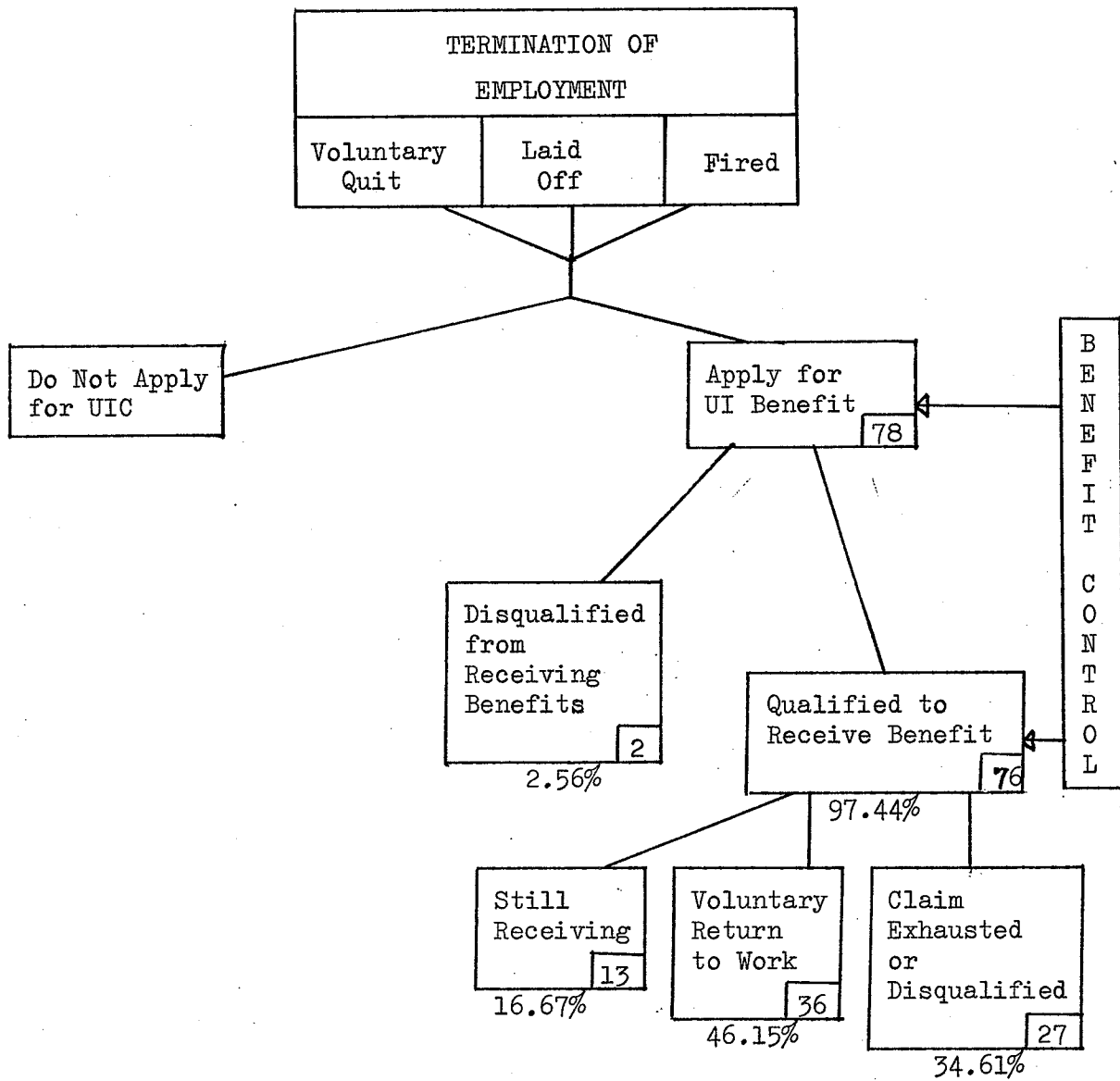


Figure 6

Flow Diagram of Claim Procedure

Table 1

UI Claims Received, Number Allowed, Percentage  
Disallowed, All Canada, Manitoba Miners,  
June 1975

	All Canada	Manitoba Miners
Total Claims Received	194,448	78
Claims Allowed	168,552	76
Percentage Disallowed	16.32	2.56

Source: Statistical Report on the Operation of the Unemployment  
Insurance Act: Statistics Canada, Cat. No. 73-001, Monthly.  
Ottawa, Information Canada, September 1975.

The 63 claimants whose claim was dormant on October 31, 1975 were classified into two groups dependent upon the method of claim termination. Group I is composed of 36 claimants who returned to work voluntarily before their claim was exhausted, and the 27 claimants in Group II were either disqualified<sup>43</sup> from receiving benefits or the claim was terminated due to exhaustion of claim.<sup>44</sup> An alternative classification was made between claimants residing in Winnipeg or out of Winnipeg<sup>45</sup> (Group III and IV). Residents of Winnipeg made up 34.92 percent of the claimants (see Table 2).

#### DATA USED FOR THE REGRESSION EQUATIONS

In this section, the data used to provide observations for the variables used in the regression equation outlined in Chapter II is discussed.

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<sup>43</sup>Reasons for disqualification for this group are given in Appendix B, and compared in Table B-2 with national and provincial data. Seventy-five percent of the sample group were disqualified as not capable or not available for work.

<sup>44</sup>A claim is exhausted when claimant has received benefits for the full period of entitlement. Entitlement is a function of weeks worked in insured employment and the regional level of unemployment.

<sup>45</sup>This classification was examined in view of the fact that the job search requirements imposed by Benefit Control are determined by the size of claimant's place of residence. See Appendix B.

Table 2

Sample Breakdown According to Method of Claim  
Termination and Place of Residence

	METHOD OF CLAIM TERMINATION				PLACE OF RESIDENCE OF CLAIMANT		
	Group I	Group II		Total	Group III	Group IV	Total
	Voluntary Termination of Claim	Claim Exhausted	Claim Disqualified		Non-Winnipeg	Winnipeg	
Number of Claimants	36	13	14	63	41	22	63
Percentage of Those Receiving Benefits with Claim not Dormant	57.14	20.63	22.23	100	65.08	34.92	100

1. Wage: Variable  $X_1$ , the average weekly wage is calculated from the benefit rate. The benefit rate is  $2/3$  of the claimant's previous wage. The rate of tax applied by UIC to the benefits received is applied to the average weekly wage to determine an after-tax weekly wage.

2. Benefits: The benefit variable,  $X_2$ , refers to the average weekly benefit received after taxes.

3 and 4. Relative attractiveness of mining wages and probability of finding employment in Manitoba: The data for these variables was not available in sufficient detail to be specific to the individual claimants. These variables are therefore assumed to be constant for all claimants during the period of analysis, and are therefore, omitted from the regression analysis. The number of workers who resided in Winnipeg but who had previously worked in other areas of the province would suggest that there is a high mobility of miners.

5. Insured Weeks:  $X_3$ , the insured weeks variable, is the number of weeks in insurable employment prior to initiating a claim with UIC.

6. Waiting Period: The variable,  $X_4$ , is the number of weeks the claimant waits before receiving benefits. The normal waiting period is two weeks, but disqualification and/or disentitlement may prolong this time.

7. Urbanization. If the claimant resides outside Winnipeg, variable  $X_5$ , takes a value of 1. For Winnipeg residents the variable is entered as zero.

8. Demographic characteristics: The claimants age in years is entered as the age variable  $X_6$ . Dependency status is entered as a



dummy variable  $X_7$ , reflecting the presence or absence of dependents,

$X_7 = 1$  for no dependents.

10. Duration: The dependent variable,  $Y$ , is the number of weeks the claimant actually received UI benefits.

#### DESCRIPTIVE STATISTICS

Descriptive statistics of the total sample and each group are given in Table 3. The most noticeable differences between groups are that: (1) the average duration of weeks receiving benefits was 23.29 weeks for those in Group II (exhausted or disqualified) compared to 13.02 weeks for those who returned to work voluntarily and (2) insured weeks (30.12) was greater by 6 weeks on average for those who terminated benefits voluntarily.

There is no significant difference<sup>46</sup> between Group III and IV (rural claimants and Winnipeg claimants), and this sub-classification is discarded as it provides no further information.

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<sup>46</sup>A test of significance of the difference between two sample means was applied, that is, a test of  $H_0: \mu_1 = \mu_2$ . See Steel and Torrie, op.cit. page 72.

Table 3

Means and Standard Deviations of Dependent and Independent Variables for Entire Sample, and Sample Subdivided According to Claim Termination and Place of Residence<sup>a</sup>

	TOTAL SAMPLE	METHOD OF CLAIM TERMINATION		PLACE OF RESIDENCE OF CLAIMANT	
	All Claimants	Group I	Group II	Group III	Group IV
		Voluntary Termination of Claim	Claim Exhausted or Disqualified	Rural Claimant	Winnipeg Claimant
Number of Claimants	63	36	27	41	22
Percentage of Claimants	100	57.15	48.85	65.08	34.92
Average Wage (Dollars per week)	142.09 (19.64)	144.0 (18.46)	139.55 (21.19)	139.65 (21.57)	146.63 (14.82)
Average Benefit (Dollars per week)	88.76 (15.82)	90.08 (14.41)	87.00 (17.65)	86.87 (17.22)	92.27 (12.42)
Insured Weeks	27.68 (13.47)	30.19 (13.59)	24.33 (12.79)	28.63 (13.41)	25.90 (13.71)
Waiting Period (Weeks)	2.46 (0.94)	2.25 (0.64)	2.75 (1.19)	2.43 (0.95)	2.5 (0.96)
Urbanization (Proportion outside Winnipeg)	0.65 (0.48)	0.69 (0.46)	0.59 (0.50)	-	-
Age (Years)	33.52 (12.74)	32.05 (12.07)	35.48 (13.56)	32.25 (12.89)	35.90 (12.38)
Dependency Status (Proportion with zero dependents)	0.63 (0.49)	0.58 (0.50)	0.70 (0.47)	0.58 (0.49)	0.72 (0.45)
Termination (Proportion terminated voluntarily)	0.57 (0.50)	-	-	-	-
Duration (Weeks)	17.42 (11.10)	13.02 (8.66)	23.29 (11.41)	17.80 (11.12)	16.72 (11.29)

<sup>a</sup>Mean values are listed first, standard deviations in parentheses. 8.66 standard deviation for Duration means 66.6 percent of claimants fall in the range of  $13.02 \pm 8.66$ .

## CHAPTER V

### ANALYSIS AND RESULTS

This chapter, in two main sections, contains a discussion of the method of analysis and the forms and results of the equations estimated. In the second section, the results are discussed with reference to the original model hypothesized, national averages and the 1971 UI Act.

#### REGRESSION ANALYSIS

Ordinary least squares method of regression analysis was used to obtain estimates of the parameters of the model. The model was tested for each of the two groupings:

Group I: 36 claimants who returned to work voluntarily

Group II: 27 claimants with claim exhausted or disqualified.

The equation was initially tested in both logarithmic and linear forms, but the logarithmic form did not give better results based on goodness of fit criteria, ( $t$  test and  $R^2$ ), and was abandoned. A ninety percent level of significance for a one-tailed test was the minimum level accepted.

#### FINAL EQUATION RESULTS

The coefficients in the final equation represent changes in the duration of UI claim attributable to the characteristics of the claimant, his work history and the regulations of UIC applicable to that individual represented by the variable. The results for both groups are given in Table 4.

Table 4

Regression Coefficients, Results and Elasticities of  
Final Equation for Group I and Group II

	GROUP I: 36 Claimants-Voluntary Termination of Claim				GROUP II: 27 Claimants-Claim Exhausted or Disqualified			
	Mean	Coefficient	t Value	Elasticity	Mean	Coefficient	t Value	Elasticity
Average Wage--X <sub>1</sub>	144.0	0.020	0.207	0.22	139.55	0.007	0.054	0.04
Average Benefit--X <sub>2</sub>	90.08	-0.312*	2.613	-2.15	87.00	-0.471*	3.057	-1.76
Insured Weeks--X <sub>3</sub>	30.19	-0.209*	2.006	-0.48	24.33	-0.103	0.662	-0.11
Waiting Period--X <sub>4</sub>	2.25	2.448	1.186	0.42	2.74	-3.164*	1.993	-0.37
Urbanization--X <sub>5</sub>	0.69	2.821	1.102	0.15	0.59	-4.552	0.975	-0.12
Age--X <sub>6</sub>	32.05	-0.028	0.212	-0.06	35.48	-0.080	0.467	-0.12
Dependency Status--X <sub>7</sub>	0.58	-6.427*	2.077	-0.29	0.70	-3.174	0.692	-0.10
Intercept		41.788*	2.034			82.225*	3.61	
R <sup>2</sup>			.493				.538	
F			3.886				3.155	
Standard Error of Equation			6.896				9.083	

\* Significant at 95 percent level, one-tailed t test.

The decision to maintain the two distinct groups rather than pool the data was based on the following considerations:

1. There is a structural difference between the two groups in that those who returned to work voluntarily (Group I) chose to return to work and it was possible for them to do this. Group II, whose claim was exhausted or disqualified either did not wish or were not able to find work before their benefits terminated.

2. The coefficient of the benefit variable, consistent in sign and statistical significance between the two groups, exhibited a significant difference in magnitude. The hypothesis that the coefficients of this variable for each group were estimates of the same data was tested and rejected, indicating the non-homogeneity of the two groups.<sup>47</sup>

3. The sign of the waiting period variable is different between the two groups. Although statistically insignificant in Group I, in Group II it is significant and negative as hypothesized.

4. The coefficient of the insured weeks and the dependency status variables are consistent in sign between the groups but only significant in Group I.

5. The noticeable difference in the magnitude of the intercept term, both intercepts being statistically significant. A possible explanation of the significance of the intercept term in economic terms is that institutional factors, excluded from the equation, contribute to the length of unemployment.

#### Wage and Benefit Variables

The wage is not a significant variable in the estimation of duration of weeks receiving benefits in either group. This coefficient includes both an income and a substitution effect, and its positive sign would usually indicate that the income effect overcomes the normal negative substitution effect. However, in this case the coefficient of the benefit variable, the income parameter, has a negative sign suggesting

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<sup>47</sup>For a discussion of this procedure, see Robert G.D. Steel and James H. Torrie, Principals and Procedures of Statistics, New York: McGraw Hill Book Co., 1960, page 173.

that for both groups of this sample, disincentives implied by labor supply may not exist due to the subsistence level of earnings, and that these workers are unwillingly unemployed and not making an economic decision in terms of the income-leisure trade off.

In addition, the income-leisure trade off is analyzed in marginal terms, but in the context of employment or unemployment the commodities are "lumpy" by nature, and it may not be possible to trade off one week of leisure for one week of employment.

Alternatively, the original assumption that leisure is a normal good may be incorrect, and for this sample, leisure may be an inferior good which is consumed less as income rises.<sup>48</sup> In the circumstances of these miners, it seems more probable that leisure is a "superior" or luxury good which their level of income denies them.

From the analysis, the higher the employment income and number of weeks in insured employment previous to this period of unemployment, the shorter is the duration of weeks claiming UI benefits. For those in Group II, the higher negative benefit coefficient, relative to Group I, may be due to their lower skills as a group and that they have more difficulty in finding employment.

The simple correlation between the wage and benefit variable is 0.66 and 0.67 for Group I and Group II respectively,<sup>49</sup> and in order to

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<sup>48</sup>"A commodity is called an inferior good if the consumers purchases decrease as income rises and increase as income falls." Henderson and Quandt, op.cit., page 34.

<sup>49</sup>Correlation coefficients are given in Appendix D.

determine the seriousness of the multicollinearity, a revised version of Frisch's Confluence Analysis was applied.<sup>50</sup> The wage variable adds little to the  $R^2$  and is not significant, but its omission does not alter the sign of the benefit variable, indicating the effects of multicollinearity are not serious for  $b_1$  and  $b_2$  in either group.<sup>51</sup> In addition, omission of a variable in an attempt to avoid the consequences of multicollinearity would introduce a specification error, and affect the values of the parameters of the remaining variables.<sup>52</sup>

It was intended to follow Rowlatt's analysis,<sup>53</sup> as outlined in Chapter III, to identify the substitution effect in the wage coefficient. However, since the coefficient is not significant, and the sign of the income effect (the coefficient of the benefit variable) is not as hypothesized the analysis is not valid. The results suggest that these workers are not at the point where they are prepared to make the trade-off between income and leisure. However, that is not to say that such a point does not exist for these miners at a higher level of income.

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<sup>50</sup> See Koutsayiannis, *op.cit.*, page 231.

<sup>51</sup> *Ibid.*, page 234.

<sup>52</sup> *Ibid.*, page 245.

<sup>53</sup> Rowlatt, *op.cit.*, page 25.

Relative Sizes of the Substitution and  
Income Elasticities

The wage elasticity =  $b_1 \frac{\bar{W}}{\bar{D}}$  and benefit elasticity =  $b_2 \frac{\bar{B}}{\bar{D}}$

where  $\bar{W}$ ,  $\bar{B}$ ,  $\bar{D}$  are the average wage, benefit and duration of each group.

Therefore, for Group I, wage elasticity = 0.22

benefit elasticity = -2.15

Group II, wage elasticity = 0.04

benefit elasticity = -1.76.

On the assumption that the elasticities estimated describe labor supply phenomena,<sup>54</sup> and are an indication of responsiveness, the relative size of the elasticities (benefit elasticity substantially larger than wage elasticity) suggest that, for both groups of this sample, a one percent increase in benefit rates will decrease duration of assistance more than a one percent increase in wage rates. It should be noted, however, that the wage variable was not significant for either group.

Insured Weeks

The greater the number of weeks in previous insured employment, and therefore the number of weeks the claimant is entitled to draw benefits, does not prolong duration as hypothesized. A longer work history appears to indicate the worker's commitment to the labor force, and desire to maximize income through employment, unemployment not being chosen willingly.

This variable is not significant for Group I.

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<sup>54</sup>Rowlatt, op.cit., page 38.



The greatest disincentive to labor is at 20 weeks of work, since after that there is a marginal tax on earnings. When the benefit rate is extended due to high regional unemployment, this marginal tax begins after only 12 weeks (see Figure 5). The average number of insured weeks work for this sample is 30 weeks and 24 weeks for Group I and II respectively.

It is interesting to note that prior to the 1971 UI Act, 30 weeks in insured employment was required before eligibility for benefits could be established. Only 23 claimants, 36.5 percent of the total sample would meet this qualification requirement.

The percentage of this sample that did not exhaust their benefit entitlement, 79.36 percent, is identical to the national figure in 1973 of 79 percent.

#### Waiting Period

For Group II, the longer the waiting period before benefits are received, the shorter the duration of claim. This is as hypothesized, and the sign of the coefficient, 3.644, would indicate that the changes proposed in Bill C.69 to increase the present disqualification period of up to 3 weeks to 6 weeks,<sup>55</sup> would affect duration in the desired manner.

For Group I, this coefficient was not significant.

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<sup>55</sup>The proposed changes of Bill C.69 applicable to this study are given in Appendix E.

### Urbanization

Whether the claimant lives in an urban center, Winnipeg, or in a rural area, is not a significant explanatory variable for either group.

### Age

Age is not a significant explanatory variable of duration for either group of this sample. An alternative formulation of the age variable<sup>56</sup> provided no additional significance and was discarded.

### Dependency Status

As hypothesized, duration of claim is shorter for those claimants with dependents in Group I, but not significant for Group II.

### Duration of Claim

Duration of claim is shorter, on average, for those in Group I (return to work voluntarily). Table 5 makes a comparison between the continuous weeks on claim of Manitoba miners, the Manitoba provincial and National figures. The largest proportion of the sample of miners, 41 percent, is in the 5-13 week category compared to 27 percent nationally and 34 percent provincially. However, the first category, 1-4 weeks, applied to only 6 percent of the miners compared to 22 percent and 30 percent of the national and provincial claimants respectively.

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<sup>56</sup>The age variable was divided into two categories: (1) under 25, (2) 25 and over and entered as a dummy variable.

Table 5

Claimants at Month-End by Province, Sex, Sample,  
and Continuous Weeks on Claim, June 1975<sup>a</sup>

	Continuous Weeks on Claim									
	Number					Percent Distribution				
	1-4	5-13	14-26	27+	Total	1-4	5-13	14-26	27+	Total
Total	225,690	276,277	284,642	220,682	1,007,291	22	27	28	22	100
Male	108,131	156,148	172,829	131,845	568,953	19	27	30	23	100
Female	117,559	120,129	111,813	88,837	438,338	27	27	26	20	100
Manitoba	6,169	6,862	5,282	0,085	20,398	30	34	26	10	100
Male	2,790	3,833	3,310	1,379	11,312	25	34	29	12	100
Female	3,379	3,029	1,972	706	9,086	37	33	22	8	100
Sample of Manitoba										
Miners	4	26	17	16	63	6	41	27	24	100
Male	4	26	16	15	61	6	42	26	26	100
Female	--	--	1	1	2			50	50	100

Source: Statistical Report on the operation of the Unemployment Insurance Act, Statistics Canada, Cat. No. 72-001, June 1975, page 10.

## SUMMARY OF ANALYSIS

The unexpected signs of the benefit and insured weeks variables plus evidence from the descriptive statistics, may indicate that for both groups of the sample, UI does not provide a disincentive to labor.

Possible explanations of these results are:

1. The miners are unwillingly unemployed, and at their subsistence level of income, are not in the position to choose between employment or unemployment.
2. The miners are unemployed because their skills do not qualify them for available employment.
3. The "lumpy" nature of employment/unemployment does not allow a marginal trade-off decision to be made.
4. Leisure is an "inferior" good, and so the miners consume less.
5. Leisure is a "luxury" good which the miners cannot afford.
6. The miners are in a position to choose between employment and unemployment but have a commitment to the work force.<sup>57</sup>
7. The downturn of the business cycle in 1975, a relatively high national unemployment rate and lay-offs in the mining industry, are likely to create an incentive to the unemployed miner to accept any job that is available.
8. Limitations of the data which are discussed separately.

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<sup>57</sup>The Work Ethic Survey and Job Satisfaction Survey found that:  
 -"Canadians are, in principle, committed to work;  
 -Canadians choose work over most leisure activities when a trade-off is necessary;  
 -Canadians choose to work even during their leisure time; and  
 -Canadians prefer working to being on unemployment insurance."  
 See M. Burnstein et.al., Research Projects Group. Canadian Work Values: Findings of a Work Ethic Survey and a Job Satisfaction Survey; Ottawa: Department of Manpower and Immigration, 1975, page 21. It should be noted that those surveyed were all employed. The antithesis, "the so-called wane of the Protestant work ethic" is discussed by Ted Mills, "Human Resources--Why the New Concern?" Harvard Business Review, Vol. 53, No. 2, March-April, 1975, page 129. Evidence of increased counterproductive behaviour is presented in The Gallagher Presidents' Report, New York, The Gallagher Presidents' Report, June 25, 1974.

## APPLICATION OF ANALYSIS RESULTS

Applying the average figures of wage and benefit levels of the total sample (Table 3), the equations in Chapter II may be translated with dollar terms. For the year-round employee, after tax income for the year,

$$\begin{aligned} Y &= 52 (W) \text{ (where } W = \text{weekly wage)} & (1) \\ &= 52 (\$142) \\ &= \$7,384. \end{aligned}$$

For the worker who works 20 weeks and collects benefits for 30 weeks, after tax income for the year,

$$\begin{aligned} Y &= 20 (1 + k)W + 10 kW & (2) \\ &= 20 \left(\frac{5}{3}\right) 142 + 10 \left(\frac{2}{3}\right) 142 \\ &= \$5,670. \end{aligned}$$

For the workers of the sample who work 33 weeks, and collect benefits for 17 weeks at a benefit level of \$89, after tax income for the year,

$$Y = 33 (W) + 17.4 (B) \quad (3)$$

where:

$$W = \text{average wage} = \$142$$

$$B = \text{average benefit level} = \$89.$$

$$\begin{aligned} Y &= 33 (142) + 17.4 (89) \\ &= 4,686 + 1,549 \\ &= \$6,235. \end{aligned}$$

Theoretically, these workers are on segment CG (Figure 4) with and effective wage  $W_e = (1 - k) W$ , and they receive an income guarantee of 50 kW, where  $k = 2/3$ .

There      Therefore:

$$\begin{aligned}
 Y &= 22 (W_e) + 50 kW && (4) \\
 &= 33 (1 - k) W + 50 kW \\
 &= 1,562 = 4,733 \\
 &= \$6,295.00.
 \end{aligned}$$

The \$60 difference between the actual and theoretical amounts of income received, equations (3) and (4), is explained by the fact that income tax is deducted by UIC before payment of benefits, so that \$89 is only 62.6 percent rather than 66.6 percent of the wage level.

With such a relatively low level of after tax income, any unemployment time is likely to cause hardship, and supports the hypothesis that, for these workers, leisure is a luxury good.

#### LIMITATIONS OF THE DATA

##### General Considerations

The model specified in the study provides information on the factors contributing to the income/leisure trade-off decision of the unemployed miner. Information required on the individual's characteristics and work history was obtained secondhand. Some data was not available, and the precision of the administrative data collection methods is not known. For these reasons, in addition to the small sample size available by cross section analysis, further analysis is required.

### Occupational Coding

The areas of possible error in occupational coding are discussed in Appendix C. The possibility that some claimants are not "miners" in the accepted sense, and that some miners have not been included is a further limitation of this analysis.

### Conditions in the Mining Industry

The cyclical nature of world demand for mineral products, and the concern in the mining industry over turnover<sup>58</sup> and future fiscal policy has not been included in this analysis directly although the number of miners unemployed, and the duration of their UI claim may be evidence of the industry downturn. These factors are assumed to be constant for all claimants, but this assumption is a limitation.

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<sup>58</sup>See T. Cawsey, R.R. Richardson. A Study of Labour Turnover in the Canadian Mineral Industries Carried Out on Behalf of the Mining Association of Canada, London: School of Business Administration, University of Western Ontario, 1975.

## CHAPTER VI

### IMPLICATIONS AND CONCLUSIONS

The results of this study indicate several important implications of UI in general, and specifically in relation to the mining industry in Manitoba. Some of these implications are discussed in this chapter, followed by the major conclusions reached in this study.

#### Implications of Results for Mining Companies

This analysis provides no evidence that high turnover and difficulty in hiring is due to the disincentives to labor provided by UI.

However, it should be pointed out that although all claimants had the occupational classification of miner only 56 percent were last employed by a mining company. In addition, miners account only for approximately 43 percent<sup>59</sup> of those employed in the mining industry, and the manpower problems experienced and quoted may be in reference to all occupations within the industry.

The results indicate that for those with higher wages, (presumably a higher level of skills), duration of UI is less, and therefore imply:

- (1) mining companies might benefit in the long run from training and apprentice programmes that raise the skills and earning power of employees;
- (2) manpower planning policies directed to alleviate the high turnover should be focused on programmes that provide increased skills and job satisfaction. The Job Satisfaction Survey indicated that almost 90 percent of Canadian workers felt generally satisfied with their job, but that "work

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<sup>59</sup>1971 Census of Canada, Catalogue Nos. 94-729, 94-949.



in a mine" was cited as the least attractive form of work by the National Work Ethic Sample.<sup>60</sup> The most important characteristics stressed by workers were

"that the work be interesting, that they have enough information and authority to do the job, and that they be given the opportunity to develop special abilities."<sup>61</sup>

#### Implications of Results for UIC

The study implies that modifications of UI regulations will affect both the number of claimants and the duration of claims. The differences of the significance of the coefficients between the two groups of the sample indicates the need for more study of the characteristics of UI beneficiaries returning to work voluntarily versus those exhausting benefits.

#### Conclusions

The objective of this study was to construct a theoretical model relevant to analyzing the impact of UI regulations on individual labor supply, estimate the significance of these regulations and apply the results to manpower planning problems associated with the mining industry. These objectives have been met:

(a) Construction and estimation of the research model have isolated the significant factors in determining the duration of UI benefit receipt. The analysis shows that no a priori assumptions can be made with respect to incentives/disincentives of UI, and that for this sample, there is no evidence of a disincentive to the individual supply of labor.

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<sup>60</sup> Burnstein et al., op.cit., page 42 (emphasis added).

<sup>61</sup> Ibid., page 35.

The analysis is witness to the importance of micro-analysis to examine individual behaviour, and for the need for more study, with precise documentation, of the individual worker over a longer time period. Such analysis, by following each individual claimant to determine the duration of claim exactly, eliminates the problems of estimation of duration of benefits experienced in some other studies.<sup>62</sup>

(b) The level of benefits, the qualifying period in insured work, and the waiting period before receiving benefits are significant parameters of the UI program. This study indicates that the changes of Bill C.69, particularly Clause 16, (period of disqualification), will have significant effects on the duration of benefits.

(c) The results question the common observation that UI disincentives are the most important "cause" of the mining manpower supply problems. Close co-operation between the industry and Government agencies in matching UI claimants with turnover data from the mining companies would provide additional information about the labor supply of miners and estimates of the percentage of terminations that become active UI claimants. It would also provide a means of assessing the precision of administrative data.

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<sup>62</sup>See Stephen T. Marston, "The Impact of Unemployment Insurance on Job Search," Brookings Papers on Economic Activity, I, 1975, ed. Arthur M. Akins and George L. Perry, Washington, D.C.: The Brookings Institution, 1975, pages 13-48. Also for a discussion of two distinct ways of looking at duration of unemployment, see Hyman B. Kaitz, "Analyzing the Length of Spells of Unemployment," Monthly Labor Review, Vol. 93 (November 1970), pages 11-20.

The conclusion that dominates all aspects of the study is the need for further research in the area of individual labor supply and continuing examination of the factors, and their interrelationships, of which it is a function.

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A P P E N D I C E S

## APPENDIX A

### HISTORY OF UNEMPLOYMENT INSURANCE

Canadians have enjoyed the protection of unemployment insurance under federal jurisdiction since the Unemployment Insurance Act of 1940. A response to the depression of the thirties, the Act was an insurance scheme for people who had shown they were willing and able to work, but who were temporarily unemployed for reasons beyond their control. Premiums were spread between employer, employee and government on a 40-40-20 basis. The protected group was defined as all wage earners and salaried workers earning less than \$2,000 a year. The original salary ceiling has been adjusted several times since 1971, and now stands at \$7,800.

Other groups of workers were excluded for a variety of reasons, seemingly valid at the time. These included anyone living in the North (communication problems), persons in occupations considered stable and agricultural workers.

Modifications were made over the years, and unemployment insurance was extended to agricultural workers in April 1967.

Recognizing that the Act was "the product of another period," when "monetary aid was the main basis for social policy"<sup>63</sup> and that views on social policy were changing, the government initiated a full scale

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<sup>63</sup> Bryce Mackasey. Unemployment Insurance in the 70's. Queen's Printer, Ottawa, 1970, page 4.

revision of the Act in 1968. In line with the philosophy that "the Canadian Government wants to promote social policies that build a country not simply for programs but for people,"<sup>64</sup> the Unemployment Insurance Act, 1971, was enacted June 23, 1971 as "the first step in a self-help program which will reflect the more humane and more productive social development policies planned for this decade."<sup>65</sup>

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<sup>64</sup>Ibid., page 3.

<sup>65</sup>Ibid., page 7.

## APPENDIX B

### UNEMPLOYMENT INSURANCE ACT, 1971

Regulations of the UI Act presented below are taken from the Statistical Report on the operation of the Unemployment Act,<sup>66</sup> and Canadian Unemployment Insurance Legislation, 1974.

#### Coverage

Under the Unemployment Insurance Act, 1971 coverage is universal for all regular members of the labour force for whom there exists an employer-employee relationship. There is only one measure of inconsiderable employment, i.e., less than 20 percent of the maximum weekly insurable earnings or 20 times the provincial hourly minimum wage, whichever is the lesser.

The maximum weekly insurable earnings of an insured person is:

- (a) for the year 1972, one hundred and fifty dollars;
- (b) for each year thereafter, one hundred and fifty dollars multiplied by an annual Earnings Index as determined by the average of wages and salaries paid to employees in Canada.

Universality became effective January 2, 1972. Coverage, contributions and benefit entitlement cease for a person:

- (a) at the age of 70, or

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<sup>66</sup>Statistical Report on the Operation of the Unemployment Insurance Act, Statistics Canada, Cat. No. 73-001; Ottawa: Queen's Printer, various Issues.

Canadian Unemployment Insurance Legislation, 1974, (4th Edition). Don Mills: CCH Canadian Ltd., Publishers of Topical Law Reports, 1975.

(b) to whom a retirement pension under the Canada Pension Plan or the Quebec Pension Plan has at any time become payable.

### Benefits

An insured person qualifies to receive benefit if he (a) has had eight or more weeks of insurable employment in his qualifying period<sup>67</sup> and (b) has had an interruption of earnings from employment. A claimant is an insured person who applied for or is in receipt of benefit. A "major attachment" claimant is a claimant who has been employed in insurable employment for twenty or more weeks in his qualifying period. A claimant with eight or more weeks but less than twenty weeks of insurable employment in his qualifying period is a "minor attachment" claimant. Major attachment claimants are eligible for a wider range of benefit that includes a prepayment of 3 weeks for regular benefit for work-shortage lay-offs, benefit payments when the interruption of earnings was caused by illness or pregnancy, and 3 weeks retirement benefit for older workers.

A claimant can draw to a maximum of 51 weeks of benefit depending upon his employment history, prevailing economic conditions and providing he meets the conditions of availability and capability.

When a person (qualified to receive benefit) applies for benefit an initial benefit period is established and benefits are payable for

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<sup>67</sup>The qualifying period of an insured person is the shorter of:  
(a) the period of fifty-two weeks that immediately precedes the commencement of an initial benefit period, and  
(b) the period that begins on the commencement date of an immediately preceding initial benefit period and ends with the end of the week preceding the commencement of an initial benefit period.

each week of unemployment of the claimant that falls in the initial benefit period.

The length of an initial benefit period is based on the number of weeks of insurable employment of the claimant in his qualifying period as shown in Table B-1.

Table B-1 also shows the maximum number of weeks for which initial benefits may be paid. A claimant is not entitled to be paid benefit until following the commencement of the initial benefit period he has served a two week waiting period that begins with a week of unemployment for which benefits would otherwise be payable.

A major attachment claimant may be paid benefits in advance for the three weeks that immediately follow his waiting period if:

- (a) his interruption of earnings was due to a shortage of work;
- (b) at the time of his interruption of earnings neither he nor his employer expected that he would be re-employed by that employer for a period of at least five weeks after his interruption of earnings;
- (c) he has served the two week waiting period; and
- (d) at the termination of his waiting period
  1. he is not employed in employment that would continue,
  2. he is capable and available for work, and
  3. he is not disentitled or disqualified from receiving benefit.

Sickness benefit is available for a maximum of 15 weeks for "major attachment" claimants who have suffered an interruption of earnings due to illness, injury or quarantine (excluding Workmen's Compensation). If a person is taken ill while on regular claim, sickness benefit is available but the combined duration of benefits during the initial benefit period cannot exceed 15 weeks.

Table B-1

Length of Initial Benefit Period and Maximum Number of Weeks  
for Which Initial Benefits may be Paid

Weeks of Insurable Employment in Qualifying Period	Length of Initial Benefit Period	Maximum Number of Weeks for Which Initial Benefits may be Paid
.....weeks.....		
8 to 15	18	8
16	20	9
17	22	10
18	24	11
19	26	12
20 or more	29	15



The benefit rate for all claims will be  $66 \frac{2}{3}$  percent of the average weekly insurable earnings in the qualifying period with a floor of \$20 per week. For claimants with dependents and whose earnings are equal to or less than one-third of the maximum weekly insurable earnings, the benefit rate of 75 percent.

Work-related income in excess of 25 percent of the weekly benefit rate is deducted. However, when advance benefits are paid to major attachment claimants, any income (as well as availability and capability requirements) in respect of the weeks for which benefit is payable is disregarded and such weeks are deemed weeks of unemployment. In the case of sickness and maternity, proceeds of wage loss policies are not deducted during the waiting period but are deducted after the waiting period; all work-related income is deducted during both the waiting period and after the waiting period has been served.

An initial benefit period is terminated when:

- (a) the claimant has been paid benefits for the maximum number of weeks for which initial benefits may be paid, or
- (b) the benefit period would otherwise terminate, whichever is earlier.

Immediately following the termination of an initial benefit period, that initial benefit period is re-established for a further period of ten weeks. Benefits are payable at the rates and subject to the provisions applicable to the payment of benefits in an initial benefit period. However, a claimant is not entitled to be paid for any working day for which he fails to prove that he was capable of and available for work and unable to find suitable employment. A re-established initial benefit

period is terminated if no benefit is payable to the claimant for a period of four consecutive weeks otherwise than because:

- (a) he was incapable of work because of illness or injury,
- (b) she was disentitled to benefit (maternity claim),
- (c) he was fully employed during such period, or
- (d) recovery of overpayment.

Otherwise a re-established benefit period terminates at the end of 10 weeks and an extended benefit period is established for the claimant.

An extended benefit period is divided into three phases. The number of weeks of benefit to which a claimant is entitled to depends.

- (a) in the first phase:

-upon the number of weeks of insurable employment in his qualifying period. The claimant must be a major attachment claimant. The duration of this phase is 2 weeks plus one week for every 2 insured weeks in excess of 20 in his qualifying period. The maximum duration is 18 weeks.

- (b) in the second phase:

-(on completion of the first phase for a major attachment claimant, or on termination of a re-established benefit period for a minor attachment claimant)

-for claimants who reside in Canada

-upon the national<sup>68</sup> rate of unemployment. If the national rate is more than 4 percent but not more than 5 percent--4 weeks; if the national rate is more than 5 percent--8 weeks. Duration is determined at the time phase two commences.

- (c) in the third phase:

-(on completion of phase two)

-for claimants who reside in Canada

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<sup>68</sup>Seasonally adjusted 3 month moving average of the national rate of unemployment (Labour Force Survey).

-upon the regional rate<sup>69</sup> of unemployment. Sixteen UIC regions in Canada have been established. The rate of unemployment in the region where the claimant resides is called the regional rate.

Benefit is payable when (a) the regional rate exceeds 4 percent and (b) the regional rate exceeds the national rate<sup>70</sup> by more than one percentage point.

Six weeks of benefit are payable when the difference between the regional and national rates are less than or equal to two percent. Twelve weeks are payable when the difference is greater than 2 per cent but less than or equal to three percent. Eighteen weeks are payable when the difference exceeds three percent.

Each month regional and national unemployment rates are computed. The extended benefit period terminates when the regional rate becomes four percent or less or when the difference between the regional and national rate becomes one percentage point or less.

The rate of weekly benefit payable in the extended benefit period to a claimant without a dependant is 66  $\frac{2}{3}$  percent of the average weekly insurable earnings in the qualifying period; for a claimant with a dependant the rate is 75 percent. The minimum weekly amount of benefit payable is \$20--the maximum amount cannot exceed 66  $\frac{2}{3}$  percent of the maximum weekly insurable earnings.

A claimant is not entitled to be paid benefit for any working day in a week in an extended benefit period for which he fails to prove that he is capable of and available for work and unable to find suitable employment. An extended benefit period is terminated if no benefit is payable to the claimant for a period of four consecutive weeks otherwise than because

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<sup>69</sup>Unadjusted for seasonality--12 month moving average (Labor Force Survey).

<sup>70</sup>Loc.cit.

- (a) he was incapable of work because of illness or injury,
- (b) she was disentitled to benefit (maternity claim), or
- (c) recovery of overpayment.

The maximum number of weeks for which benefit may be paid is 51 weeks.

#### EMPLOYMENT NOT SUITABLE

For the purposes of this section, but subject to subsection (2) employment is not suitable employment for a claimant if it is

- (a) employment arising in consequence of a stoppage of work attributable to a labour dispute;
- (b) employment in his usual occupation either at a lower rate of earnings or on conditions less favourable than those observed by agreement between employers and employees, or in the absence of any such agreement, than those recognized by good employers; or
- (c) employment of a kind other than employment in his usual occupation either at a lower rate of earnings or on conditions less favourable than those that he might reasonably expect to obtain, having regard to those conditions that he habitually obtained in his usual occupation, or would have obtained had he continued to be so employed.

#### REASONABLE INTERVAL

After a lapse of a reasonable interval from the date on which a insured person becomes unemployed, paragraph (c) of subsection (1) does not apply to the employment described therein if it is employment at a rate of earnings not lower and on conditions not less favourable than those observed by agreement between employers and employees or, in the absence of any such agreement, than those recognized by good employers.

## REASONS FOR DISQUALIFICATION/DISENTITLEMENT

The following are possible reasons for disqualification and/or disentitlement to benefits:

1. Not unemployed,
2. Not capable (min. Attach.--illness),
3. Not available,
4. Suitable employment,
5. Labour dispute,
6. Refusal of work,
7. Neglect to avail,
8. Written direction,
9. Course of instruction,
10. Misconduct,
11. Voluntary leaving,
12. Inmate of public institution,
13. Outside Canada,
14. Voiding benefit period,
15. Prescribed manner,
16. Prescribed manner (no mod.),
17. Misrepresentation,
18. Trans. assistance ben. penalty,
19. Total temporary workmen's compensation,
20. Earnings,
21. Trans. Ass. Ben. in receipt of supplemental,
22. Illness (outside ben. per.)

23. Teacher,
24. Failure to search for work,
25. Maternity benefits--minor,
26. Maternity benefits--maj.--less than 10,
27. Maternity--outside initial ben.,
28. Failure to attend a scheduled interview,
29. Year round fisherman,
30. Termination of claim--CPP or QPP payable.

The 14 miners in the analysis who were disqualified from receiving benefits are categorized by percentage in Table B-2. A comparison is made with the national and provincial data for June 1975.

The proportion of the Manitoba miners sample who were not available or not capable (75 percent) is noticeably higher than either the national or provincial figure.

#### FORMS USED BY UIC

This section contains copies of the following forms:

- (a) Claims Pay Status Report.
- (b) Application for Benefit.
- (c) Record of Employment.

Table B-2

Reasons for Disqualification/Disentitlement by Percentage for  
National and Provincial Data, and  
Manitoba Miners, June 1975

Reason	National	Province of Manitoba	Manitoba Miners
	.....Percent.....		
Not unemployed or no interruption of earnings	14.7	6.8	-
Not capable or not available	33.4	47.7	75.0
Labour Dispute	1.0	0.8	-
Refusal of Suitable Work	1.7	2.5	6.2
Misconduct	2.6	1.9	-
Voluntary Quit	18.6	12.6	6.2
Incomplete documentation	12.4	7.8	12.5
Failure to Search for Work	4.1	5.3	-
Other	12.1	14.6	-


Source: Statistical Report on the Operation of the Unemployment Insurance Act, Cat. No. 73-001,  
June 1975, page 14.



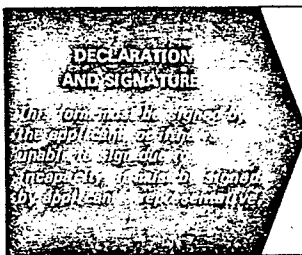


Table B.3 (b)

Application for Benefit

 Unemployment Insurance Canada	Assurance-chômage Canada	<b>PLEASE PRINT</b>	<b>FOR OFFICE USE ONLY</b> Effective Date: _____ D.O. No.: _____
<b>APPLICATION FOR BENEFIT</b>			
1. Family or last name _____ First name and initials _____		YOUR SOCIAL INSURANCE NUMBER [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ]	
<b>FULL MAILING ADDRESS</b>	2. Number and street or rural route no. _____ City or town _____ Province _____ Postal Code _____		15. What were your normal weekly earnings before deductions? \$ _____
			16. What were your earnings before deductions in the last week worked? \$ _____
			17. Did you, or will you receive vacation pay? <input type="checkbox"/> NO <input type="checkbox"/> YES If Known, Give Amount \$ _____
		18. Did you, or will you receive other monies? <input type="checkbox"/> NO <input type="checkbox"/> YES If Known, Give Amount \$ _____ If "yes", state what they are: _____	
3. Telephone number [ ] [ ] Area Code	4. Sex <input type="checkbox"/> Male <input type="checkbox"/> Female Complete Section "B" page 2, if pregnant		19. What are your exemptions for income tax purposes? (See enclosed table of standard exemptions) Per TD 1 \$ _____ Per TPD 1 for Quebec residents \$ _____
5. Date of birth DAY MONTH YEAR	6. Are you <input type="checkbox"/> Married <input type="checkbox"/> Single <input type="checkbox"/> Separated <input type="checkbox"/> Widowed <input type="checkbox"/> Divorced		
7. Last employer's business name and full address _____ _____		<b>INDICATE YOUR ANSWERS TO THE FOLLOWING QUESTIONS BY AN "X"</b>	
8. Address where you worked, if different from 7. _____ _____		20. Do you operate a farm? <input type="checkbox"/> NO <input type="checkbox"/> YES	
9. Kind of business _____		21. Are you self-employed? <input type="checkbox"/> NO <input type="checkbox"/> YES Are you working part time? <input type="checkbox"/> NO <input type="checkbox"/> YES	
10. What was your job there? _____		22. Are you now attending any school, college, university or other training course? <input type="checkbox"/> NO <input type="checkbox"/> YES	
11. Clock, badge or payroll no. _____		23. Have you ever applied for a retirement pension under the Canada Pension Plan or the Quebec Pension Plan? <input type="checkbox"/> NO <input type="checkbox"/> YES	
12. Your last employment STARTED DAY MONTH YEAR FINISHED DAY MONTH YEAR		24. Are you claiming a dependant, including wife or child, that you wholly or mainly support? <input type="checkbox"/> NO <input type="checkbox"/> YES If "yes", complete section "C" page 2.	
13. You stopped working because of: (indicate by an "X") <input type="checkbox"/> Laid Off— Shortage of Work <input type="checkbox"/> Retirement <input type="checkbox"/> Illness or Injury (Complete Section "A", Page 2.) <input type="checkbox"/> Pregnancy (Complete Section "B", Page 2.) <b>GIVE DETAILS FOR THE FOLLOWING ON A SEPARATE SHEET</b> <input type="checkbox"/> Fired <input type="checkbox"/> Quit <input type="checkbox"/> Other		25. Have you made a claim with the U.I.C. in the past 52 weeks? <input type="checkbox"/> NO <input type="checkbox"/> YES If "yes", give date DAY MONTH YEAR At what U.I.C. Office?	
14. Has your last employer told you when to return to work? <input type="checkbox"/> NO <input type="checkbox"/> YES If "yes" give date DAY MONTH YEAR		26. Are you enclosing a record of employment or separation certificate from each employer for whom you worked in the past 52 weeks, or since the date of the last claim made as shown in 25? <input type="checkbox"/> NO <input type="checkbox"/> YES If "no", complete section "D" page 2.	

**BEFORE YOU SIGN, CHECK TO ENSURE THAT YOU HAVE COMPLETED THE APPLICATION IN FULL  
 ERRORS AND OMISSIONS WILL CAUSE DELAYS IN THE PROCESSING OF YOUR CLAIM FOR BENEFIT**



27. I declare that the information and answers given by me to the questions in this application are true to the best of my knowledge, and are made for the purpose of obtaining Unemployment Insurance benefit.  
 I am aware that there are penalties for making false statements.

Date \_\_\_\_\_ Applicant's Signature \_\_\_\_\_

Our services being available in both official languages, please indicate if you prefer that we correspond with you in the English or in the French language.

English  French

Table B.3 (b) (Continued)

SECTION A — ILLNESS OR INJURY	SECTION B — PREGNANCY
28. Explain nature of sickness or injury <hr/> <hr/>	36. If you were confined due to a pregnancy in the last eight weeks, give date of delivery.      DAY    MONTH    YEAR 37. If you are now pregnant, give expected date of baby's birth. This date must be certified by a medical certificate.      DAY    MONTH    YEAR 38. Were you Laid Off because of your employer's policy regarding employment during pregnancy? <input type="checkbox"/> NO <input type="checkbox"/> YES 39. Is your employer continuing your pay while you are on Maternity Leave? <input type="checkbox"/> NO <input type="checkbox"/> YES If "yes", complete items 34A and/or 34B
29. When was the first day you were unable to work?      DAY    MONTH    YEAR 30. Will you be returning to your job as soon as you have recovered? <input type="checkbox"/> NO <input type="checkbox"/> YES 31. Have you recovered from this sickness or injury? <input type="checkbox"/> NO <input checked="" type="checkbox"/> YES If "Yes", give date of recovery      DAY    MONTH    YEAR	40. Are you claiming or receiving Group Wage Loss Maternity Insurance Benefits? <input type="checkbox"/> NO <input type="checkbox"/> YES If "yes" complete items 35A, B, C, and D
32. Have you returned to work? <input type="checkbox"/> NO <input type="checkbox"/> YES If "Yes", give date of return      DAY    MONTH    YEAR	SECTION C — DEPENDANT
33. Have you, or will you Claim or Receive Workmen's Compensation for this injury? <input type="checkbox"/> NO <input type="checkbox"/> YES 34. Has your employer continued your pay by means of paid sick leave? <input type="checkbox"/> NO <input type="checkbox"/> YES IF "YES" A. Until what date will Full Pay continue?      DAY    MONTH    YEAR B. Until what date will Partial Pay continue?      DAY    MONTH    YEAR At the Daily Rate of \$ _____	41. Your dependant's full name _____ 42. Does your dependant live with you? <input type="checkbox"/> NO <input type="checkbox"/> YES 43. Dependant's relationship to you      Age _____ 44. Does your dependant have any income? <input type="checkbox"/> NO <input type="checkbox"/> YES If "Yes" enter weekly amount from all sources \$ _____
35. Are you claiming or receiving through your employment, a wage loss sickness insurance? <input type="checkbox"/> NO <input type="checkbox"/> YES IF "YES" A. From Whom?      B. At the Daily Rate of _____ C. What is First Date for which payment will be made?      DAY    MONTH    YEAR D. What is the maximum duration of your wage loss insurance benefits?      For the U.I.C. waiting period only <input type="checkbox"/> or for _____ weeks	SECTION D — RECORDS OF EMPLOYMENT OR SEPARATION CERTIFICATES
NOTE: Medical certification is required if illness is for eight days or more. A Medical Certificate is enclosed for this purpose. Take it or send it to your doctor for completion. Enclose the completed Medical Certificate with your Application for Benefit. If you encounter a delay in obtaining a Medical Certificate, you should nevertheless mail your application to-day.	45. Give Names, Addresses, and periods of employment for employers for whom you have worked in the last 52 weeks, and from whom you are NOT enclosing Records of Employment or Separation certificates. <hr/> <hr/> <hr/> 46. Why are you not enclosing the Records or Certificates? <hr/> <hr/> 47. If you did not receive the Records or Certificates from your employers, what efforts have you made to obtain them? <hr/> <hr/>

FOR OFFICE USE ONLY	REMARKS: <hr/> <hr/>
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Table B.3 (c)

Record of Employment

FOR EMPLOYER'S USE A L USAGE DE L'EMPLOYEUR		FIRST DAY WORKED PREMIER JOUR DE TRAVAIL D-J M-M Y-A	LAST DAY WORKED DERNIER JOUR DE TRAVAIL D-J M-M Y-A	NUMBER OF INSURABLE WEEKS IN LAST 52 OR SINCE LAST RECORD ISSUED BY YOU TO THIS EMPLOYEE. NOMBRE DE SEMAINES D'EMPLOI ASSURABLE AU COURS DES 52 DERNIÈRES SEMAINES OU DEPUIS LA DATE DU DERNIER RELEVÉ QUE VOUS AVEZ REMIS A CET EMPLOYÉ		WKS. SEM.
REASON FOR ISSUING THIS RECORD - CHECK WITH AN "X" RAISON DU PRÉSENT RELEVÉ - INDIQUEZ UN "X"				TOTAL INSURABLE EARNINGS FOR LAST 20 INSURABLE WEEKS, OR FOR THE WEEKS SHOWN IN ITEM 4 IF LESS THAN 20. RÉMUNÉRATION ASSURABLE TOTALE DES 20 DERNIÈRES SEMAINES D'EMPLOI ASSURABLE, OU DE MOINS SEMAINES D'EMPLOI ASSURABLE SI LE NOMBRE QU'INDIQUE AU NUMÉRO 4 SI MOINS DE 20.		TOTAL INSURABLE EARNINGS FOR LAST 20 WEEKS SHOWN IN ITEM 4 TOTAL RÉMUNÉRATION ASSURABLE POUR LES SEMAINES INDICÉES AU NUMÉRO 4
<input type="checkbox"/> 1 LAY-OFF SHORTAGE OF WORK LICENCIEMENT - MANQUE DE TRAVAIL <input type="checkbox"/> 2 RETURN TO SCHOOL RETOUR AUX ÉTUDES <input type="checkbox"/> 3 QUIT DÉPART VOLONTAIRE <input type="checkbox"/> 4 OTHER (EXPLAIN) AUTRE (PRÉCISER)		<input type="checkbox"/> 2 LABOUR DISPUTE CONFLIT COLLECTIF <input type="checkbox"/> 3 ILLNESS OR INJURY MALADIE OU BLESSURE <input type="checkbox"/> 4 RETIRED RETRAITE <input type="checkbox"/> 5 PREGNANCY GROSSESSE		\$ [ ] [ ] [ ] [ ] .00 \$ [ ] [ ] [ ] [ ] .00 ADDITIONAL MONIES PAID OR PAYABLE IN TERMINATION AUTRES SOMMES PERÇUES OU PAYABLES À LA CESSATION D'EMPLOI VACATION PAY PAYÉ DE VACANCES STIPENDIUM PAYÉ INDÉMNITÉ DE DÉPART OTHER (EXPLAIN) PRÉCISER		
EXPECTED DATE OF RECALL DATE PRÉVUE DE RAPPEL D-J M-M Y-A		EMPLOYEE'S FULL NAME (PRINT) NOM DE FAMILLE, PRÉNOM ET ADRESSE DE L'EMPLOYÉ		EMPLOYEE'S SOCIAL INSURANCE NUMBER NUMÉRO D'ASSURANCE SOCIALE DE L'EMPLOYÉ		EMPLOYEE'S OCCUPATION PROFESSION OU MÉTIER DE L'EMPLOYÉ
		SERIAL NUMBER - NUMÉRO DE SÉRIE 3-0		NATIONAL REVENUE TAXATION EMPLOYER ACCOUNT NO. REVENU NATIONAL, IMPÔT - N° DE COMPTE DE L'EMPLOYEUR		

15748 (01-1) (10-90)

SAMPLE - SPECIMINE

PLEASE WRITE IN FULL NUMBER OF INSURABLE WEEKS FROM ITEM 4 ÉCRIRE EN TOUTES LETTRES LE NOMBRE DE SEMAINES D'EMPLOI ASSURABLE INSCRIT AU NUMÉRO 4		INSURABLE WEEKS SEMAINES D'EMPLOI ASSURABLE	
PLEASE WRITE IN FULL AMOUNT OF INSURABLE EARNINGS FROM ITEM 8. ÉCRIRE EN TOUTES LETTRES LE MONTANT DE RÉMUNÉRATION ASSURABLE INSCRIT AU NUMÉRO 8.		DOLLARS INSURABLE EARNINGS DOLLARS DE RÉMUNÉRATION ASSURABLE	
EMPLOYER'S NAME AND ADDRESS (PLEASE PRINT) NOM ET ADRESSE DE L'EMPLOYEUR (ÉCRIRE EN LETTRES D'IMPRIMERIE)		 Unemployment Insurance Canada Assurance-chômage Canada	
I HEREBY CERTIFY THAT ALL STATEMENTS ON THIS FORM ARE TRUE J'ATTESTE PAR LES PRÉSENTES QUE TOUTS LES DÉTAILS INSCRITS SUR LA PRÉSENTE FORMULE SONT VRAIS.		DATE OF ISSUE DATE DE DÉLIVRANCE D-J M-M Y-A	
		SIGNATURE OF AUTHORIZED PERSON - SIGNATURE DE LA PERSONNE AUTORISÉE	
TITLE OF AUTHORIZED PERSON TITRE DE LA PERSONNE AUTORISÉE		TELEPHONE NUMBER - NUMÉRO DE TÉLÉPHONE EXT. POSTE	

N

RECORD OF EMPLOYMENT  
RELEVÉ D'EMPLOI

## BENEFIT CONTROL

### Introduction

There are three identifiable control activities within the Unemployment Insurance program which have the objective of ensuring that benefits are paid only to those fully qualified to receive them. Within the Commission, responsibility for these activities is distributed as follows:

Insurance activity. The responsibility of this activity is to acquire necessary factual information regarding a claimant's initial and continuing eligibility. This includes the correction of honest errors, unintentional misuse of the program through ignorance or oversight, and corrective action on receipt of investigation reports.

Benefit control activity. The responsibility of this activity is to obtain necessary factual information regarding continuing eligibility and to detect and/or confirm deliberate illegal abuse of the program through acts by individual claimants or employers behaving in a fraudulent or misrepresentative manner. As a result of an investigation, prosecution or administrative penalty may be recommended.

Special investigation activity. The responsibility of this activity is to detect and/or confirm that criminal acts have been carried out by individuals, and organized groups of employers or claimants. Prosecutions under the UI Act or criminal code would normally result from such investigations.

These policy guidelines define the parameters of the Benefit Control Program and the Commission's policies in its application.

Objective. The objective of the Benefit Control Program is to prevent, and reduce the deliberate abuse of the Unemployment Insurance Program by individual claimants or employers by:

1. Detecting those abusing the program so that claim correction action and/or punitive measures may be taken against them.
2. Deterring others by achieving a reasonable probability that they will be caught.

Benefit Control Policy

There is no known way of determining with 100 percent accuracy which claimants are deliberately abusing the Unemployment Insurance scheme. Consequently Benefit Control Investigations will be carried out in many cases where the claimant or employer is honestly fulfilling all his obligations under the Act.

Accordingly, the policies which follow, are designed to:

1. Select in such a way that the investigations cover areas of probable deliberate abuse;
2. Investigate in such a way that all facts are obtained without harassment whether intentional or otherwise;
3. Record the results of the investigation objectively such that an Insurance Officer, a Board of Referees, or an Umpire can reach a correct decision.

Selection of caseload. To be effective as a deterrent, there must be sufficient penetration of active claims to detect a significant proportion of abuse. This implies that selection must be effective in pinpointing actual areas of abuse. For example, where a claimant has been on claim for more than ten weeks, the probability that he is abusing the program is significantly greater than when he first came on claim and, thus, is a

suitable factor in selection. Caseloads will normally be selected through one or more of the following methods:

1. Random sampling provides a measure of the location, origin or type of abuse to which the Commission is vulnerable over time, and is to be continued as a means of determining the general areas of abuse.

2. Discriminate selection is the main method of determining the caseload. For example, employment market information indicates where employment is potentially to be found, and hence indicates a high probability of abuse amongst long term claimants who qualify for such work. Selection would be based initially on occupation code and then claimant or employer abuser profiles. Claimant identification with or without warrant delivery should be carried out in areas where the concentration of claimants is extremely heavy.

3. Computer matching programs developed by the Operational Systems group select claimants where there is a reasonable probability of abuse. Examples of these programs are the monthly file match with the Canada Pension Plan, the Adult Occupational Training Act file matching program, and the Local Initiatives Program (LIP) file match.

4. Leads from third parties and from labour market information and from insurance officers indicate claimants very likely to be abusing the program.

Investigation priority will be given to claimants selected by methods 3 and 4 since there is already a strong indication that an abuse has been committed.

Where the method of selection identifies cases that have been reviewed fewer than four weeks ago or cases where eligibility has been established during an equally recent interview with an insurance agent, benefit control investigations should not be scheduled or the investigation should be deferred until a four-week period has elapsed. In addition, delayed scheduling should be used for persons living in remote locations, i.e., accumulate all such cases until there are enough to justify a visit to an itinerant point. Any decision to use mail questionnaires (separate from the normal Active Job Search statement which is prepared by the

insurance function) in rural areas will be made at the discretion of the Director General. Action to recommend a prosecution will not be taken solely on the basis of mail questionnaires. Such action must be supported by a formal investigation or other documentary evidence.

## APPENDIX C

### OCCUPATIONAL CLASSIFICATION

#### Major Group 77--Mining and Quarrying Including Oil and Gas Field Occupations

This major group includes occupations concerned with extracting mineral ores, crude petroleum, natural gas, water, coal, salt, peat moss and other minerals from underground or open pit mines, quarries, and oil and gas fields. These occupations are classified in the following minor group:

771 Mining and Quarrying Including Oil and Gas Field Occupations

#### 771--Mining and quarrying including oil and gas field occupations.

This minor group includes occupations concerned with sinking deep rotary-drill holes into the earth to explore for or extract oil or gas; operating a variety of drills to facilitate blasting, rock removal and taking core samples, preparing, placing and detonating explosives; cutting, handling and loading minerals, waste or similar materials in mines, and quarries; and providing support activities for mining, quarrying, gas and oil field operations or exploration. These occupations are classified in the following Unit Groups:

7710--Foreman, Mining and Quarrying Including Oil and Gas Field Occupations

7711--Rotary Well-Drilling and Related Occupations

7713--Other Rock and Soil Drilling Occupations

7715--Blasting Occupations

7717--Mine and Quarry: Cutting, Handling and Loading Occupations



7718--Occupations in Labouring and Other Elemental Work, Mining and Quarrying including Oil and Gas Fields

7719--Mining and Quarrying including Oil and Gas Field Occupations, n.e.c.

The workers in this study are classified in the following Unit

Groups:

Unit 7713--32 workers

Unit 7715-- 4 workers

Unit 7718--16 workers

Unit 7719--11 workers.

Job descriptions of these unit groups are given below.

7713--Other Rock and Soil Drilling  
Occupations

This unit group includes occupations concerned with operating a variety of drills to facilitate the use of explosives in underground or surface mining and in construction projects; to tap sub-surface water and salt deposits; to remove core samples during mineral exploration or for soil testing; and to break and separate rock.

7715--Blasting Occupations

This unit group includes occupations concerned with preparing, placing, and detonating explosives to loosen ore in mines; to explore for minerals, oil or gas; and in construction, to loosen rocks or stumps or demolish structures to facilitate removal.

7718--Occupations in Labouring and Other  
Elemental Work, Mining and Quarrying  
Including Oil and Gas Fields

This unit group includes occupations in labouring or other elemental work, as described under the term title, 02-190 LABOURER/ELEMENTAL WORKER (any ind.), in mining and quarrying, which are concerned with supporting the workers who extract minerals from underground or open pit mines and quarries, and with harvesting peat moss.

7719--Mining and Quarrying Including  
Oil and Gas Field Occupations, N.E.C.

This unit group includes occupations in mining and quarrying, oil and natural gas production and mineral exploration, not elsewhere classified, concerned with inspecting, testing, grading and sampling work as described under the term titles, 02-170 INSPECTOR (any ind.); 02-430 TESTER (any ind.); 02-150 GRADER (any ind.); 02-330 SAMPLER (any ind.) engaged in quality control, enforcing safety regulations and sampling activities, and with mining, underground construction work, and related support-worker activities; prospecting for water, dispatching oil well service crews, tending brine wells, and assisting in gravity and seismic prospecting.

The method of classification is such that it is possible that the Major Group 77 contains some workers who were not working in the mining industry, e.g., 7715, "... and in construction to loosen rocks ...". Conversely, any electrical and carpentry occupations, both of which are present in the mining industry and are part of the Mining Apprenticeship programme are classified under Major Group 87--Construction.

Appendix D

Table D-1

Simple Correlation Coefficients Between Independent Variables  
for Group I (Claim Voluntarily Terminated)

Variable	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>	X <sub>7</sub>
Average wage--X <sub>1</sub>	1.00						
Average Benefit--X <sub>2</sub>	0.66	1.00					
Insured Weeks--X <sub>3</sub>	0.39	0.40	1.00				
Waiting Period--X <sub>4</sub>	0.12	-0.20	-0.09	1.00			
Urbanization--X <sub>5</sub>	-0.10	-0.06	-0.05	-0.12	1.00		
Age--X <sub>6</sub>	-.38	0.42	0.33	-0.29	0.13	1.00	
Dependent Status--X <sub>7</sub>	-0.20	-0.29	-0.47	0.24	-0.07	-0.57	1.00

Table D-2

Simple Correlation Coefficients Between Independent Variables  
for Group II (Claim Exhausted or Disqualified)

Variable	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>	X <sub>7</sub>
Average Wage--X <sub>1</sub>	1.00						
Average Benefit--X <sub>2</sub>	0.67	1.00					
Insured Weeks--X <sub>3</sub>	-0.10	0.14	1.00				
Waiting Period--X <sub>4</sub>	0.05	-0.20	-0.05	1.00			
Urbanization--X <sub>5</sub>	-0.28	-0.30	0.24	0.07	1.00		
Age--X <sub>6</sub>	0.23	0.34	0.11	-0.18	-0.41	1.00	
Dependent Status--X <sub>7</sub>	-0.20	-0.14	-0.14	-0.01	-0.21	-0.33	1.00

APPENDIX E

PROPOSED CHANGES OF BILL C.69<sup>71</sup>

Clause 16.(1)

SUBJECT: Period of Disqualification

SUMMARY: Despite high rates of unemployment and low ratios of job vacancies to the number of unemployed workers, the number of persons leaving employment without good cause and refusing suitable employment remains at alarming high levels. The proposed amendment will increase the maximum period of disqualification to 6 weeks.

Background

Under the legislation in effect prior to June 27, 1971, provision was made for a period of disentitlement of up to six weeks in the case of claimants who voluntarily left their employment, who lost their employment due to misconduct, or who refused to accept an offer of suitable employment. This disentitlement did not usually result in any reduction in the number of weeks of benefit which the claimant could potentially obtain over the life of the claim, but simply deferred the payment of benefit for up to six weeks.

When the new legislation came into force in 1971, the maximum six-week disentitlement was replaced by a maximum three-week disqualification. The number of weeks of benefit available to the claimant was correspondingly reduced by three weeks.

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<sup>71</sup>Unemployment Insurance Commission Information Paper, UIC (Prairie Region), 1975. (Mimeograph)

Problem

Evidence accumulated since 1971 indicates that the three-week disqualification has not been achieving its objective of minimizing the extent to which claimants voluntarily terminate their employment without just cause, are discharged for misconduct, or refuse suitable employment.

The number of disqualifications, approximately 300,000 a year, has remained at a disturbingly high level despite high rates of unemployment and the low ratio of job vacancies to the number of unemployed workers (see Table E-1).

Table E-1

## Number of Disqualifications by Type and Year

Type	1972	1973	1974	1975 (Jan.-Apr.)
Refusal of Work	3,760	13,749	23,907	6,821
Misconduct	27,754	28,847	32,382	13,947
Voluntary Quit	251,301	237,134	265,831	85,725
<b>TOTAL</b>	<b>282,815</b>	<b>279,730</b>	<b>322,120</b>	<b>106,493</b>

Proposed Amendment

It is recommended that the present disqualification of up to 3 weeks be increased to a maximum of 6 weeks for those claimants who:

- voluntarily leave employment without just cause
- lose their employment by reason of their own misconduct
- refuse a suitable job which has been offered to them or refuse to apply for a job that they know is vacant
- neglect to avail themselves of an opportunity for suitable employment
- fail to comply with a written direction intended to assist them in finding suitable employment
- refuse to attend a course of instruction designed to maintain or improve their employability.

CLAUSES 6. and 12.

SUBJECT: Rate of Benefit

SUMMARY: Since 1971, a number of steps have been taken by the government to increase support for persons with dependents. The increase in Family Allowance, Old Age Security, and the Guaranteed Income Supplement, coupled with the indexing of these benefits and income tax eliminate the rationale for a special benefit rate for claimants with dependents.

Present Legislation

The present legislation provides for a special benefit rate of 75 percent of average weekly insurable earnings for claimants with dependents. This rate is paid to all such claimants in the extended benefit period and to those earning equal to or less than one-third of maximum insurable earnings in the initial benefit period.



Problem

Since 1971, a number of steps have been taken by the government to increase support for people with dependents. The most notable of these is the Family Allowance, which has tripled since 1971. For example, a person with three children between the ages of one and six who received \$18.00 per month in family allowance support in 1971, now receives \$66.24. Furthermore, this allowance has now been indexed to rise with the cost of living. These changes, together with the increases in Old Age Security and Guaranteed Income Supplement, constitute a much more effective response to the needs of people with dependents and eliminate the requirement for a special benefit rate for claimants with dependents.

Proposed Amendment

It is proposed that the special dependency rate be brought into line with the standard benefit rate of 66  $\frac{2}{3}$  percent.

CLAUSES 8. and 21.

SUBJECT: Advance Payment

SUMMARY: The three-week advance payment introduced in 1971 was designed to encourage claimants to find work within the first five or six weeks of unemployment, which was at that time the normal job search period. However, in 1974, it was shown that 85 percent of the recipients of advance payments were still on claim in the sixth week, as opposed to 66 percent for those claimants who did not qualify to receive the advance payment.

### Present Legislation

The present legislation provides for a three-week advance payment of benefits to major attachment claimants after the two-weeks waiting period. This payment is made to claimants who have been laid off from their employment and who are not expected to be recalled by their previous employer within 5 weeks of the interruption of earnings. The payment is also provided irrespective of earnings and the active job search and availability obligations during that period.

When this provision was introduced, it was thought that it normally took five or six weeks for people to find new jobs. The purpose of the advance payment was, therefore, to provide a strong incentive for claimants to find work quickly in the early weeks of their claims and draw no subsequent benefits.

### Problem

It was found in 1974, however, that 85 percent of the recipients of the advance payment were still on claim in the sixth week, whereas only 66 percent of non-recipients remained on claim at that point. This led to the conclusion that the original purpose of the advance payment was not being achieved.

### Proposed Amendment

In order to encourage recipients of advance payment to find work more quickly, it is proposed that the provision be removed from the legislation.