

Long-Term Effects of Generous Unemployment Insurance: Historical Study of New Brunswick and Maine, 1940–1990

ACKNOWLEDGEMENTS

This Alert is based on a more technical, academic paper entitled *The Long-Term Effects of a Generous Income Support Program: Unemployment Insurance in New Brunswick and Maine, 1940-1991* by Professors Peter Kuhn (U.C. Santa Barbara) and Chris Riddell (Queen's University). The study was published by the National Bureau of Economic Research (NBER) in January of 2006 and is available at www.nber.org.

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Main Conclusions

- **New Brunswick experienced a marked increase in the generosity of Unemployment Insurance (UI) beginning in the 1970s. This has had a dramatic impact on the use of UI and on the labour market, which stand in stark contrast to those in Maine.**
- **The two main changes to Canada's UI program that affected benefit levels were the introduction of seasonal benefits in the mid-1950s, and of a new system of eligibility and benefit calculations in 1971 that permitted generous benefits at low levels of weeks worked, especially in regions of high unemployment.**
- **Much greater percentages of workers (male and female between the ages of 25 and 59) in New Brunswick claimed UI benefits than in Maine: 29.5% of male workers and 29.7% of female workers in New Brunswick claimed UI benefits in 1990 compared to 5.7% of male workers and 3.3% of female workers in Maine.**
- **The level of unemployment in New Brunswick has been consistently above 12% since 1982, while Maine's unemployment rate has steadily been below 8%.**
- **Not surprisingly, UI spending as a share of the economy (GDP) is significantly greater in New Brunswick than in Maine. By 1991, New Brunswick's UI spending as a share of GDP was 6 times the share in Maine.**

Introduction

This Alert examines the long-term effects of benefit changes in Unemployment Insurance programs on the labour market. It specifically looks at changes in the generosity of UI benefits on unemployment rates and UI claims in New Brunswick and Maine, two relatively homogeneous jurisdictions, over a 50-year period from 1940 to 1990.¹

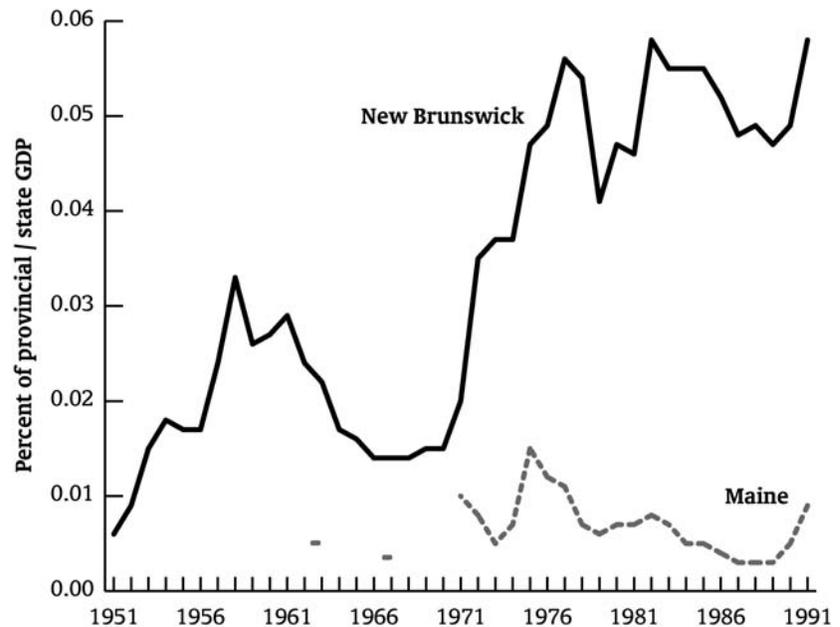
New Brunswick and Maine are very similar regions. Both are located in the far eastern regions of the respective countries. The structure and nature of the regional economies are quite similar: both maintain a large resource sector.² Both jurisdictions have also experienced slower population growth than the national average for a prolonged period of time and both have average incomes below the national averages.³

Unemployment Insurance in New Brunswick and Maine

Jurisdictional Differences

There is a key difference between the funding of Unemployment Insurance (UI) in New Brunswick and in Maine. Unemployment Insurance, which began in Canada in 1940,⁴ is financed and administered by the federal government. In the United States, it is the states that operate and fund UI programs independent of one another. The UI program in Maine, which began in 1935, has been state-run and state-funded since its inception.

Figure 1: UI Expenditures in Maine and New Brunswick, 1951-1991



Source: Kuhn and Riddell, 2006.

Eligibility Differences

There is also an important difference in how the two jurisdictions determine eligibility. Eligibility for Canada's UI benefits are determined by the number of weeks worked, independent of the amount of income earned. Eligibility for Maine's UI benefits and the weekly benefit amount is based on total earning during the year before a period of unemployment.

Two Major Policy Changes

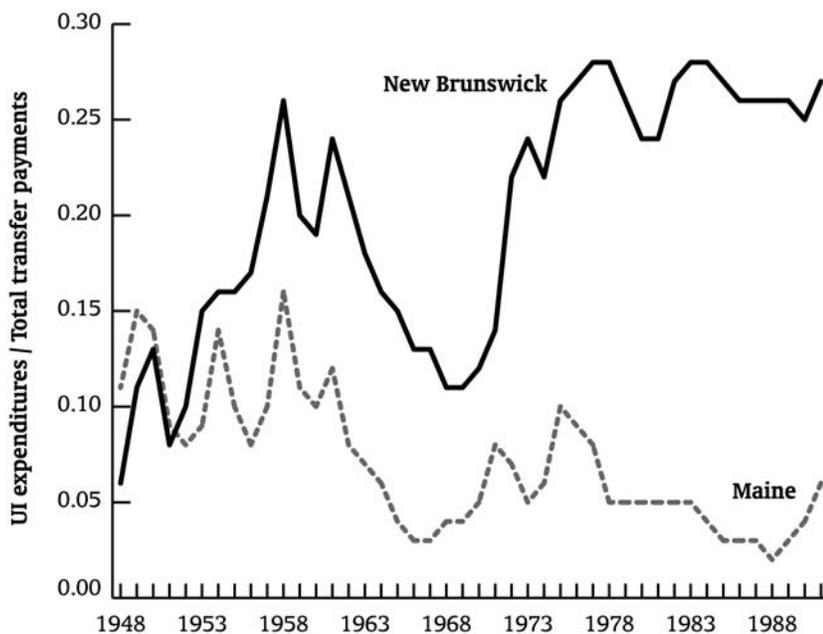
Two changes to the policies governing Canada's UI resulted in large increases in the benefits available from the program.

When Canada's UI program started in 1940, eligibility depended on the

number of days worked during the two years preceding a claim. In addition, significant limits were placed on benefit periods for seasonal workers. Between 1950 and 1960,⁵ the UI program introduced a system of seasonal benefits that were payable exclusively during winter months but under broader conditions.

In 1971, the seasonal benefit program was eliminated.⁶ The new system based weeks of benefit entitlement on the number of weeks worked in the previous year and provided very generous benefits for those who had worked only a few weeks, especially in high unemployment regions (including New Brunswick). In such regions, it was possible to qualify for 40 weeks of UI benefits with just 10 weeks of work. Further, workers could continue

Figure 2: UI Expenditures as a Fraction of Total Transfer Payments to Individuals, 1948-1991



Notes:

In New Brunswick, “Total transfer payments to individuals” consist of: family and youth allowances; veterans’ allowances; unemployment insurance benefits; scholarships and research grants; old age security; pensions to government employees (federal and provincial); adult education and training payments; provincial transfers such as direct relief, workers compensations, disability-related payments and grants to post-secondary institutions; CPP/QPP and miscellaneous federal/provincial/municipal transfer payments.

For Maine, these payments consist of: all forms of retirement & disability insurance benefit payments; workers’ compensation payments; medical payments; income maintenance benefit payments; all UI-related benefit payments; all veteran-related payments; federal education and training payments; and miscellaneous federal/state/local transfers payments. For consistency between the jurisdictions, we include federal UI payments to individuals in Maine, which includes (depending on the year), payments for federal civilian government employees (after they became covered), railroad employees, and “other” federal UI payments. These federal payments are a small fraction (about 10%) of state payments.

Source: Kuhn and Riddell, 2006.

such a pattern of part-year work year after year without penalty.⁷

In New Brunswick, these changes have had a dramatic impact on the use of UI and on unemployment rates, which stand in stark contrast to those in Maine.

Unemployment Insurance (UI) as a Share of the Economy

Figure 1 presents UI expenditures as a share of provincial/state GDP for New Brunswick and Maine from 1951 to 1991. During the 1960s, UI expenditures as a share of

provincial/state GDP for New Brunswick were roughly three times than of Maine. By the 1990s, UI spending as a share of GDP in New Brunswick (roughly 6%) was approximately six times the share in Maine.

A similar result occurs if UI is analyzed relative to other income-support programs. UI played a much more important role in New Brunswick’s income-transfer system than in Maine after 1952 (figure 2). By the end of 1991, UI constituted 27% of all transfer income received by individuals in New Brunswick compared to roughly 6% in Maine.

Receipt of UI Benefits

Table 1 contains information regarding government transfers in New Brunswick and Maine for 1990, the last year of analysis. The data included in Table 1 indicates that 29.5% of male workers⁸ aged 25 to 59, and 29.7% of female workers aged 25 to 59 in New Brunswick received some UI benefits in 1990. This is striking when compared to Maine, which recorded 5.7% of male workers and 3.3% of female workers in the same age groups receiving UI benefits in 1990.

Similar results hold if the analysis is expanded to include all citizens. In 1990, 22.8% of men and 18.2% of women in New Brunswick received UI benefits. Maine experienced much lower levels of benefit receipt: 5.6% of men and 3.1% of women.

This striking difference in the percentage of UI recipients in both jurisdictions could be caused by the system of eligibility and benefits that New Brunswick has, which

Table 1: Percentage Receiving Unemployment Insurance in Maine and New Brunswick, 1990

	Workers* only		All Persons	
	Men	Women	Men	Women
New Brunswick	29.5%	29.7%	22.8%	18.2%
Maine	5.7%	3.3%	5.6%	3.1%

*“Workers” includes anyone aged 25 to 59 who worked for at least one week in 1990.

Sources: Kuhn and Riddell, 2006.

allows generous benefits for those who have worked only a few weeks.

Unemployment Rates

Figure 3 illustrates unemployment rates for New Brunswick and Maine between 1948 and 1991. The unemployment rate in New Brunswick rose substantially, both in absolute terms and compared to Maine, in the early 1950s. The gap created during this period was closed briefly just prior to 1972. After the policy changes adopted in 1971, unemployment rates in New Brunswick increased compared to Maine. But it was after 1976 that a large and permanent gap emerged. In fact, New Brunswick’s unemployment rate was consistently above 12% after 1982 while Maine’s unemployment rate was consistently below 8%.

Clearly, these trends suggest that increases in unemployment took place in response to the two major increases in New Brunswick’s UI benefit generosity in the 1950s and 1970s.⁹

Conclusions

New Brunswick and Maine are quite similar across a number of social and economic dimensions, making

them a region well suited for comparison. New Brunswick experienced a marked increase in the generosity of UI beginning in the 1970s and this has had a dramatic impact on the use of UI and the province’s labour market. For example, the percentages of workers (male and female between the ages of 25 and 59) that claimed UI benefits in 1990 in New Brunswick was 29.5% of male workers and 29.7% of female compared to 5.7% of male workers and 3.3% of female workers in Maine. In addition, the level of unemployment in New Brunswick has been consistently above 12% since 1982, while Maine’s unemployment rate has steadily been below 8%. Not surprisingly, UI spending as a share of the economy (GDP) is significantly greater in New Brunswick than in Maine. By 1991, New Brunswick’s UI spending as a share of GDP was 6 times the share in Maine.

Notes

1 In terms of border comparisons, New Brunswick is of particular interest when studying income replacement programs for several reasons. First, its relatively low income level means that UI income replacement rates will be higher than the national average. That is, the benefits provided by UI will constitute a larger portion of

average incomes in New Brunswick. Second, the province’s small population and the federal nature of UI mean that the program’s generosity would likely be unsustainable if it were financed by the province itself. Finally, New Brunswick and Maine share a history of seasonal employment that predates the introduction of UI. The seasonal nature of both economies is largely the result of the dominance of the resource sector within the economy.

- 2 Primarily agriculture and forestry (paper, lumber, and woods products).
- 3 Between 1950 and 1990, the populations in New Brunswick and Maine grew by 54% and 59%, respectively, while the national average in Canada was 90% and, in the United States, 135%. Similarly, between 1945 and 1991, personal income per capita in Maine was on average 20% below that of the United States, while New Brunswick was 27% below the Canadian average.
- 4 The 1940 Unemployment Insurance Act created the UI program but the collection of premiums began in July of 1941 (HRSD, 2004). The name of the program was changed to Employment Insurance (EI) in 1996.
- 5 On October 2, 1955, the 1940 Act was repealed and replaced with the revised and consolidated Unemployment Insurance Act, 1955.
- 6 Although Bill C-229 (*The 1971 Unemployment Insurance Act*) was introduced early in 1971, the benefit provisions came into force on June 27, 1971. Existing benefit periods were allowed to continue but were gradually phased out over time. The new, universal coverage provisions came into force on January 2, 1972 (HRSD, 2004).
- 7 The 1971 Unemployment Insurance Act also made UI benefits taxable and extended the waiting period for benefits from one to two weeks.
- 8 Workers are defined as anyone who worked for at least one week in the calendar year.

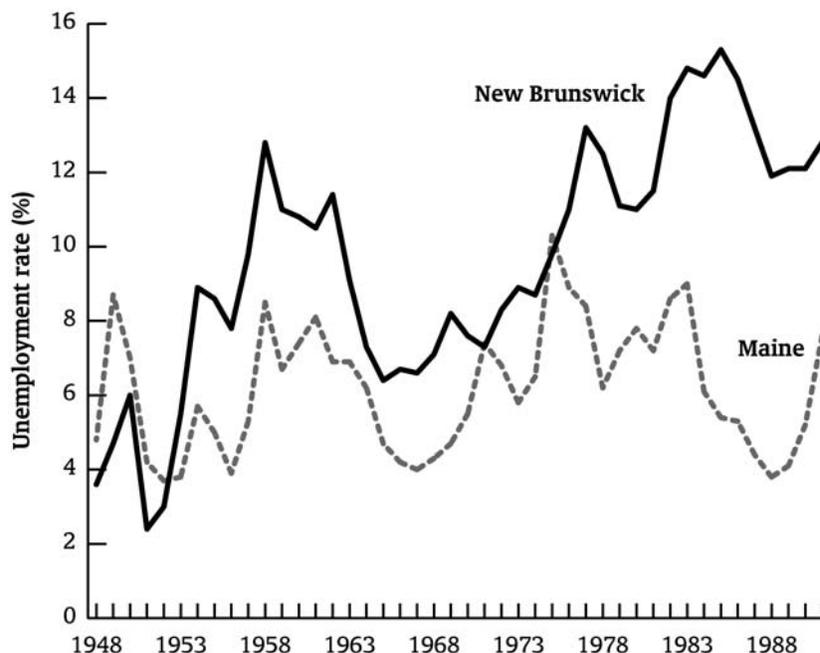
9 The substantial differences between the number of UI recipients and the unemployment rates in the two jurisdictions could suggest that there is more propensity to work part of the year in New Brunswick than in Maine. A technical paper published by NBER further analyzes this issue. The paper not only addresses the effects of removing the 1971 UI reforms, but also examines what the effects would have been on the incidence of part-year work in New Brunswick if Maine's UI program had been introduced in that province.

References

Human Resources and Skills Development [HRSD] (2004). History of Unemployment Insurance (UI). Available online at http://www.hrsdc.gc.ca/en/ei/history/unemployment_insurance.shtml

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Figure 3: Unemployment Trends in Maine and New Brunswick, 1948-1991



Source: Kuhn and Riddell, 2006.

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