

# Returning to Normalcy

## Unemployment and Seasonality in Atlantic Canada

by Fred McMahon

Unemployment and seasonality declined in Atlantic Canada's labour market after the 1996/97 reform of Unemployment Insurance. Over the last 25 years, while unemployment and seasonality declined nationally as well, declines were larger in Atlantic Canada, bringing the labour market in the Atlantic provinces into closer alignment with the national labour market. Nonetheless, seasonality and unemployment in Atlantic Canada remain higher than the national average.

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In 1971, Unemployment Insurance reforms made the system particularly generous and accessible in Atlantic Canada. The region was almost immediately troubled by soaring levels of unemployment compared to the Canadian average, shortages of workers despite high unemployment, increased seasonality, dependence on Unemployment Insurance, reduced private sector investment, and weak economic growth.

In 1996 and 1997, significant reforms were introduced to the Unemployment Insurance program, renamed Employment Insurance. While direct causality is difficult to determine in economics, several lines of evidence suggest that the UI/EI reforms contributed to positive changes in the national and regional labour markets. The focus in this publication is on the structure of the labour market before 2020 and COVID-19 to provide information relevant to "normal" times.

Among the problems that continue to afflict the Atlantic Canadian labour market and contribute to the relatively high levels of unemployment and seasonality are:

- [1] Despite the 1996/97 reforms, Employment Insurance continues to disproportionately reward seasonal labour and higher levels of unemployment in Atlantic Canada, particularly rural Atlantic Canada.
- [2] Governments are larger in Atlantic Canada than the national average. All-government expenditure equals about 54% of the regional economy compared to 40% nationally. This leaves less space for the private sector to create jobs and the region remains unusually dependent on government jobs.
- [3] Tax rates are higher than the Canadian average, reducing incentives for investment and skill enhancement because returns are reduced by high taxation.
- [4] Productivity remains well below the national average and, because of that, unit labour costs are relatively high, especially in Nova Scotia. This is the case despite lower wages in the region, which fail to compensate in full for lagging productivity.

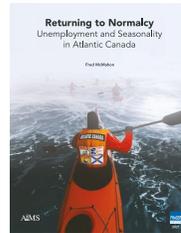
[5] The number of employment-creating firms in the region is stagnant or declining, likely as a result of high taxes, low productivity, costly labour, and government economic dominance.

[6] Job creation lags the national average, for similar reasons.

[7] Private-sector investment is low, limiting job creation, again for similar reasons.

The federal government has announced its intention to reform Employment Insurance and launched a consultative process. One goal is to “to provide more consistent and reliable benefits to workers in seasonal industries”. A possible danger to Atlantic Canada is that this round

of reforms may re-introduce policies that led to significant problems in the region’s labour market after 1971, as documented by much research.



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Unemployment and Seasonality  
in Atlantic Canada*

by Fred McMahon

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## Atlantic Canada is still lagging behind other provinces in terms of its labour market performance

