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# Unemployment and Unemployment Insurance: a tale of two sources

*Jean-Marc Lévesque*

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In 1988, unemployment averaged over one million, based on results from the Labour Force Survey (LFS). But the number of people who received Unemployment Insurance benefits was only 777,000. [\(1\)](#) Despite this gap, the number of beneficiaries actually exceeded the number of unemployed in three provinces. Indeed, beneficiaries outnumbered unemployed nearly two to one in Newfoundland.

What causes this shifting relationship between the official unemployment estimate and the number of Unemployment Insurance beneficiaries? The purpose of this article is to answer this question and review some key concepts underlying the two sources.

The article is divided into two parts. The first puts the data sources in historical perspective. The second outlines conceptual differences between them.

## Background

The objectives of the Unemployment Insurance program clearly differ from those of the LFS. The first was designed to replace lost employment income following involuntary job separation. The second measures, among other things, the excess supply of labour.

A little history may help us to better understand the nature of differences in the data emanating from these two sources.

# The Unemployment Insurance program

Turn of the century theorists maintained that unemployment did not exist in Canada: the labour market could accommodate every person who wanted a job. The 1913-1915 recession and the 1920-1925 postwar recession began to shake this belief, which finally crumbled in the Depression of the 1930s. In its place grew a conviction that government intervention was needed to fight unemployment. But at what level of government? During the 1920s and 1930s, the federal government had shared with the provincial and municipal level the responsibility of providing for unemployed workers ([Struthers](#), 1983).

The first legislation concerning Unemployment Insurance - the Employment and Social Insurance Act - was enacted by Parliament in 1935 and promptly ruled *ultra vires* by the Supreme Court of Canada. In 1940, the British Parliament amended Canada's constitution, placing Unemployment Insurance under federal jurisdiction. Following this change, Bill 98, creating an unemployment insurance program, was passed by both Houses of Parliament. The first contributions to the program were paid in during July 1940, and the first benefits paid out in January 1942.

The Unemployment Insurance program has evolved since then. Two major changes in particular extended coverage under the program and adjusted premiums and benefits to changing economic conditions. When the second Act came into force in 1955, the program covered 60% of all paid workers, up from 42% in 1940. The third Act, passed in 1972, made the program almost universal; since then, about 96% of all paid workers have been eligible.

The target population - workers eligible for Unemployment Insurance increased from 2.4 million in 1942 to 12.5 million in 1987. The Dominion Bureau of Statistics (now Statistics Canada) was assigned responsibility for producing Unemployment Insurance statistics by Order-in-Council in 1941.

## The Labour Force Survey

The conventional economic theory fashionable in the early 1900s could not explain the severity and above all the persistence of the Great Depression of the 1930s. The Keynesian prescription for fighting high unemployment, involving government intervention to manage the economy, gained credence. However, if government was to intervene effectively, it needed the where-withal to monitor labour market conditions.

As the Second World War drew to a close, the new economic thinking prompted the federal government to launch a survey capable of producing reliable and up-to-date information on the labour market. The immediate concern was the massive task of reintegrating returning servicemen into the labour market. What was needed was a comprehensive picture of employment and unemployment, and a good understanding of the characteristics of the labour force. The Labour Force Survey was thus launched in 1945.

In developing this large-scale survey - with a sample of nearly 30,000 households in 1945 - the Dominion Bureau of Statistics benefitted from the experience gained by the United States since their own survey was mounted in 1940. The definition of employment and unemployment used for the survey would ultimately be adopted by the International Labour Organization (ILO) in 1954. (2)

Initially conducted on a quarterly basis, the survey became monthly in November 1952. In 1960, Parliament accepted the recommendation by an inter-departmental committee on unemployment statistics that the Labour Force Survey be considered the official source on unemployment.

Statistics Canada thus offers two sources of unemployment data: one based on the administration of a government program and accordingly labelled as administrative data; the other based on a household survey designed to gather a broad range of labour market data.

These two programs differ not only in their objectives, but also in their coverage. While the administrative data relate to the insured population, the survey data concern the entire population aged 15 and over. While the administrative data centre on the notion of benefit claims and program eligibility, the survey data focus on labour market activity and availability. Program eligibility has varied in time and space; the concept of activity has remained constant (although some definitions and questions have been modified) and is uniform across the country.

To avoid any possibility of confusion, the terms "unemployment" and "unemployed workers" in the text below refer to the official concept.

## Bridging the gap

The beneficiary population includes certain groups that would probably not satisfy the LFS definition of unemployment. Similarly, the unemployed include groups unlikely to be eligible for Unemployment Insurance. As we shall see, the gap between estimates derived from the two sources of data is reduced if these groups are removed from both sides of the equation.

## Unemployment Insurance data

Labour market studies based on Unemployment Insurance data generally focus on one of two series: claimants or regular beneficiaries without declared earnings.

A **claimant** is a person who submitted an Unemployment Insurance claim during a specified period. This group, which includes all those who will eventually receive benefits as well as those who are excluded or deemed ineligible, is always much larger than the number of unemployed. (3) The use of the claimant series stems from the fact that it is a *current* source of information on small areas.



## Figure 1 **Regular beneficiaries with no declared earnings in Unemployment Insurance program**

The number of **regular beneficiaries without declared earnings** has been published by Statistics Canada since 1975. This series approximates the LFS unemployment concept. It excludes recipients of benefits paid for work absences due to sickness, accident or maternity. In the LFS, these beneficiaries would generally be counted as employed or as outside the labour force, depending on the return-to-work agreement with the employer. Regular beneficiaries who have declared earnings from employment are also excluded. The LFS would classify these beneficiaries as employed.



## Chart A **Claimants, unemployed persons and beneficiaries (annual averages)**

*Source: Labour Force Survey and Unemployment Insurance Statistics*

Still, some regular beneficiaries without declared earnings would not be counted as unemployed by the LFS, notably those not actively seeking a job. A case in point is seasonal workers living in regions where labour demand during the slack period is minimal. Job search under these conditions may seem somewhat futile, a fact which is taken into consideration in administering the Unemployment Insurance program. (Elsewhere, beneficiaries are asked for proof of job search.)

## **Labour Force Survey data**

In the Labour Force Survey, the unemployed are persons who were without work during the reference week, who had looked for work in the past four weeks and who were available for work. Persons laid off temporarily or waiting to start a new job in the next four weeks are also classified as unemployed, even if they did not look for work.

The unemployed include several groups unlikely to receive Unemployment Insurance benefits. On the other hand, some persons who would be regarded by the LFS as being outside the labour force are very likely to be included among the beneficiaries.

The wealth of LFS information on the characteristics and activities of the unemployed and of persons not

in the labour force can be used to create a series approximating that of regular beneficiaries with no declared earnings ([Lévesque](#), 1987). This LFS series, called "potential beneficiaries" is created by drawing together a subset of the unemployed and a subset of persons not in the labour force.

The "unemployed" component consists of all unemployed persons except for the following:

- unemployed persons aged 65 and over (4,000 on average in 1988)
- unemployed full-time students (59,000) [\(4\)](#)
- unemployed persons who have never worked (25,000)
- those who last worked more than twelve months ago (186,000) [\(5\)](#)
- those who were self-employed before becoming unemployed or who were unpaid workers in a family business (28,000)
- unemployed persons who are probably still in the UI waiting period (108,000). Eligible beneficiaries must wait at least two weeks before receiving benefits. [\(6\)](#)

The "not in the labour force" component consists of persons who meet all of the following criteria:

- between 15 and 64 years of age
- lost a paid worker job in the past twelve months
- looked for work in the past six months (but not in the past four weeks)
- interested in working
- available for work.

To sum up, the official 1988 unemployment estimate was 1,031,000. To arrive at an estimate of "potential beneficiaries", 410,000 unemployed persons were excluded because they appeared to be ineligible for Unemployment Insurance. Then 58,000 persons classified as not in the labour force were added in because they appeared to satisfy the UI requirements. The net effect is 680,000 potential beneficiaries.

The number of potential beneficiaries is very close to the number of regular beneficiaries with no declared earnings in provinces with an average or below average unemployment rate. There is still a considerable gap, however, in provinces with an above average unemployment rate. This difference can be eliminated by slightly amending the definition of potential beneficiaries to include all persons not in the labour force who have lost a job in the past year, regardless of whether or not they have looked for work in the past six months.

Results for these two potential beneficiaries series are presented below, using Ontario and Newfoundland as case studies. These two provinces were selected because they were at the extreme ends of the spectrum of provincial unemployment rates in 1988. Accordingly, results for Ontario are based on the first definition of potential beneficiaries and results for Newfoundland on the second.

# Potential and actual beneficiaries in Ontario



## Chart B Potential and actual beneficiaries, Ontario (monthly data)

*Source: Labour Force Survey and Unemployment Insurance Statistics*

The adjustments outlined above yield an estimate of 153,000 potential beneficiaries for Ontario on average in 1988 ([Table 1](#)). This figure is almost identical to the number of regular beneficiaries with no declared earnings.



## Table 1 From "unemployed" to "potential beneficiaries": groups removed and added, Ontario

The series of potential and actual beneficiaries in Ontario generally follow a similar path over the course of the year. By age and sex, the two series are nearly identical for men aged 25 to 64 but among 15 to 24 year-olds, the number of potential beneficiaries exceeds the number of actual beneficiaries, especially during the summer. This undoubtedly reflects the fact that young people are often ineligible for Unemployment Insurance because they have worked an insufficient number of weeks. Moreover, young people may earn too little or work too few hours per week to be eligible for Unemployment Insurance.



## Chart C Composition of potential beneficiaries group, Ontario, 1988

*Source: Labour Force Survey*

The pattern among women aged 25 to 64 is similar to that observed among young people. In the case of women, however, the gap between the two series is narrower.

# Potential and actual beneficiaries in Newfoundland



## Chart D Potential and actual beneficiaries, Newfoundland (monthly data)

*Source: Labour Force Survey and Unemployment Insurance Statistics*

In 1988, Newfoundland had the highest unemployment rate (16.4%) in Canada. But the number of unemployed aged 15 to 64, at 38,000, was well below the number of actual beneficiaries (58,000, see [Table 2](#)).



## Table 2 From "unemployed" to "potential beneficiaries": groups removed and added, Newfoundland

The gap between the number of unemployed and the number of actual beneficiaries stems from the fact that many workers who lose their jobs do not actively look for another one. As we have already mentioned, this tends to occur in regions where job opportunities are limited.

The definition of potential beneficiaries that worked well for Ontario yields an estimate for Newfoundland which is too low (36,000 potential versus 58,000 actual beneficiaries). If the active job search criterion is dropped, however, the estimate of potential beneficiaries is very close to the actual beneficiaries figure.



## Chart E Composition of potential beneficiaries group, Newfoundland, 1988

*Source: Labour Force Survey*



# Conclusion

Not all unemployed workers are covered by Unemployment Insurance, and not all Unemployment Insurance beneficiaries are unemployed. After outlining the major conceptual differences it was shown that a group of "potential beneficiaries" could be identified in the Labour Force Survey using criteria similar to those used by the Unemployment Insurance program.

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## Notes

### *Note 1*

This refers to regular beneficiaries without declared earnings. This group excludes those who receive "special" sickness, accident, maternity or occupational training benefits. Regular beneficiaries who declared earnings during the reference week are also excluded from this series, as well as self-employed fishermen drawing fishing program benefits.

### *Note 2*

The definition of unemployment was amended in 1960 to include temporary layoffs, formerly classified as employed. The survey questionnaire was completely overhauled in 1975, but the concepts of employment and unemployment remained fundamentally the same.

### *Note 3*

For some years, Employment and Immigration Canada has made its electronic claimant files available by special request. (Confidentiality is ensured by blocking out personal information.) This information can be used to approximate the official unemployment series by eliminating special benefit claimants but several differences remain. On the one hand, the claimants file includes a number of persons who have started to work again (there is a five-week wait before closing a file); on the other hand, the unemployed include persons who do not qualify for unemployment insurance or do not claim benefits.

### *Note 4*

Full-time students usually cannot receive regular benefits since they do not meet the criterion of availability for work. Beneficiaries who take approved courses are not counted as regular beneficiaries. The LFS includes full-time students among unemployed workers if they are looking for a part-time job but not if they are looking for a full-time job.

### *Note 5*

The chances of this category of unemployed receiving regular benefits are minimal. The maximum period covered by the program has been twelve months ever since the Act of 1971 came into force. There



are, however, four exceptions:

- a) sick persons and those who have been injured or quarantined;
  - b) persons in a detention centre;
  - c) those who have taken a training program approved by Employment and Immigration Canada; and
  - d) those receiving Workers' Compensation.
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### **Note 6**

The waiting period - the time between job separation and the receipt of benefits - is two weeks. This waiting period is mandatory for all and may be extended by a one-week to six-week penalty period depending on the circumstances under which employment was terminated. Workers who quit their jobs voluntarily may be penalized six weeks. The waiting period for layoffs is two weeks with no penalty. To simulate these circumstances in the LFS, we must refer to several questions. If the person worked immediately before becoming unemployed, we can check whether he or she is likely to be receiving benefits by looking at the length of unemployment. But if the person was not in the labour force before becoming unemployed, the time he or she has been without work will exceed the length of unemployment, and the former rather than the latter should be used. (The LFS measures the length of unemployment in weeks, but the time that a person is without work is measured in months.)

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## **References**

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# Source

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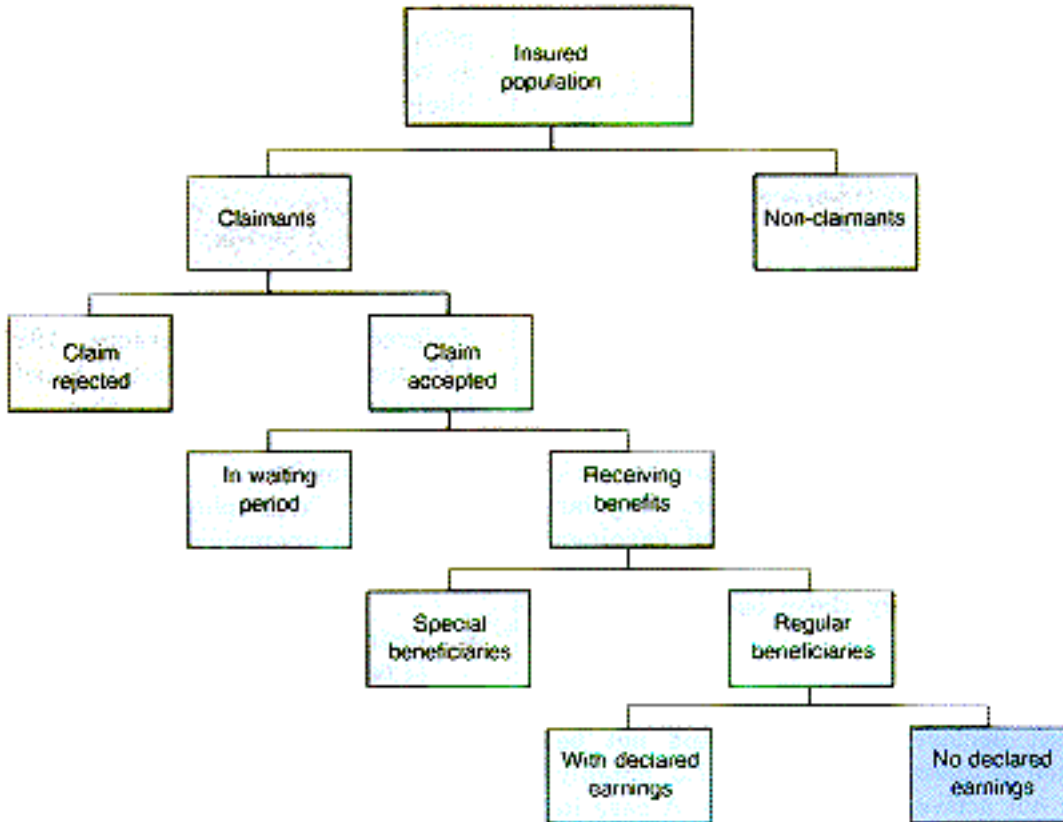
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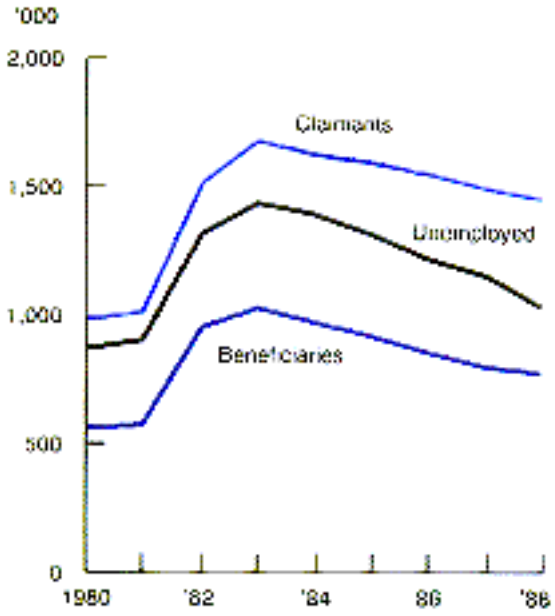
## Regular beneficiaries with no declared earnings in the Unemployment Insurance program

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### Claimants, unemployed persons and beneficiaries (annual averages)

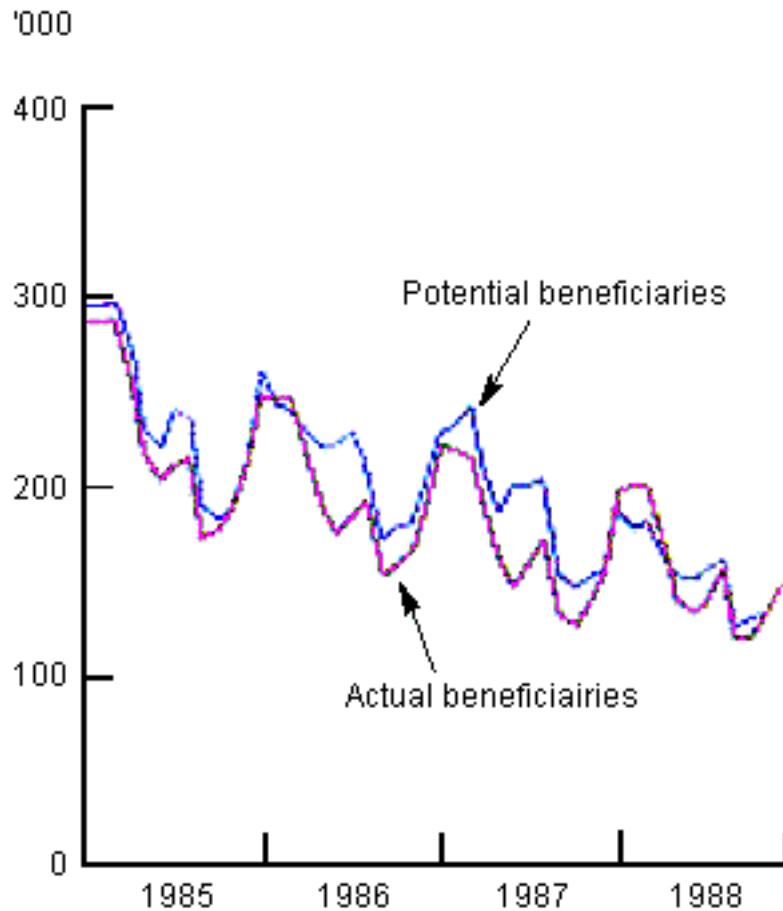
The unemployment level falls between the number of claims received and the number of beneficiaries.



Source: *Labour Force Survey and Unemployment Insurance Statistics.*

## Potential and actual beneficiaries, Ontario (monthly data)

The number of potential beneficiaries marginally exceeds the number of actual beneficiaries.

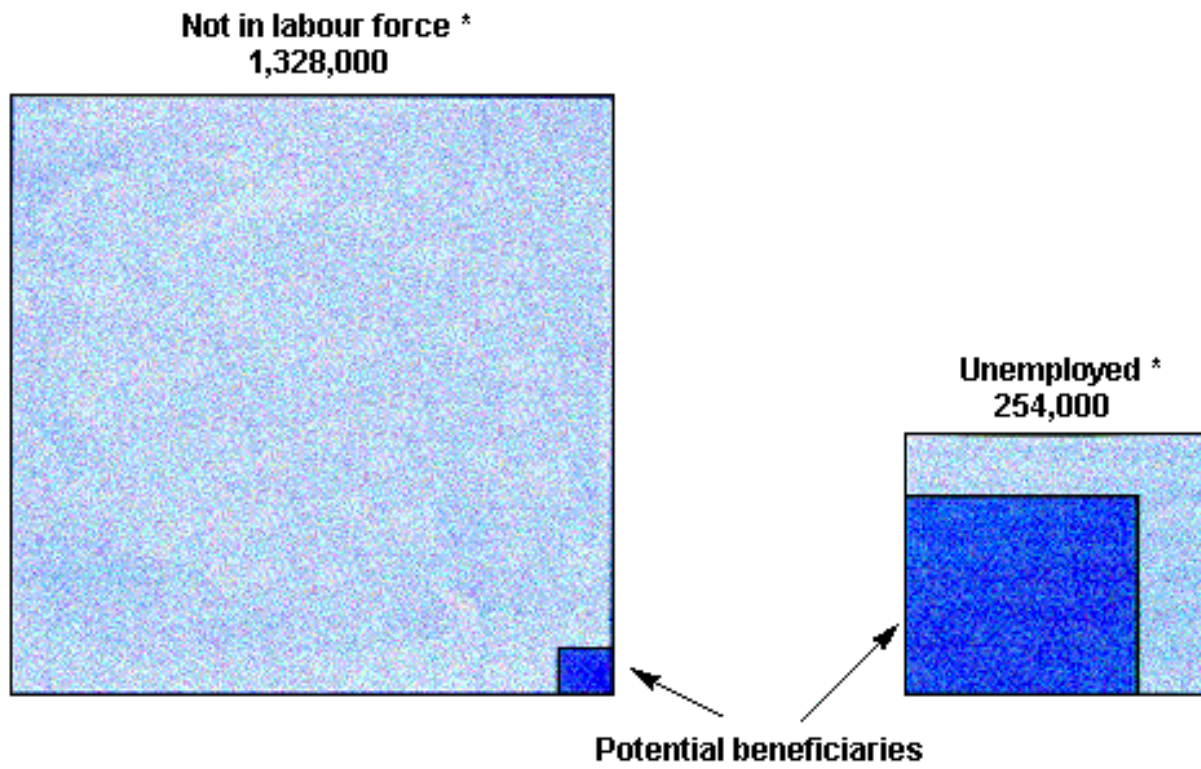


Source: *Labour Force Survey and Unemployment Insurance Statistics.*

Table 1	
From “unemployed” to “potential beneficiaries”: groups removed and added, Ontario	
	1988
<b>Unemployed (15-64)</b>	<b>254,000</b>
Students and persons who have never worked	-30,000
Persons who have not worked in the past twelve months	-35,000
Last job: self-employed or unpaid family worker	-6,000
Probably in waiting period	-35,000
<b>Not in the labour force</b>	
Lost a paid worker job in the past year, looked in the past six months, available and interested in working	+5,000
<b>Potential beneficiaries (LFS)</b>	<b>153,000</b>
<b>Actual beneficiaries (UI)</b>	<b>151,000</b>

## Composition of potential beneficiaries group, Ontario, 1988

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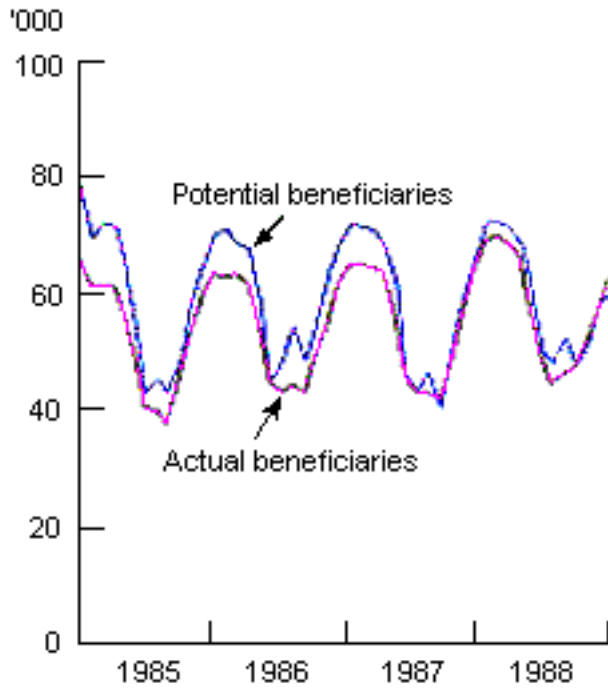
\* Persons aged 15-64

Source: *Labour Force Survey*



### Potential and actual beneficiaries, Newfoundland (monthly data)

The large seasonal swings in the number of actual beneficiaries are reflected in the potential beneficiaries series.



Source: *Labour Force Survey and Unemployment Insurance Statistics*

Table 2

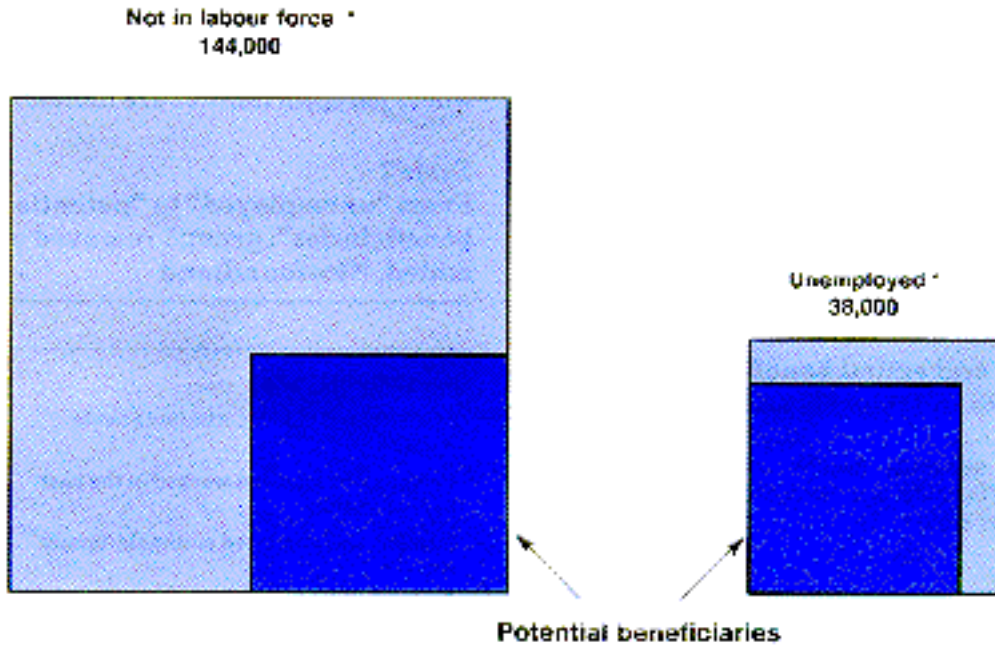
**From “unemployed” to “potential beneficiaries”: groups removed and added, Newfoundland**

	1988
<b>Unemployed (15-64)</b>	<b>38,000</b>
Students and persons who have never worked	--
Persons who have not worked in the past twelve months	-6,000
Last job: self-employed or unpaid family worker	--
Probably in waiting period	-3,000
<b>Not in the labour force</b>	
Lost a paid worker job in the past year, looked in the past six months, available and interested in working	+9,000
Lost a paid worker job in the past year and have not looked for work in the past six months *	+24,000
<b>Potential beneficiaries (LFS)</b>	<b>60,000</b>
<b>Actual beneficiaries (UI)</b>	<b>58,000</b>

\* Group added only in Newfoundland, which has a relatively high unemployment rate.

### Composition of potential beneficiaries group, Newfoundland, 1988

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\* Persons aged 15-64

Source: Labour Force Survey.

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