Intelligence MEMOS

The C.D. Howe Institute put out a call late last year for Intelligence Memos from next-generation policy leaders. The purpose of the program is to provide a platform for new or soon-to-be graduates to raise their profiles, showcase their ideas, and build their professional networks. This week we are releasing the work of the top three participants. First up, our winner.

From: James Uguccioni

To: Carla Qualtrough, Minister of Employment, Workforce Development and Disability Inclusion

Date: May 31, 2022

Re: **IMPROVING EMPLOYMENT INSURANCE BENEFITS TO PROTECT CHILDREN**

Each round of lockdowns in response to COVID-19 has sparked a wave of layoffs. Millions of Canadians have abruptly lost jobs, with little certainty, at the time, of when they would be able to work again and what government programs would help them make ends meet in the meantime.

For parents, unexpected losses in income leave difficult decisions about how they invest in their child's development. If parents are forced to scale back these investments, their children may be permanently affected.

The extent of the negative effects of parental unemployment critically depends on the age at which children are exposed. Laid off parents with young children may be forced to suddenly curtail foundational investments in their children, such as subscriptions to early reading applications, extracurricular activities, and, most importantly, a stress-free family environment. These effects can snowball – affecting their development of other skills – eventually reducing a child's earnings in adulthood.

Recent **work** from Sweden studying children born in the 1980s and 1990s has shown that untimely parental unemployment causes children to be less likely to finish high school. In my own **work** in Canada studying children born in the 1970s and 1980s, I find that experiencing parental unemployment at a young age reduces the likelihood of a child pursuing post-secondary education and reduces income in adulthood.

Experiencing parental unemployment around the ages of 6 or 7 results in of loss of approximately $2,500 in gross income per year in a person's early 30s. In total, this amounts to about a 6-percent reduction in annual taxable earnings. There were substantially smaller losses for children exposed to parental unemployment at older ages.

The social safety net is meant to guard against these sorts of repercussions. Employment Insurance (EI) benefits are the primary source of relief for recently unemployed workers. These benefits can help parents meet all of their own and their family's needs while looking for their next job. In particular, our EI benefit schedule recognizes the needs of families with young children by including a Family Supplement, which varies with the number and ages of dependents.

However, the current benefit structure does not adequately insure families with young children against an unexpected unemployment spell, despite being designed to do so.

At most, the current schedule provides an additional $4.15 per week to unemployed parents for each child under the age of 7. For an unemployed parent with one 5-year-old, this amounts to an underwhelming 1.6 percent in additional benefits.

One reason that the top-up for families with young children is so meager is that the benefit levels were established in 1999. The cost of living has risen considerably over the last 23 years – and the Family Supplement needs to be updated to reflect these changes.

At minimum, the Family Supplement should be indexed to inflation. From 1999 to 2021, the Consumer Price Index has increased 52 percent. To bring EI benefits in line with the prices families face, the Family Supplement needs to grow to $6.33 per week for each child under 7.

Meanwhile, Ottawa has helped parents more directly, with the Universal Canada Child Benefit, introduced in 2006, and subsequently replaced with the Canada Child Benefit (CCB).

But CCB benefits are based on family income for the previous year (July-June) and do not immediately scale up in response to a sudden shock to income due to unemployment.

For a family to be eligible for the maximum Family Supplement for young children, the household must make less than $20,291 a year. Over the last 16 years, we have increased child benefits paid to families at that income level more than fivefold. These increases reflect an evolving policy consensus that Canada will benefit from helping parents pay the costs of raising their children.

We should increase the Family Supplement to reflect this new policy consensus as well. If the Family Supplement experienced the same growth as child benefits over the last 15 years, it would amount to a maximum of $23.12 per week. These funds would help parents who unexpectedly lose their jobs insulate their children from their unemployment, as the system was originally designed to do.

Often, there is concern amongst policymakers that large increases to EI benefits may do more harm than good by reducing the incentives for unemployed individuals to search for work. We should not expect the same from increases to the Family Supplement, as unemployed parents already have additional incentives to work – their children.

The current government has a mandate to support families with young children, and should significantly increase the Family Supplement to fulfil it.

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