

Intelligence MEMOS



From: Jennifer Robson

To: The Minister of Employment, Workforce Development and Labour

Date: February 13, 2025

Re: **PLEASE STABILIZE THE AUTOMATIC STABILIZER, EMPLOYMENT INSURANCE**

At the time of writing, outside of steel and aluminium, Canada may have some temporary reprieve from the threat of Donald Trump's tariffs. But that could all change before this even goes to print. It is clear we are in for a period of heightened economic risk for months and likely years to come.

Consider that among the 20 million jobs in Canada, some **2.4 million** (12 percent) are tied to exports to the United States. The risks of wage and job loss from disruptions to North American free trade will extend even further, owing both to network effects in complex supply chains and contagion effects in local communities. If or when Trump's tariffs are imposed, even conservative estimates suggest that employment would fall by nearly 2.5 percent, implying job **losses** in the neighbourhood of 500,000. While Canada posted some positive job numbers in January, prolonged and repeated cycles of uncertainty will take its toll on workers and employers.

Since the spike in unemployment during the pandemic, the Employment Insurance (EI) system has returned to around its pre-pandemic levels of processing about 3 million claims each year, including 1.2 million claims for regular benefits due to job loss and 4,200 Work-Sharing agreements (a wage subsidy that lets workers stay with their employer at reduced pay supplemented by EI benefits).

But the systems that run the EI program are showing their age and limitations. Even with claim volumes back to normal rates, the average time to process a claim is stuck at about 28 days, and an important share of claims can't be handled through automated rules. In fact, on these metrics, the system is doing worse than before the pandemic. The Work-Sharing program is still not well-known, despite outreach efforts, relies on eligible employers to self-identify, and the application is complicated. In previous downturns, many employers decided layoffs were preferable to navigating the Work-Sharing rules.

Further, the plan to migrate the whole system onto a modern and flexible IT platform is now years behind schedule. Worse, despite Throne Speech promises and the experience of system failure at the start of the pandemic, Ottawa has put off the difficult work of making policy changes to bring EI into the 21st century. The system is no better equipped to handle a surge in claims today, whether for regular benefits or Work-Sharing agreements, than it was in March 2020. Our key automatic stabilizer needs stabilizing.

There are at least two pandemic-era lessons we can and should apply.

1. Use monthly payroll information to proactively connect with businesses to offer wage subsidies and reduce layoffs.

It's better to prevent or minimize layoffs in a well-designed wage subsidy program than to deal with the frictions and contagion that can come from a spike in unemployment. We do not need a repeat of the Canada Emergency Wage Subsidy (CEWS), which was far too generous and far too broad in its coverage. But we cannot count on the current Work Sharing program to do the heavy lifting alone.

During the pandemic, countries that had e-payroll systems already in place were able to introduce time-limited wage subsidies quickly and efficiently. For example, while Canadian businesses waited until late April 2020 just to be able to apply for CEWS, Irish employers had access to wage support for their workers as early as March 15, 2020, allowing them to avoid layoffs. Even better, the program was seamlessly integrated into their regular payroll reporting, reducing administrative burdens for employers and making it easier for the government to track effectiveness and, if necessary, recover overpayments.

Here in Canada, monthly payroll information, including sectoral data and headcounts of employees, are already submitted monthly to the Canada Revenue Agency. At a minimum, officials should be making use of that data to identify affected businesses and invite them to apply to the Work-Sharing program. If the Work-Sharing program develops too long a backlog to be useful (as was the case during the pandemic), that same payroll information should be the backbone of a very targeted wage subsidy to supplement the EI system, built on counts of employees, not dollar values of total payrolls like the pandemic-era subsidies.

2. Accelerate the necessary IT and policy modernizations.

One instinct in the face of a potential crisis, like Trump's tariffs, is to wait and then respond. But, just as first ministers have finally agreed to improve internal trade, now is not the time to put off what we should have done years ago. Between the risks of trade wars, a constitutional crisis to our south, climate change, and the growing likelihood of future pandemics, economic shocks are going to be more regular in the future.

The government of Canada has blueprints for both benefit delivery systems and EI policy modernization. It should accelerate those as part of an overall strategy to build, grow and adapt to the tectonic shifts happening under our feet. Plans for economic resilience should include plans for capacity and resilience in EI as an automatic stabilizer that the Canadian economy can count on in this very challenging time.

Jennifer Robson is Associate Professor of Political Management, Carleton University.

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