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Employment Insurance and Active Labour Market Policies in Canada

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Abstract

Canada's Employment Insurance program underwent significant reform in 1996 which emphasized active labour market policies over passive policies. The shift coincided with international sentiment at the time that said active policies were more effective and efficient at dealing with contemporary unemployment challenges. This paper sets out to understand if Canada's active labour market policies are effective. The paper looks at evaluations published by Employment and Social Development Canada and asks if active labour market polices help participants find employment and if so, why. The paper finds that national-level reports do not provide sufficient data to make that assessment, but provincial-level reports show that active labour market policies are relatively successful at helping people find work. Another important finding is the shortcomings of the evaluation process, and several recommendations to improve evaluations are discussed.

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List of Acronyms

ALMP: Active labour market policies/programs

CRA: Canada Revenue Agency

EBSM: Employment benefits and support measures

EI: Employment Insurance

ESDC: Employment and Social Development Canada

HRDC: Human Resources Development Canada

LMDA: Labour market development agreements

OECD: Organisation for Economic Co-operation and Development

Active Labour Market Policies in Canada

Introduction

Canada's Employment Insurance (EI) program is a pillar of the country's social safety net. Its primary objective is to support those who want to work but cannot find a job. The way in which the EI program approaches this objective has evolved with major reforms in 1996 emphasizing the active labour market policies aspect of the program. This paper sets out to understand the effectiveness of the active labour market policy portion of Canada's EI program, the portion that actively engages individuals and supports their efforts to rejoin the workforce.

Some level of unemployment is unavoidable in any labour market. Governments cannot completely eliminate unemployment, and not all unemployment is a bad thing as it reflects a dynamic economy where capital and labour shift from declining sectors to growing sectors. This type of structural economic adjustment is positive for the economy as it becomes more productive, but it also poses challenges and even hardship on individuals who lose their jobs.

Structural adjustment can be particularly difficult when it involves significant sectoral changes requiring new skills and human capital investment from long-tenure workers who must find employment in different sectors. For instance, Canada's manufacturing sector shrank and reorganized significantly over the past fifteen years. Once the heart of Canada's economy, manufacturing lost over 600,000 jobs since 2002 for a variety of reasons, including productivity gains in some subsectors and loss of competitiveness in others. This creates challenges for those who lose manufacturing jobs because they might have to look to another sector for work. Adding to that challenge is the fact that a manufacturing job may be all they know. Industries like manufacturing and even forestry were cornerstones of the Canadian economy and offered

lifelong careers meaning, many did not develop the education or training to quickly adapt to a new industry. There are towns and regions across the country where for generations the career path was to leave high school, sometimes even before graduation, get a job at the local plant or mill and work there until retirement. Now these people are faced with the challenge of finding new work in an economy where the fastest growing sectors are professional services and technology-based industries.

There are signs that structural adjustment may hit other sectors of the economy in the near future. Policy to support displaced workers will remain important. Technological advancements have increased the demand for skills and speed of change in the economy, and when combined with the economy's complexity, it is harder than ever to switch to a new occupation (Siu and Jaimovich, 2014). While technological disruption of the economy and the labour market is not a new phenomenon, it may be more prevalent than ever as technology associated with the informatics revolution reshapes many aspects of society. Effects are widespread as some estimate that forty-seven percent of all employment in the United States is susceptible to automation over the next two decades (Frey and Osborne, 2013). It is reasonable to assume this estimate extends to developed economies meaning many workers in Canada are under pressure to adapt to changing workplaces and find new work as traditional jobs disappear.

This paper considers Canada's labour market policies with structural adjustment and the resulting unemployment in mind. It looks at policies and programs that provide training, employment assistance, and skills development alongside income support. The objective is to examine how the Canadian government uses so-called "active" labour market policies to support unemployed workers by considering program evaluations published by Employment and Social Development Canada (ESDC), the federal department responsible for delivering EI services. The

questions guiding this research ask whether these programs have a positive impact on participants. The goal is to understand whether program participation helps individuals find employment.

The results from ESDC evaluations suggest active labour market programs are relatively successful. EI recipients who participate in an active labour market exhibit more positive labour market outcomes than non-participants. But that is not the whole story. The labour market policy evaluation literature says that understanding why programs work and for which groups of individuals they work is critical to understanding program effectiveness. Conceptual reasons and historical evidence show that different Active Labour Market Policies (ALMPs) are driven by different dynamics and therefore have different results (World Bank 2004, O'Leary 2011;, Martin and Grubb 2001; Vlandas 2011). It is at this point that the evaluations published by ESDC fall short. The results are too high-level and do not provide the breakdowns necessary to comprehend or rule out variations across programs and groups of individuals.

This paper proceeds as follows. The first section explains what active labour market policies are, and why they are relevant in addressing contemporary labour market challenges. The next section establishes the historical and theoretical context for active labour market policies as a part of Canada's EI program, and the third section describes how active labour market policies work in Canada and presents program evaluations published by government. The fourth section analyses and discusses the results. The final section concludes.

1. Rationale for Active Labour Market Policies

Unemployment imposes costs on societies and individuals. Governments lose tax revenue and consumer spending that drives the economy while lost wages, a loss of purpose or a sense of

disenfranchisement are just a few consequences for individuals. And historically it has been the case that private markets for insurance are incomplete and cannot fully cover the contingency of unemployment, underscoring the need for government intervention.

Public provision of unemployment insurance overcomes problems associated with asymmetric information that keep private markets from supplying adequate insurance to risk averse people. Governments can make participation compulsory to address adverse selection and can fund large draws on unemployment when job losses are not independent events but highly correlated. But public provision of insurance creates adverse incentives which governments must balance. Policy design plays an important role mitigating adverse incentives.

Active labour market policies (ALMP) are programs and policies that help unemployed individuals find work. They take a variety of forms such as training programs, employment incentives, direct job creation, start-up incentives and job search assistance. Thus, they help people develop skills, gain experience and look for work. At the same time, active policies, by making benefits dependent on participant engagement, limit the adverse incentive effects of passive unemployment, such as increasing the duration of unemployment, discouraging labour mobility, and fostering seasonal work. Moreover, ALMP improve the efficiency of the economy as they facilitate the reallocation of labour from contracting to expanding sectors. ALMP can help people move from one sector to another in contrast to passive policies that provide assistance to persons in declining sectors and may impede the reallocation of labour from declining to expanding sectors (Gunderson 2003).

Since the program's last major reform in 1996, Canada's EI benefits are divided into two broad categories. Part I of the Employment Insurance Act provides financial assistance and

passive benefits to people temporarily out of work while Part II covers active labour market policy measures known as Employment Benefits and Support Measures (EBSMs). This paper will focus on the services offered under Part II of the Act.

2. Active Labour Market Policies in Canada: Historical and Theoretical Context

2.1 The role of the OECD

In 1994, the OECD published the *Jobs Study*, an influential report on what the organization deemed a worldwide social and economic problem: unemployment. The OECD noted persistent high levels of structural unemployment that grew throughout preceding decades. *The Jobs Study* sought to diagnose the problem and propose solutions.

In the 1980s, the OECD saw a global economy that was changing rapidly. Changes were creating growth and increasing wealth but they also created challenges. The organization said financial liberalization and product market deregulation enhanced the potential efficiency of OECD economies but those developments accelerated the pace of economic change and "challenged the capacity of economies and societies to adapt" (p. 24). According to the report, countries struggled to adapt to changes in the economy because social policies made markets—particularly labour markets—too rigid. In its view, social policies made labour markets especially rigid considering the nature of economic change taking place, which was a shift towards service based economies and increased the prevalence of non-standard work.

The OECD claimed old policies did not work for the new world of work. Non-standard work (part-time, short-term, contract, temporary, and self-employment) was on the rise and it was branded as more flexible than traditional employment. The OECD worried that rigid labour

market policies did not accommodate non-standard work and discouraged employers from hiring workers thereby contributing to high levels of unemployment seen across the world. Labour market policies needed to adapt.

What did the OECD recommend as solutions? The key policy message of *The Jobs Study* was that high unemployment should be addressed, "not by seeking to slow the pace of change, but rather by restoring economies' and societies' capacity to adapt to it" (p. 25). The study made nine policy recommendations. Most were of the boilerplate variety such as encouraging macroeconomic stability and improving education and training, but they also recommended changes to labour market policies including a shift to active labour market policies.

The OECD said active labour market policies include job placement services and labour market programmes such as training and job creation. They suggested active labour market policies would link the growth of jobs in new sectors to a supply of qualified labour and increase access to jobs be developing job-related skills (p. 36).

2.2 Canadian Context

At about the same time as the OECD's report in the early 1990s, policy makers in Canada began asking questions about Canadian labour market policies. In their 1990 study, *Good Jobs, Bad Jobs*, The Economic Council of Canada documented a fundamental shift in the Canadian economy from that was based on manufacturing to an emphasis on services. This structural economic shift deeply affected the labour market. The Council argued that the labour market became more fragile as the incidence of non-standard work rose and the job market polarised. They saw a widening gap between good jobs that are high-skilled and well paid, and bad jobs

that are unstable and relatively poorly paid (p. 10). This led the Council to ask if public policy had kept up with the changing labour market. Their answer was that it had not.

Labour market policies needed to adapt to the new labour market and meet the new needs of Canadian workers. The new needs included the need to adapt, learn new skills and continually update skills to succeed in a rapidly changing economy. Policy reforms, the Council said, should strengthen the commitment to the development of human resources and promote economic security for workers.

At the time of the Council's, Canadian public policy, more so than most OECD countries, emphasized short-term income maintenance to support unemployed workers rather than active strategies (p. 21). Like the OECD, the Council recommended a shift to more active labour market policies, suggesting that "effective education and training policies [would] be absolutely fundamental to Canada in the coming decades" (p. 19). Another federal government initiative regarding labour market policies was in the works at about the same time. The Labour Force Development Strategy was a plan put forward in 1990 to build a highly skilled workforce. It too called for more active programs and a shift away from passive income transfers (Wong, 2001).

The early 1990s was also a time of budgetary pressure. The government of the day was determined to cut spending and called on government departments to find savings. A shift to active labour market programs was seen as a way to run the unemployment insurance program more efficiently. Canada's Unemployment Insurance program, as it was called at the time, was ripe for change.

The *Good Jobs, Bad Jobs* report was one of the first to propose a shift from the existing Unemployment Insurance regime to an employment insurance fund where the primary objectives

would be supporting skill development and employability. This was a proposed policy shift away from the Unemployment Insurance program that was deemed overly generous to the unemployed and did not have strong enough work incentives. The Council's proposal called for more active policies and emphasized flexibility, which was essential in adapting to the new Canadian labour market. Unemployed workers could use funds for skills development, mobility and counselling while training would be made more accessible.

The OECD and Economic Council of Canada's reports highlight the popular shift in thinking about labour market policies in the early 1990s. Policy makers thought active labour market policies would reduce unemployment and help workers adapt to a changing economy where the service industry played a larger role. These two reports provide context for Canada's 1996 EI reforms.

2.3 The 1996 EI Reform

The Employment Insurance Act of 1996 introduced Canada's EI program as we know it today and has been called the "most sweeping reform since the Unemployment Insurance Act of 1971" (Gray 2003, p.1). The Act introduced two broad changes. One, to implement a series of changes in the structure and eligibility rules of the unemployment benefit system and the second to put more emphasis on active labour market policies and introduce a new, more coherent organization of them (Van den Berg et al., 2004).

The new suite of active labour market policies included introducing the categories of programs we have today. Skills development, targeted wage subsidies and employment assistance services, among other programs, were established and remain the framework for Employment Benefits and Support Measures. Following the reforms, the federal government

signed Labour Market Development Agreements with provinces and territories. LMDAs are formal agreements between the federal and provincial and territorial governments to delegate and share responsibility for program management and implementation. The delivery of active labour market programs was previously a federal responsibility but the federal government recognized that provinces were in a better position to deliver programs that responded to local labour market demands which would enhance program effectiveness (Gray 2003, p.6). However, it is noteworthy that others suggest the "desire to remove active labour market measures as an irritant in federal-Quebec relations" influenced the federal government's agenda (Lazar 2002, p.6).

3. Employment Insurance and Active Labour Market Programs

The Employment Insurance Act states that Employment Benefits and Support Measures (EBSM) are labour market programs and services designed to "assist individuals in Canada to prepare for, obtain and maintain employment." Employment Benefits are usually long term, direct forms of training like on-the-job training or skill development programs or upgrading credentials. Employment and Skills Development Canada (ESDC) groups Employment Benefit programs under four categories (2013):

1. Targeted wage subsidies provide a wage subsidy to encourage employers to hire workers they would normally not hire.
2. Skills development programs help insured clients cover the cost of training that is supported with an approved return-to-work action plan.

3. Self-employment assistance provides financial assistance and guidance to clients to start their own businesses
4. Job creation partnerships consist of short-term employment at non-profit enterprises, such as community organizations, designed to provide work experience to participants.

Support Measures are short term interventions such as resume writing workshops, career counseling or labour market information. They primarily fall under Employment Assistance Services (EAS) which include services such as resume writing workshops, individual counseling, and job search help. EBSMs are only available to claimants with active EI claims and former claimants who established a benefit period in the past three years. However, support measures such as Employment Assistance Services are available to all unemployed Canadians, regardless whether or not they are eligible for EI.

In 2012-13, $2.1 billion were spent on EBSMs, which accounted for about twelve percent of total EI spending for the year and just over one percent of total government expenditures. EBSMs helped 662,260 clients which represented a 2.5 percent increase from 2011-12. These numbers show that there is a large amount of money going towards EBSMs and a number of Canadians, about 3 percent of the 17 million people in the labour market, used these services and least once in 2012. (ESDC 2013)

The majority of EBSM funds, $1.13 billion, go towards Employment Benefits and are broken down in Table 1.

Table 1: Employment Benefits Expenditures by Category

Type of Intervention	Expenditure Amount ($Millions)	Percentage of Total
Skills Development	914.8	81.1%
Targeted Wage Subsidies	67.9	6.0%
Self-Employment	118.3	10.5%
Job Creation Partnerships	24.5	2.2%

Source: Canadian Employment Insurance Commission, *EI Monitoring and Assessment Report 2012-13*, p.118.

Support Measures, which are available to all unemployed individuals in Canada, received about $744 million in funding in 2012-13 (ESDC). The majority of this money goes to Employment Assistance Services which delivered 901,063 interventions in 2012-13, a year over year increase of 14.2 percent. A significant amount of money is in play and a large number of people participate making EBSMs are worthy of attention.

4. Evaluation Results

The goal of EBSMs is to provide unemployed people with resources and services to help them find a job. Is that happening? Are the programs having positive impacts on participants? To answer these questions we now turn to the results published by ESDC.

4.1 Monitoring and Assessment Reports

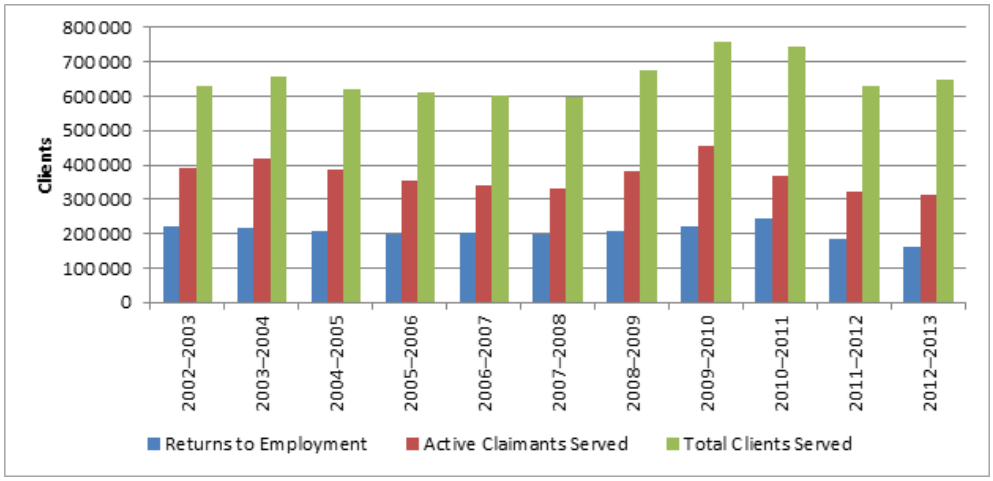
EBSM programs results are published in two types of reports. The first is the annual Monitoring and Assessment Report published by ESDC and the Canada EI Commission. The second type is a summative provincial evaluation prepared by provinces and territories as required by the 1996 EI Act.

The Monitoring and Assessment Reports present a high-level overview of EBSM impacts. EBSM results are measured by three performance indicators: the number of active clients served; the total number of clients served; the number of EI clients who return to employment; and the amount of unpaid Part I EI benefits resulting from a client's return to work. When designing the evaluation framework shortly after the LMDAs were signed in the late 1990s, evaluators selected these indicators because these outcome measures are commonly used in active labour market evaluations and choosing them allowed for comparison with other studies (Nicholson, 2001; 2008).

It is prudent to note that ESDC offers a disclaimer with the data on EBSMs. The data is collected from all provinces and territories which use different systems and a variety of sources. Further, the programs offered under each category differ by province and even by region within a province in some cases. Another caveat is that we don't really know the counterfactual—how many people would have returned to work and when in the absence of the program—which makes results suggestive and hard to judge.

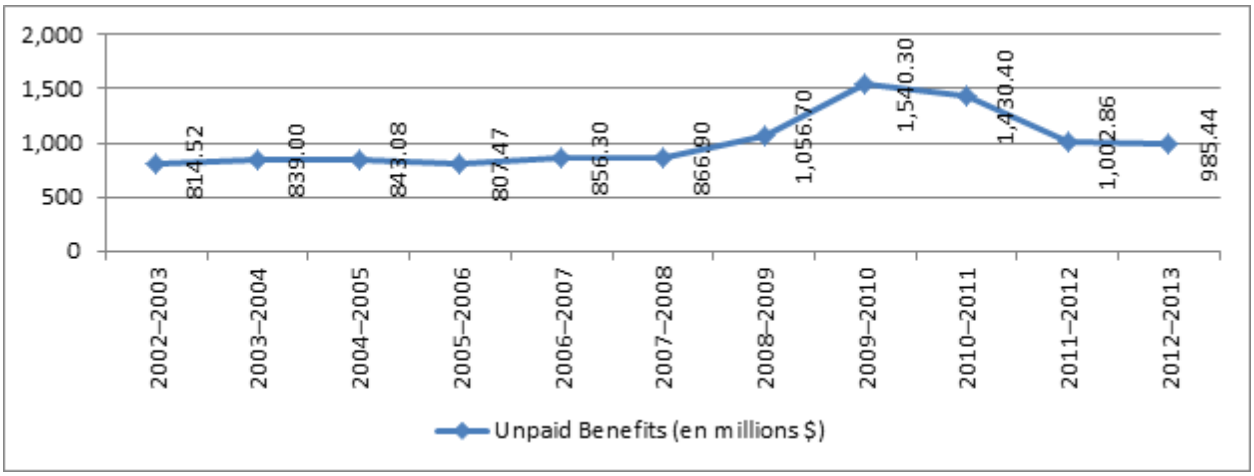
Figure 1 illustrates the change in the first three indicators from 2002–2003 to 2012–2013. Figure 2 shows the amount of unpaid EI benefits as a result of a return to employment. These figures show that the program has steady participation and functions as an automatic stabilizer should in that the number of clients increased after the economic crisis of 2008 and fell as the economy recovers.

Figure 1: Selected LMDA Performance Indicators, 2002-2003 to 2012-2013



Source: Canada Employment Insurance Commission, 2012/13 Employment Insurance Monitoring and Assessment Report, Chapter 3, Section 6, Key Performance Indicators, 2014.

Figure 2 – Unpaid EI Benefits ($ Million), 2002–2003 to 2012–2013



Source: Canada Employment Insurance Commission, 2012/13 Employment Insurance Monitoring and Assessment Report, Chapter 3, Section 6, Key Performance Indicators, 2014

These charts show that the program is large, has some success, and has the potential to save the government a significant amount of money. Figure 1 shows that between six hundred

and seven hundred thousand people have participated in some sort of EBSM intervention each year since 2002. It also shows that each year around two hundred thousand of those participants return to some form of employment. Figure 2 highlights government savings as a result of those participants returning to work. In 2011-2012, for example, nearly two hundred thousand EBSM clients returned to work and as a result, the federal government saved $1.43 billion in unpaid EI benefits that would have been paid if those clients remained unemployed.

The Monitoring and Assessment Reports also present descriptive statistics about EBSM participants but these are not used to quantify results for different groups of people due to sample size restrictions. They are presented here to show that the participant group is heterogeneous.

Table 2: EBSM Participants: Descriptive Statistics 2013

Designated Group	**Share of all Participants (percentage)**
Age	
15-24	19.4
25-54	69.5
55+	11.0
Sex	
Male	54.6
Female	45.4
Aboriginal	6.7
Visible Minority	4.0

Source: Canadian Employment Insurance Commission, *EI Monitoring and Assessment Report 2012-13*, p.116-18.

The results in Table 3, from the 2013-13 Monitoring and Assessment Report offer a few high-level results. The fact that almost 162,000 clients returned to work is notable but on the whole, these results only describe the size of the program and macro-level administrative details.

The results do not provide for an understanding of the impacts of the program. For instance, the report does not say how many EI recipients who chose not to participate in the program returned to work over the same time period which would provide a reference for the program's impact. Results are broken down by province but they follow the same structure as national results so they do not provide a clear picture of how variations in programming affect outcomes.

Table 3: EBSM Performance Indicators 2013

Indicator	Total
Active Claimants Served	319,904
Total Clients Served	662,260
Returns to Employment	161,993
Unpaid Benefits ($ Million)	$985.44

Source: Canadian Employment Insurance Commission, EI Monitoring and Assessment Report 2012-13, p.125.

4.2 Summative Evaluations

The second type of program evaluation ESDC publishes are provincial level Summative Evaluations. Shortly after the federal government signed LMDAs with the provinces, Human Resources Development Canada (as ESDC was known at the time) convened an expert panel to design an evaluation framework for EBSMs. HRDC published a paper prepared by Walter Nicholson (2001) that detailed the panel's proposed evaluation methods and the reasoning for their final recommendations which is drawn on for this assessment. The panel drew from their expertise and various active labour market policy evaluations to design an evaluation framework. The evaluation framework was important because LMDAs provide explicitly for a quantitative

analysis of the effectiveness of EBSMs. Provinces must report annually on results but the quantitative analysis is meant to be in-depth and rigorous in order to obtain relatively precise estimates of outcomes.

Provinces are responsible for conducting summative evaluations but the evaluation methodology was to be developed in consultation with the federal government. The expert panel set out to design a "generic, objective, state-of-the-art framework" that would allow for comparable results while remaining flexible so provinces could adapt the framework to their specific needs (Nicholson 2001). Eventually, the panel recommended a framework that has a standard methodology and a few basic mandatory measures but which allows provinces to add any measures they deem appropriate. This framework has been applied consistently across the country.

The evaluation framework the panel recommended focuses on measuring the differences in employment-related outcomes between a group of individuals who participated in an EBSM program and a group of EI claimants who did not participate. Random assignment would have been the gold-standard. However, establishing a counterfactual group against which participants could be evaluated was deemed unfeasible "because the denial of service required to implement it would violate legal principles of free access to these programs" (Nicholson 2008, p.5). Instead, the panel recommended statistical matching techniques to find a suitable comparison group.

Statistical matching techniques link key demographic and labour market characteristics to find comparison group members that replicate what would have happened to program participants had they not participated in the program. Characteristics matched include gender,

age, local labour market conditions and work experience. Evaluators use administrative and survey data to match comparisons group members to participants.

Since random assignment is the preferred choice for social policy evaluations, a discussion about its strengths and weaknesses helps assess other evaluation methods, such as the method chosen for the provincial evaluations, by providing a standard for comparison. Random assignment would improve the program's evaluation process because it is the 'gold standard' of estimating the impacts of social policies (Riddell 2009), allowing evaluators to attribute impacts to program participation and addressing the critical issue of selection bias in active labour market programs. A randomized controlled trial, or social experiment, is a controlled experiment that takes place outside a laboratory setting, in the usual environment where social and economic interactions occur (Burtless 1995). A treatment, participating in an EBSM program in this case, is given to a randomly selected subsample of participants and withheld from the remainder of participants who form the control group.

The major strength of social experiments, or random assignment, is that it creates a credible comparison group because participants are assigned randomly to either the control or experiment group. Random assignment balances out individual characteristics so on the whole, the only difference between the two groups is their participation in a treatment, or an EBSM program in this case. This is important because differences in outcomes between the two groups can then be directly attributed to program participation. According to Burtless, "random assignment assures us of the direction of causality between treatment and outcomes" (1995, p. 68).

Random assignment would be particularly effective at improving the reliability of EBSM results as selection bias makes determining a suitable comparison group a challenge. Selection bias is a critical issue because program participation is voluntary. It is possible that there is a systematic correlation between some unobservable characteristic and the decision to participate in an EBSM program. It would be near impossible for statistical matching, the current method for selecting a comparison group, to identify this correlation because it is only possible to match observable characteristics. Unobserved characteristics like motivation and dedication, for example, could significantly influence a person's decision to participate in an intervention and their post-participation experience in the labour market. Random assignment would control for such unobservable differences and reduce uncertainty about what caused differences in outcomes. Burtless says there's no reliable econometric fix to this issue. He cites studies (LaLonde 1986) that show even when econometric estimates are considered robust, they still fail to replicate the experimentally determined results.

While randomized social experiments could address some evaluation issues, not everyone is convinced this method is necessary. Heckman and Smith (1995) argue that the literature on social experiments overstates many of the arguments in favour and would not address many of the questions policy makers have with regards to social programs. They argue that non-experimental, or econometric, methods can in fact create good comparison data. The authors cite studies (Heckman, Ichimura, Smith, Todd, 1995; Heckman, Roselius 1994) that refute Lalonde's claims saying that given sufficiently rich data on persons who were eligible for the job training program LaLonde studied, non-experimental methods were able to create a comparison group that was nearly identical to the control group from and experimental evaluation done on the program (p. 90). The problem with their criticism in the context of Canadian ALMP is the level

of data may not be available or may rely on survey data which is problematic, especially when self-reporting characteristics like motivation.

Heckman and Smith also argue that social experiments do not address many questions policy makers have about programs such as the effects of race, sex or local labour markets. While social experiments may not address these questions, the recommendations that follow would supplement the social experiments to provide some answers.

Determining a comparison group that is sufficiently similar to the participant group is a key challenge cited in the panel's report. It is important the groups have similar characteristics so that differences in their outcomes can be attributed to the impact of the program. All of the summative evaluations used some form of statistical matching as a way of selecting a comparison group (Nicholson, 2008).

Once evaluators selected a comparison group, they carry out difference-in-differences evaluations. The difference-in-differences method is a statistical technique that uses observational data to mimic an experimental research design. Selected indicators are measured at different time periods for both a participant group and a comparison group. In this case, evaluations measure indicators before and three years after program participation. The outcomes in the three post-program years were combined into an 'average annual impact' indicator in the evaluations. Changes in outcomes over time for both groups are then compared. If the matching done while selecting a comparison group is robust, then difference in outcomes between the two groups can be attributed to receiving the program services under the assumption that trends are the same for the two groups.

Data used to compare outcomes included administrative data from EI and the Canada Revenue Agency (CRA) where available as well as survey information. New Brunswick, Nova Scotia and Prince Edward Island evaluations made extensive use of CRA data but confidentiality concerns generally prevented other provinces from using the CRA data for their evaluations (O'Leary 2011, p. 97). Concerns centred on balancing the need to uniquely identify individuals to track outcomes over time but ensuring that individual's privacy. However, confidentiality concerns seem to have been addressed and evaluations will make use of CRA data going forward.

The outcomes selected for measurement should be related to the intended program goals which are to help individuals attain employment. Most evaluations measured six or more primary quantitative outcomes (Nicholson, 2008) but only three standard measures were consistent across all provinces. Those measures were the same as the measures presented in ESDC's annual Monitoring and Assessment Reports: employment, measured in hours worked; earnings, measured in dollars per year; and EI collections, measured by the number of weeks per year that a person receives Part 1 EI benefits. As noted earlier, these outcome measures are commonly used in active labour market program evaluations. Only results estimated separately by intervention are reported because the interventions have very different conceptual bases. For example, Skills Development program design addresses different issues than Self-Employment programs. One aims to develop skills, possibly in conjunction with an employer, for a specific job while the other provides support for people who have already skills or a business idea. Such different program designs means results separated by intervention are more valuable than aggregates as it is reasonable to expect results to differ.

One final note on EBSM evaluation methodology is that results for active and former claimants are presented separately (except for Nova Scotia due to sample size restrictions) because of the significantly different characteristics of the two groups. Both active claimants—individuals who are currently collecting EI Part I benefits—and former claimants—individuals who are not currently collecting EI Part I benefits but have in the past three years—are eligible to participate in EBSM programs. The panel decided to present results for the two groups separately because their employment history could significantly affect their post-program outcomes. Active claimants have a more recent attachment to the labour force while former claimants have been out of the labour force for some time. This difference is important because skills deteriorate when people are not working and employers may be reluctant to hire someone who has been out of work for an extended period of time.

As it turns out the Provinces were sufficiently consistent in their summative evaluation methodologies, particularly when measuring the three standard outcomes, that results are comparable. They are summarized below in Table 1.

Table 4: Estimated Impacts for Skills Development												
	Active Claimants						Former Claimants					
	Annual Hours		Annual Earnings		Annual EI Weeks		Annual Hours		Annual Earnings		Annual EI Weeks	
	Hours	%	Dollars	%	Weeks	%	Hours	%	Dollars	%	Weeks	%
Alberta	…	…	**4,796**	24	**-1.2**	-8	**117**	12	…	…	…	x
British Columbia	**211**	17	**3,313**	17	**1.8**	12	**-235**	-24	-**3,868**	-24	-0.1	-1
Manitoba												
New Brunswick	6	0	**2,700**	14	-1.4	-9	87	9	3,300	21	**4.3**	30
Newfoundland-Labrador	104	8	**1,985**,	10	**-2.2**	-15	-79	-8	-318	-2	-0.8	-5
Nova Scotia	…	…	**2,936**	15	1.8	12	…	x	…	…	…	x
Ontario	54	4	-402	-2	**-3.0**	-20	28	3	906	6	0.4	3
PEI	…	…	1,057	7	0.5	3	…	x	…	…	…	x
Quebec	147	12	1,690	8	1.0	6	**342**	34	**5,276**	33	**-2.5**	17
Saskatchewan	…	…	…	…	**-2.0**	-13	…	…	…	…	…	x
Average	104	8	2259	12	-1	-4	43	4	1059	7	0	9

Boldface indicates statistically significant results at the .05 level of significance. … indicates data not reported.
Source: Nicholson, 2008, p. 4 and author's calculations.

Skills Development interventions are the most similar to formal education. Participants spend time learning a set of skills either on-the-job or, more often, in a classroom setting. Participants often receive some type of certificate or diploma. SD is the largest active labour market program with spending totaling $915 million in 2013. The results for Skills Development for active claimants are positive. For provinces that reported results, participants increased annual hours worked by about 100 hours and annual earnings by about $2,200. Participants in Alberta saw the largest increase in earnings of almost $5,000 while participants in B.C. reported the largest increase in hours worked. In proportional terms the gains are quite large by international standards – about 10-15 percentage points in both hours and earnings (O'Leary 2011). Both positive and negative net impacts were found for EI use among active claimants.

The results for former claimants were more variable than results for active claimants. Estimates of changes in earnings ranged from a decrease of $3,900 per year to an increase of

$5,300 per year and changes in hours ranged from a decrease of 235 to an increase of 342. Except for B.C., the results were still modestly positive. Authors of the BC evaluation did not offer a clear explanation for the large negative results for former claimants (Nicholson 2008, p. 19). Nicholson notes that the especially large hours and employment gains in Quebec for former claimants suggest the comparison group in Quebec may not have been especially well matched. He also said there were some matching issues for former claimants in all of the evaluations which may have skewed results.

The relatively positive results from Skills Development programs may in part be explained by the focus of many Skills Development programs on obtaining credentials. There is empirical evidence that credentials for completing a program may serve as a signal about productivity to employers (Martin and Grubb 2001).

Table 5: Estimated Impacts for Targeted Wage Subsidies												
	Active Claimants						Former Claimants					
	Annual Hours		Annual Earnings		Annual EI Weeks		Annual Hours		Annual Earnings		Annual EI Weeks	
	Hours	%	Dollars	%	Weeks	%	Hours	%	Dollars	%	Weeks	%
Alberta	...	...	**4,180**	21	...	...	...	...	...	...	...	...
British Columbia	**296**	24	2,699	14	1.0*	7	**328**	33	**3,194**	20	0.2	1
Manitoba												
New Brunswick	28	2	600	3	0.1	0	419	42	2,100	13	8.5	57
Newfoundland-Labrador	-74	-6	-2,141	-11	-2.0	-13	...	...	...	...	...	...
Nova Scotia	X	...	4,791	24	-1.8	-12	...	...	...	...	...	...
Ontario	74	6	-636	-3	**-1.6***	-11	**275**	27	**2,811**	18	**1.6**	11
PEI	X	...	447	2	1.2	8	...	...	...	...	...	...
Quebec	88	7	1	0	**2.7***	18	**194**	19	**2,642**	17	**2.7**	18
Saskatchewan	X	...	...	...	0.2	1	...	...	...	...	...	...
Average	82	7	1,243	6	0	0	304	30	2,687	17	3	22

Boldface indicates statistically significant results at the .05 level of significance. … indicates data not reported.
Source: Nicholson, 2008, p. 5 and author's calculations.

Targeted Wage Subsidies are the third largest Employment Benefit and spending on this program totalled $68 million in 2013-14. The theory behind Targeted Wage Subsidies is that hiring a worker would be subsidized for a certain period of time and during that time: they would learn skills; develop into a productive employee; and be valuable to the company. The expectation is that the employer would hire them at a regular wage once the subsidy period was over. The subsidy may help compensate for an initial period of low productivity for new workers.

Outcomes for Targeted Wage Subsidies were generally positive but this time, former claimants fared better than active claimants. On average, former claimants increased earnings by almost $2,700 in post-subsidy years and hours worked by over 300. Former claimants in all provinces reporting results made considerable gains although EI use increased. Active claimants also increased earnings and hours worked on average although there was more variation across

provinces. Participants in Alberta increased earnings by nearly $4,200 while participants in Newfoundland and Ontario saw earnings fall.

More positive and consistent results for former claimants could be expected because former claimants represent workers who have typically been out of the labour force for an extended period of time. Extended periods of time outside the labour force may erode worker's skills. Targeted Wage Subsidies reduce the employer and employee's cost of rebuilding those skills and adapting to a new job. Compared to former claimants, active claimants have recent employment experience meaning they have not been unemployed long enough for their skills to erode. Therefore, potential gains for active claimants may be limited.

Table 6: Estimated Impacts for Self-Employment												
	Active Claimants						Former Claimants					
	Annual Hours		Annual Earnings		Annual EI Weeks		Annual Hours		Annual Earnings		Annual EI Weeks	
	Hours	%	Dollars	%	Weeks	%	Hours	%	Dollars	%	Weeks	%
Alberta	**168**	13	…	…	**-1.3**	-9	…	…	…	…	…	…
British Columbia	**456**	36	**-466**	-2	0.0	0	**229**	23	**2,617**	-16	**-2.6**	-17
Manitoba												
New Brunswick	**1,743**	76	**-12,200**	-60	**-11.8**	-79	…	…	…	…	…	…
Newfoundland-Labrador	-65	-5	**-3,711**	-19	**-16.4**	-5	…	…	…	…	…	…
Nova Scotia	…	…	**4,461**	23	**-4.5**	-30	…	…	…	…	…	…
Ontario	**347**	28	590	3	**-5.8**	-39	**372**	37	330	2	**-2.2**	-15
PEI	…	…	…	…	…	…	…	…	…	…	…	…
Quebec	**558**	45	-3,440	-17	**-1.5**	-10	**1,087**	56	**4,645**	29	**-4.0**	-27
Saskatchewan	…	…	…	…	…	…	…	…	…	…	…	…
Average	535	32	-2461	-12	-6	-25	563	39	786	5	-3	-20

Boldface indicates statistically significant results at the .05 level of significance. … indicates data not reported.
Source: Nicholson, 2008, p. 6 and author's calculations.

In 2012-13, spending on Self-employment programs totalled $145 million with about $118 million and 8,200 individuals participating. The theory behind the self-employment program is financial assistance can help EI claimants start their own business. Provincial results show significant variation.

Self-employment results show positive impacts on employment for both active and former claimants as hours worked increased and weeks collecting EI decreased. With the exception of Newfoundland, Self-employment participants had significant increases in hours worked. However, self-employed individuals are not eligible for EI so the decline in weeks collecting EI could be a result of individuals no longer being eligible rather than not needing the help. Changes in annual earnings are quite heterogeneous, reflecting the fact that, like many self-employment ventures, some ventures can be quite successful while others fail.

Table 7: Estimated Impacts for Job Creation Partnerships												
	Active Claimants						Former Claimants					
	Annual Hours		Annual Earnings		Annual EI Weeks		Annual Hours		Annual Earnings		Annual EI Weeks	
	Hours	%	Dollars	%	Weeks	%	Hours	%	Dollars	%	Weeks	%
Alberta	…	…	**3,565**	18	…	…	…	…	**3,750**	-24	…	…
British Columbia	**285**	23	2,327	12	0.0	0	85	9	**2,103**	-13	0.1	1
Manitoba												
New Brunswick	…	…	…	…	…	…	…	…	…	…	…	…
Newfoundland-Labrador	16	1	47	0	-0.5	-3	**-259**	-26	**-2,671**	-17	-0.8	-5
Nova Scotia	…	…	647	3	1.2	8	…	…	…	…	…	…
Ontario	2	0	**2,471**	-12	-0.4	-3	133	13	2,159	14	**1.5**	10
PEI	…	…	…	…	…	…	…	…	…	…	…	…
Quebec	…	…	…	…	…	…	…	…	…	…	…	…
Saskatchewan	…	…	…	…	…	…	…	…	…	…	…	…
Average	101	8	823	4	0	1	-14	-1	-1,591	-10	0	2

Boldface indicates statistically significant results at the .05 level of significance. … indicates data not reported.

Source: Nicholson, 2008, p. 7 and author's calculations

Job Creation Partnerships are jobs provided through community development projects. In 2012-13, Job Creation Partnership spending totalled $24.5 million and 2,900 people participated. The impacts for Job Creation Partnerships are difficult to determine given the lack of significant results reported. The few results reported suggest mixed impacts on earnings.

Table 8: Estimated Impacts for Employment Assistance Services						
	Active Claimants					
	Annual Hours		Annual Earnings		Annual EI Weeks	
	Hours	%	Dollars	%	Weeks	%
Alberta	...	...	...	...	...	...
British Columbia	49	4	37	0	**5.6**	37
Manitoba						
New Brunswick	-7	-1	-1,000	-5	2.1	14
Newfoundland-Labrador	44	4	-480	-2	-0.7	-5
Nova Scotia	...	...	...	...	...	...
Ontario	60	5	-628	-3	-1.0	-7
PEI	...	...	...	...	...	...
Quebec	-44	-4	-1,900	-9	4.0	27
Saskatchewan	...	...	...	...	**-1.6**	-11
Average	20	2	-794	-4	1	9

Boldface indicates statistically significant results at the .05 level of significance. … indicates data not reported.
Source: Nicholson, 2008, p. 8 and author's calculations.

Often Employment Assistance Services are combined in action plans with other interventions. Because of this complexity, evaluations of Employment Assistance Services have tended to focus on the group of "Employment Assistance Services-only" claimants.

5. Discussion

So what do the results published by ESDC tell us? Can we say the programs have positive impacts on participants? Is it possible to understand why participation has positive impacts or reasons why not?

These are important questions for several reasons. First, it is important that these programs are effective at helping people find employment. The programs are a service provided to unemployed individuals and the government should be accountable for providing programs that have a positive impact. Second, to improve program effectiveness, it is helpful to understand why programs work, especially when programs vary by province, so best practices can be replicated. Third, $2 billion is a large amount of public funds that should be used in an effective manner on programs that work. And finally, helping people get back to work provides cost savings to the country by reducing EI Part I expenditures.

The results published by ESDC suggest the ALMP are generally successful. There is evidence that program participation generally improves outcomes as measured by earnings, hours worked and weeks in receipt of EI. However, there are issues with the data. First, there are a number of gaps in the data as marked by the "…" in the tables. This limits analysis. Second, there is great variation across programs, provinces and between active and former claimants which suggests that further investigation of the results is necessary to gain a better understanding of the programs. A better understanding of how, why and under what circumstances programs work is important because research has shown that ALMP design is a key determinant of program effectiveness. Multiple studies (Martin and Grubb 2001; Kluve 2010; Vlandas 2011) demonstrate that impacts of different interventions vary in magnitude and even direction on

different groups of participants while multiple World Bank studies (1999, 2003) say program design matters a great deal. It is at this point, when attempting to dig deeper into the data, that it is clear the evaluations and results published by ESDC do not provide for an in-depth understanding of results across programs and provinces.

5.1 Academic Criticisms

Criticisms of Canada's ALMP evaluation process are not new. In fact, it is widespread among those involved in discussions regarding this program. Various academic researchers and industry groups have said that the evaluation and reporting process are problematic. Also, the evaluations were widely criticized in testimony to the House of Common Committee on Human Resources during February 2015 hearings about the renewal of Labour Market Development Agreements.

Criticisms touch on a variety of aspects of the evaluation and reporting process. Riddell (2009) says that credible Canadian evidence on ALMP is lacking as program evaluation is not integrated with social science research. This is a missed opportunity to improve our understanding of how programs work. Wood and Klassen (2011) echo these concerns saying there is a lack of transparency and reporting as well as comparative research to "facilitate mutual learning." Here they point to ESDC cautioning against inter-jurisdictional comparisons as a major barrier to further understanding. These criticisms say that there is an opportunity to improve our understanding of ALMP and improve program performance but the evaluation process inhibits the analysis required to make those improvements.

Another line of criticism suggests evaluation shortcomings reduce government accountability. Graefe and Levesque (2008) say that segmented reporting makes it difficult to hold governments to account because each province reports separately on each LMDA

agreement, the legislation governing ALMPs. Again, others echo these concerns. Mosley (2009) cites the number of organizations involved in reporting labour market information and performance accountability across the country as a negative effect of decentralisation. Consistent reporting of performance indicators by the different third-party delivery agents is often inadequate, unreliable or not timely (Gunderson 2003).

Others contend ESDC's reports themselves are part of the problem. In testimony before the House of Commons Committee on Human Resources, Tyler Meredith of the Institute for Research on Public Policy said annual provincial reports make it "hard to tell what outcomes are (Standing Committee on Human Resources 2015, p.3). He pointed to ESDC's Monitoring and Assessment Reports as the best place to go for information because it is consistent. But others have noted the lack of information in the Monitoring and Assessment Reports with Dawkins going as far as saying they are "vague to the point of being useless" (2009, p.12).

Criticisms come from beyond just the academic community. Industry representatives criticized LMDA reporting with the Canadian Manufacturers and Exporters saying it is nearly impossible to know the impact of training expenditures. It was even noted by the Canada Employment Insurance Commission that one business association worked hard to garner information about LMDA-funded programs for its members – visiting ESDC and provincial and territorial websites, writing to ministers involved and consulting Monitoring and Assessment reports – but found it "virtually impossible to get a concrete picture" of what programs are offered using LMDA money and how well money is being spent (Standing Committee on Human Resources 2015, p.3). Industry criticisms are important to note because they point to the fact that industry attempts to use this program to find skilled workers which is exactly how the

program should work. The program provides benefits for unemployed individuals in the form of training and it benefits employers by producing workers with in-demand skills.

Many of the criticisms cite inadequate reporting as a major issue but there are also concerns about the evaluation procedure, best summed up by Michael Mendelson of the Caledon Institute of Social Policy in testimony before the House Committee:

> Good evaluation requires third-party objective review where it's possible, randomized controls, and rigorous statistical and economic analysis. We need to know what is working well and what is not, what makes financial sense and what does not, not as a way of attaching blame but as a way of improving our programs (Standing Committee on Human Resources 2015, p.3).

The federal government should require high standards for evaluation and should aggressively promote best practices.

5.2 Criticisms

My criticisms of the program evaluations and results fall into two broad categories. There are issues with the evaluation methodology, and with reporting requirements.

In its current form, the evaluation methodology may systematically provide skewed results. The statistical matching process that identifies a comparison group against which participant group outcomes are measured cannot match unobserved individual characteristics like motivation. This is potentially significant because motivation could play a large role in the decision to participate in a program to aid in the search for a job. Survey questions that ask why an individual decides to participate could provide further insight for matching techniques but it may not be enough. Motivation could lead to self-selection bias as it affects both program participation and labour market outcomes. If motivated individuals are more likely to participate and also have better labour market outcomes in the absence of participation, it will appear as if

participation in the program caused such favourable outcomes. Conversely, choosing not to participate may indicate characteristics of someone who is less likely to find work. Random assignment is the only way to control for unobservable characteristics between two groups which is why it is often considered the method of choice of in social policy evaluation (Smith 1999).

Another issue with the methodology is the indicators chosen for measurement. The indicators provide basic outcome information but they lack details that could determine job quality or the relevance of the training program. For instance, it would be a stretch to say a computer programming Skills Development program was successful if the participant found a low-paying, part-time service job. Job quality is an important piece of information because the goal of these programs should be to provide people quality, stable employment – careers even. Indicators should look at skill enhancement, wage gains and sustained employment which may require long-term follow-ups to track outcomes over time.

A third issue is the reporting requirements for provinces and specifically the lack of standardization. Decentralization is an important feature of the ALMP design as it allows programs to meet regional needs. It may be important for different regions to measure different outcomes and reporting should accommodate that. However, the lack of standardization inhibits comparative study that could improve program effectiveness and hold governments to account. More standardized timing of reports, indicators tracked and general guidelines like reporting for active and former claimants separately would be valuable.

Lastly, the reports lack analysis about why individual programs have positive or negative impacts. Detailed case studies could provide insight as to program design features that are successful and could be adopted by others. For example, does an intensive two-week training

program produce more positive results than the same program spread over several months? Or is there a certain mix of classroom and on-the-job training that has proved to be effective? This level of information could make other programs more effective.

6. Recommendations

Clearly, there are issues with data on outcomes of ALMP in Canada. However, the situation may not be as dire as some of the criticisms suggest. Data is hard to compare and lacking in some provinces at the national level and the Monitoring and Assessment Reports provide little more than an account of where money was spent and how many people participated. But data at the provincial level in the Summative Evaluations is relatively rich. Critics do not give enough credit to provincial-level evaluations. At that level, there is a solid framework to collect and compare data but the process needs to be developed further to address some considerable shortcomings. The following recommendations would address some of these shortcomings and provide for a better understanding of ALMP outcomes.

6.1 Random Assignment

Random assignment would improve the program's evaluation process, allowing evaluators to attribute impacts to program participation and addressing the critical issue of selection bias in active labour market programs.

Another advantage of social experiments, and part of the reason they are popular, is that that they produce results which are easy to communicate. A carefully conducted experiment

allows analysts to describe findings in simple language without some of the qualifications required to explain non-experimental studies (Burtless 1995, p. 69).

In his paper outlining the evaluation methodology design for ALMPs, Nicholson said that random assignment was not chosen because withholding access to ALMP from those who want to participate is unethical. But there are options to overcome such ethical concerns. Heckman and Smith say random assignment is not unethical as long as people are aware that they are involved in a randomized trial, as is the case in medical experiments. They say that if random assignment is acceptable in medicine, where the stakes are much higher, then there is no reason it should not be used to evaluate labour market programs. Regardless of how random assignment is implemented, it would address critical selection bias issues.

6.2 Budget Constraint

Another option to introduce random assignment experiments is to recognize that the program is subject to a budget constraint. This would limit access to the program and necessitate some sort of fair selection process. Random assignment could then be used to determine who participates and who makes up the comparison group, thus reducing selection bias. Even if a program like this was introduced on a small scale (i.e. a pilot project) it could provide valuable information.

6.3 Standardized Reporting

A second improvement to the evaluation process would be more standardized reporting. Specifically, the federal government should increase the number of common indicators provinces and territories report and introduce more standardized reporting procedure.

In *The Jobs Study*, the OECD laid out best practices for countries to follow when designing ALMP. One of the suggestions was to develop a solid "evaluation culture" to monitor

programs. In Canada's case where program delivery is decentralized, it is likely the federal government that would need to take a leadership role to establish this culture. A better, standardized evaluation process from the federal government would yield two main benefits. First, evaluators could leverage economies of scale by amalgamating comparable data and second, analysts could exploit differences across regions to understand how factors like the business cycle affect ALMP performance.

6.4 Increased Sample Sizes (sub-groups)

A third recommendation is to increase the sample sizes in evaluations to allow for breakdowns of results by participant characteristics. Research on ALMP is clear that different programs work well for different groups of people. Women tend to have more positive results in skills development-type programs, youth struggle in almost all formal training programs and wage subsidies benefit the long term unemployed more than others. In *The Jobs Study*, the OECD even recommended targeted interventions because of these types of results. But all Canadian evaluations said it was impossible to breakdown results by sub-group due to sample size restrictions. Evaluations should recognize that performance varies across sub-groups and attempt to quantify these results. It could improve outcomes by identifying opportunities to better target interventions. Increased direction from the federal government could yield economies of scale in this area.

6.5 Explanation of why programs work

A final recommendation is more qualitative in nature but no less important than statistical issues. It would help if evaluations took a closer look into why programs work or did not work. This is a challenging proposition and a question that researchers have struggled to understand. It is a

significant gap in the international understanding of active labour market programs. Answers could improve program design.

Case studies of specific programs at a local level might offer insight as to what is successful. Evaluators should look for specific programs (i.e. and training program offered by a community college, an online course, an on-the-job program) that produces positive results and see if further investigation yields any indication as to why it works. Insights into design elements like program intensity, the frequency or duration of a training program, could result from this line of inquiry. Again, best practices could help improve program design in other cases.

7. Conclusion

Active labour market policies can be an effective tool to help to the unemployed. They are efficient because they work with market forces, supporting the reallocation of labour from declining to expanding sectors, and they are attractive because they help individuals earn their own living.

The results from Canada's active labour market programs suggest that the program has relatively positive impacts on participants. Compared to peers who do not participate in a program, participants generally have higher wages and work more hours. But the evaluation process has significant shortcomings, making it difficult to understand how effective programs are at producing positive impacts.

Improvements to Canada's active labour market program evaluation process would go a long way to furthering our understanding of the program which could then be used to provide

better services to Canadians and ensure the prudent use of public funds. The labour market development agreements between the federal government and the provinces are up for renewal which offers an opportunity to discuss the evaluation process. Policy makers, program evaluators and academics should take advantage of this opportunity.

This paper points out the shortcomings in Canada's active labour market development program evaluations but also highlights the potentially strong foundation of provincial-levels evaluations. These can be built upon. Further research could look to Europe to further understand the outcomes of different active labour market programs and how Canada can measure them. Active labour market policies have a prominent role in EU countries social policy regime and may provide lessons for Canada.

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