



## It's not in Quebec's best interest to take back EI from Ottawa\*

In 1940, the provinces – including Quebec – agreed to a constitutional amendment putting unemployment insurance into Ottawa's jurisdiction. Now Pauline Marois, Quebec's premier-elect, wants to take what is now called employment insurance back from the federal government.

Ottawa should respond in the same spirit of pragmatic federalism as prevailed in 1940. If Premier Marois places a resolution before the National Assembly seeking a provincially run EI program, and if the resolution passes, the rest of Canada should agree to this request. But in Quebec's self-interest, the legislature should turn down the premier.

In each of 2007 and 2008, EI premiums collected in Quebec amounted to \$160 million more than total EI income benefits paid out to the unemployed in the province. However, EI paid out \$600 million annually in 2007 and 2008 in other benefits and supports, such as training programs, in Quebec. In addition, administrative costs for EI across all of Canada was about \$1.8 billion in each of those two years, making Quebec's proportionate share about \$430 million annually. So

if Quebec had run its own EI program in 2007 and 2008, with no program changes, the net added budget cost to the province would have been around \$870 million in each year.

What's more, Quebec's net added cost of running its own EI program in 2009, the worst year of the recent economic downturn, would have been about \$1.94 billion – an increase of more than \$1 billion from 2008. But in 2009, unlike previous years, Canada's EI account was not in balance. The federal government added about \$6 billion to its debt to pay for the shortfall in its EI account in 2009.

If Quebec had been operating its own EI program, federal taxpayers in Quebec would not have had to support their portion of this debt, so we should assume Quebec would have had this part of its federal taxes refunded in some fashion (although the mechanics of how this could actually happen are difficult to imagine). With Quebec's proportionate share of the \$6 billion federal EI deficit being about \$1.43 billion, the net added cost for Quebec to have run its own EI program in 2009 would have been about \$510

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million. Quebec would still have been worse off with its own program in 2009, although it would not have been quite so costly for the province as in the two preceding years.

Given the evidence from 2007 through 2009, it is reasonable to conclude that the ongoing annual additional cost to Quebec, if it ran its own EI program, would be somewhere in the vicinity of \$500 million to \$750 million. This is a heavy extra cost for Quebec to absorb.

Over and above the new costs of a made-in-Quebec EI program, Quebec would also be taking on added risk. From an international perspective, risks due to an economic downturn that had previously been spread right across Canada would now be Quebec's alone. The \$6-billion EI-account deficit in 2009 was a Canadian liability: if Quebec had had its own program, it would have had to borrow the additional \$1.43 billion in its own name. Canada's credit rating is better than Quebec's, and its interest rate is lower. Because of Quebec's higher borrowing costs, it would have had to pay even more than its current proportionate share of Ottawa's EI program to operate a Quebec-only program during economic downturns.

Quebec's debt situation is already precarious. By taking over EI, Quebec would be adding to the financial risk it bears on its own. The immediate result could be a further downgrade in Quebec's credit rating, and increased interest on all its public debt as well as that of the agencies whose debt it guarantees, such as Hydro-Québec. If this were to happen, the province's added costs would be even greater. Moreover, in the larger perspective, Quebec would be taking

one giant step toward the situation in Europe: monetary union without fiscal union. We have seen where this can lead.

Jurisdiction for EI was transferred to the federal level in 1940 because Ottawa is responsible for the overall macroeconomic performance of the economy, including unemployment. In fact, it was Alberta's default on its provincial bonds in 1936 that drove home the necessity for all of Canada to share the burden of economic risk together. The same rationale holds just as true today.

Is taking over the EI program the best option for Quebec? There is a better alternative. Why doesn't the new Quebec government tell us what it wants to do with EI? Presumably its purpose is not just to run the EI program as it exists today. If Quebec could tell the rest of Canada how it wants to change the program, there is a good chance that – with some give and take – we might all get on board. After all, Ontario and other provinces have also been pressing hard for EI program reform.

It will be better for Quebec and for all of Canada if we take on the tough task of reforming EI together.

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