

Costing 2018 Fall Economic Statement and Off-Cycle Measures

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Contact : Nigel Wodrich
nigel.wodrich@parl.gc.ca

Short title: Steel, Aluminum Work-Sharing Extensions

Description: Temporary extension of work-sharing (WS) measures for employers affected by the downturn in the steel and aluminum industries.

The measures:

- Extend the maximum duration of Work-Sharing Agreements by an additional 38 weeks, for a total of 76 weeks; and,
- Waive the mandatory waiting period between expired and new agreements.

The measures are effective August 19, 2018 to March 27, 2021.

Eligible firms must be directly or indirectly affected by the downturn in the steel and aluminum sector, and:

- Had a WS Agreement that ended between November 25, 2017 and August 18, 2018;
- Have a WS Agreement that will be signed between August 19, 2018 and March 27, 2021 (with an agreement start date no later than March 28, 2021); or
- Have a WS Agreement that will begin or end between August 19, 2018 and March 27, 2021.

Operating line(s): Major transfers to persons (EI), EI premium revenues

Source Data: Employment and Social Development Canada (ESDC)
Statistics Canada

Estimation and projection method: Bottom-up micro-accounting model, PBO's calculations

Uncertainty Assessment: The PBO expects this cost estimate to have moderate uncertainty.

Data and statistics related to work-sharing claimants in the steel and aluminum sectors were drawn from ESDC and consisted primarily of EI administrative data. However, certain inputs (for example, the proportion of claimants receiving benefits over 38 weeks) were drawn from other historical precedents (for example, the 2008-09 recession) which may not be entirely analogous to the current economic shock in the steel and aluminum sectors.

These data were modelled using a bottom-up micro-accounting approach making several key assumptions. PBO assumed an even distribution of work-sharing claims between the imposition of US tariffs and the end of the temporary measure. PBO

also assumed that, in the absence of the temporary extension to work-sharing benefits, all agreements over 38 weeks in length would be exactly 38 weeks in length, the previous maximum.

Certain parameters, such as average work-sharing benefits paid and firms' uptake rate, can vary significantly from year to year.

There is uncertainty in the outer years of the forecast, as future changes to US tariff policy may drive more or fewer firms to pursue Work-Sharing Agreements.

No significant behavioural response is anticipated in response to the measures.

EI administration expenses will generally hover around 10% the of total EI expenses over the outlook. As this measure increases total EI costs, PBO projects there will be a resulting impact on administration costs.

The expectation for cost recovery from personal income tax revenues on workers' earnings is small; therefore, PBO did not attempt to model the costs. At the same time, there will be cost recovery from higher employment insurance premium revenues. All employment insurance expenses are offset by a corresponding increase in EI premium revenues. As a rule of thumb, \$1.0 billion in new spending over a 7-year period corresponds to a \$0.01 increase in the EI premium rate.

Cost of proposed measure

\$ millions	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total cost	small	1	1	1	-1	-1

Supplementary information

Description		Operating line	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Costs								
	No change in activity		small	1	2	1	small	-
	Behavioural response		-	-	-	-	-	-
	Administration costs		small	small	small	small	small	-
Total cost before recovery			small	2	2	2	small	-
	Additional EI benefits	Major transfers to persons (EI)						
Cost recovery			-	small	-1	-1	-1	-1
	EI premium rates	Major transfers to persons (EI)						
Total cost after recovery			small	1	1	1	-1	-1
Total cost including cost recovery			small	1	1	1	-1	-1

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

small = cost is smaller than \$500,000

"-" = PBO does not expect a financial cost