A Safety Net up to Task: Addressing gaps in income support for precarious self-employed and gig workers

by

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Abstract

A growing subset of self-employed workers in Canada are highly vulnerable to income shocks because of the precarious nature of their employment. Self-employed and gig workers are not covered by Canada's primary income support program for workers, Employment Insurance (EI). At the same time, their work leaves them exposed to greater risk of income shocks than Canadians in standard employment. Using a jurisdictional policy scan, expert interviews, and a multi-criteria policy analysis, this major research project explores four policies to extend income support to precarious self-employed and gig workers. It recommends updating employment standards for self-employed and gig workers and providing income support to uninsured workers through an exogenous shock program.

Keywords: precarious employment; gig work; self-employment; employment insurance; income support; employment standards.

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List of Acronyms

CERB	Canada Emergency Response Benefit
CRF	Consolidated Revenue Fund
CWB	Canada Worker’s Benefit
CWLB	Canada Worker Lockdown Benefit
EI	Employment Insurance
EIOA	Employment Insurance Operating Account
EISS	External Income Shock Support
MCA	Multi-Criteria Analysis
RRSP	Registered Retirement Savings Plan
SESB	Self-Employed Special Benefits
TUA	Temporary Unemployment Assistance

Glossary

ABC Test	A three-pronged test for determining whether a worker is an employee or an independent contractor, established in California.
Adverse Selection	A market distortion in which those who are most likely to require insurance opt-in, while those unlikely to need it do not, resulting in an unsustainable risk pool.
Consolidated Revenue Fund	The Government of Canada's primary revenue and spending fund.
Dependent Contractor	A self-employed reliant on a firm for a significant amount of their clients or work.
Digital Platform	A firm connecting gig workers to buyers through an online interface.
Digital Platform-Based Gig Work	Gig work done through a digital platform.
Income Shock	An event in which a worker loses access to regular or anticipated income.
Income Support	Programs that provide workers with additional income, external to their employment.
Incorporated Self-Employed Worker	A self-employed worker with a registered business number who conducts their work under that business.
Independent Contractor	A self-employed worker who does not rely on a particular firm for work. Also an employment classification commonly used by firms to misclassify employees.
Insurance-Based Income Support	Income support provided through an insurance scheme, in which workers must pay premiums and meet specific income loss conditions in order to receive income support.
Employment Classification	Categories of workers based on their relationship with a firm, such as employees and self-employed workers.
Employment Insurance Coverage	A worker's inclusion under the EI program, determined by their employment classification.
Employment Insurance Eligibility	A worker's eligibility to receive benefits under the EI program, based on their labour market attachment (income or hours worked), premiums paid, and the reason for their job separation. Non-covered workers are never eligible.

Employment Insurance Operating Account	The account into which EI premiums are paid and from which EI benefits are distributed, which is separate from other government revenues and spending.
Forgivable Loan	A loan that may not need to be repaid in part or in full, depending on conditions met by the borrower.
Gig Work	An unincorporated self-employed worker who is compensated for short-term tasks.
Low-Income	A level of income that is considered insufficient to meet an individual's needs. Definitions of low-income vary for individuals and those with dependents, however for the purposes of this paper, low-income is below $25,000.
Misclassification	A situation in which a worker who is an employee is wrongly classified as a self-employed worker or contractor for the purposes of avoiding certain labour standards.
Moral Hazard	A market distortion in which an individual has an incentive to take action or expose themselves to risk because the costs are borne by another party.
Non-Standard Employment	Employment relationships that deviate from the standard employment model.
Precarious Work	Work whose continuity is uncertain, in which workers have little control over conditions or wages, few protections exist, and pay is low.
Precarious Worker	Worker exposed to risk because their continuity of work is uncertain, they have little control over their working conditions or wages, have few protections, and have low-income.
Record of Employment	Verification of the reason for job departure provided by an employer and used to determine EI eligibility.
Self-Employed Worker	A worker who does not have an employer.
Solo Self-Employed Worker	A self-employed worker who does not have any employees.
Standard Employment	Full-time permanent employment with one employer.
Unincorporated Self-Employed Worker	A self-employed worker with no registered business number, who conducts their work as an individual.

Executive Summary

As labour markets shift away from standard full-time employment towards casual, contract, self-employment and gig work, many workers experience increased precarity. Precarious workers have less certainty that work will continue, less control over working conditions and wages, lower levels of protection, and lower pay. Firms increasingly transfer risk to workers through contracting business functions to self-employed and gig workers, enabled by public policy. This weakens workers' connections to firms and reduces firms' obligations to contribute to social protections.

Low-income solo self-employed and gig workers are growing as a segment of the Canadian labour market. Many enter self-employed and gig work to make ends meet because of barriers or challenges in the standard labour market, including insufficient incomes, job loss, or incompatibility with care responsibilities. Women, immigrants, and those with lower levels of education are overrepresented in this group of workers.

Self-employed and gig workers experience fluctuating incomes because of short-term contracts, multiple income streams, and constantly changing rates of pay. While they have flexibility over when they work, they can experience income shocks beyond their control because of exogenous events, changing economic conditions, or challenges dealing with contracting firms. At the same time, low incomes make self-employed and gig workers less able to withstand income shocks on their own. While this volatility makes access to a social safety net more important, Canada's Employment Insurance (EI) program does not cover self-employed and gig workers in the event of a job loss or major income shock.

Debates on covering self-employed workers under EI are long-standing. As an insurance-based model for income support, EI relies on premiums and strict verifiable eligibility requirements to remain sustainable. Including self-employed and gig workers under a program designed for employees presents significant administrative challenges and may expose the program to moral hazard risks because these workers control when and how much they work. Self-employed and gig workers have expressed opposition to mandatory coverage under EI because of the premiums required from workers, but allowing these workers to opt-in on a voluntary basis also exposes the program to adverse selection risks. As a result, self-employed and gig workers remain outside of EI and remain unprotected from income shocks.

The failures of the EI program to support an evolving workforce were brought to light by the COVID-19 pandemic. The temporary income supports implemented in response to the pandemic demonstrated EI's shortcomings and the possibilities for income support that better responds to the vulnerabilities of an evolving workforce. In the aftermath of the pandemic, the Government of Canada is modernizing the EI program to address these challenges. This context creates a window of opportunity to examine how Canada might best address the challenge of a growing subset of workers being vulnerable to income shocks because of their precarious employment.

Focusing on solo self-employed and gig workers, this research assesses gaps in income support and policy options to support precarious workers during income shocks. It employs a policy scan of existing income support models, expert interviews, and a multi-criteria analysis to inform the development of policy options, analysis, and recommendations.

Through the policy scan, I identify that pandemic response programs and EI carve-outs for self-employed workers may be expanded to improve protection of these workers. Examples from Ireland and Denmark demonstrate the potential for self-employed workers to be included under an insurance-based income support program. Stand-alone programs outside of national insurance schemes, such as a Temporary Unemployment Assistance program or France's *Intermittents du Spectacle* program, are alternative support models. Finally, a lack of income support for these workers can also be addressed through labour standards, as seen in California.

After broadly reviewing models in place in Canada and abroad, four options are analysed in this paper: EI for Dependent Contractors, which would extend EI to gig workers by designating platforms and hiring firms as employers; Temporary Unemployment Assistance, a broad forgivable loan program for all workers ineligible for EI; External Income Shock Support, which would support all EI-ineligible low-income workers during economic shocks; and an overhaul to employment standards to address the widespread misclassification of workers. These policy options are analysed based on their capacity to respond to income shocks, the market incentives they create, and the level of equity with EI recipients they provide to affected workers. Administrative complexity, cost, and stakeholder support are also considered.

Based on this analysis, this paper recommends implementing an External Income Shock Support program alongside changes to employment standards. Together, these policies will address the root of worker vulnerability to income shocks by restoring employer responsibility for improperly classified workers, while also building on lessons learned from the pandemic to provide widespread support to low-income workers who cannot access EI during major shocks.

Chapter 1. Introduction

As labour markets have shifted away from the standard model of full-time work with a single employer, non-standard working arrangements have proliferated, including casual and contract work, self-employment, and gig work. In Canada, only 39% of workers are full-time, permanent employees, while the other 61% work in some kind of non-standard employment relationship (Statistics Canada, 2022a). This proportion of Canadians in non-standard work has been growing since the 1990s (Crane, 2018).

This trend away from long-term, stable employment is a trend towards greater precarity. Many non-standard jobs are characterized by reduced certainty that work will continue, less control over working conditions or wages, lower levels of protection for workers, and lower pay than standard employment (Rodgers, 1989). The precarious nature of these employment relationships can make workers' incomes highly volatile.

Social safety nets are increasingly relevant in the context of heightened income volatility. However, Canada's primary social safety net for workers, the Employment Insurance (EI) program, is built for standard work, and covers a decreasing proportion of workers. Only 40% of unemployed workers in Canada were eligible for EI in 2019, down from around 80% in 1976 (IRPP Working Group, 2022, p. 8). Self-employed workers[1], including gig workers, are not covered by EI and cannot receive support in the event of a job loss or major income shock, despite their employment precariousness.

The COVID-19 pandemic highlighted the failures of the EI program to respond to income shocks for many working Canadians. Emergency support programs were needed to buoy households and the economy. They made income support available to a broader group of workers, including self-employed and gig workers, and lowered eligibility thresholds compared to EI. By demonstrating gaps in EI as an income support program for the contemporary Canadian labour force, they shifted the conversation around potential policy alternatives to include more widely available supports.

[1] For simplicity throughout this paper, the term "self-employed workers" is used to refer to the target population of unincorporated solo self-employed workers. Specific sub-groups, such as gig workers, are occasionally referenced by name when relevant.

Emerging from the pandemic, the Government of Canada is modernizing the EI program, with many of these shortcomings in mind. It has committed to updating EI to cover all workers, including self-employed workers, and to increase the accessibility, adequacy, resiliency, and financial sustainability of the program (ESDC, 2022b). However, long-standing debates persist about the ability of the EI program to functionally accommodate self-employed workers, raising the question of whether EI is the proper channel for income support.

This paper investigates the policy problem that a growing subset of workers in Canada is highly vulnerable to income shocks due to the nature of their precarious employment. It frames this problem by discussing the features of precarious work and identifying precarious work arrangements and trends in the Canadian context. It focuses on unincorporated solo self-employed workers, given their lack of coverage under the EI program.[2] It explores the nature of income shocks for these workers before detailing the debates on EI as a potential income support for self-employed workers.

Building on this contextualization of the policy problem, this research turns to policy solutions. It scans policies currently tested or debated in Canada, as well as international models. Broader income support policies such as Universal Basic Income (UBI) are scoped out of this paper; UBI has been considered in-depth in the Canadian context but has been abandoned by both BC and Ontario. Ontario established a basic income pilot beginning in 2016, however the pilot was dismantled in 2019 with a change in government, demonstrating the political challenges with introducing a UBI (Government of Ontario, 2019).

The BC Basic Income Panel studied UBI beginning in 2018, however the panel did not recommend it as a primary income support (Green et al., 2021). The panel found that while UBI would support poverty reduction, more direct measures could be used to achieve UBI's goal by building on gaps in the existing social safety net (Green et al., 2021). Their report acknowledged that there is a current gap in the social safety net in support for the workers who are at the centre of this paper, however they found that UBI

[2] This group of workers includes gig workers. Gig workers are a subset of unincorporated solo self-employed workers who are often profiled separately from the broader category of solo self-employed workers because of their unique relationship to firms and aspects of their work that make them appear more similarly to employees in many ways.

may effect an undesirable growth in solo self-employment. They instead recommend targeted measures to improve precarious employment through labour regulation reform (Green et al., 2021), a policy recommendation analysed in detail in this paper.

Further to these reasons, UBI is beyond the scope of the problem addressed in this paper. This paper focuses specifically on expanding access to income support tied to employment in response to income shocks or job loss. Debates on the merits of non-employment-related income support, while valuable, grapple with different questions than those considered within this research.

Gleaning lessons from the policy scan, this paper details four policy options for consideration: inclusion of gig workers in the EI program, a Temporary Unemployment Assistance (TUA) program, an Exogenous Income Shock Support (EISS) program, and updates to employment standards. Using a multi-criteria analysis, it details criteria for assessment and analyses all four options, before recommending a combined approach of EISS and amendments to employment standards.

Chapter 2. Methodology

The objective of this research is to assess gaps in income support experienced by precarious workers in Canada and to identify and evaluate options to support these workers during income shocks. I use primary and secondary evidence from a variety of sources, including a scan of existing income support policies in Canada and other jurisdictions, interviews with subject-matter experts, and a multi-criteria policy analysis.

2.1. Policy Scan

I use a policy scan comprised of three sections to identify potential income support models. In the first I review pre-existing Canadian policies, which may be models to provide further income support. The second presents income support policies that have been proposed in Canada but have not been implemented. The third section analyses case studies of models found in international jurisdictions, which offer a wider variety of policy options and insights into program design considerations.

2.2. Expert Interviews

I conducted five interviews with subject matter experts, including government officials and academics. I selected government interviewees based on their knowledge of EI policy and its interactions with self-employed workers. I asked them about opportunities within the EI modernization process to respond to the policy problem and about potential policy responses outside of EI.

I selected academic interviewees for their expertise on EI or alternative income support models. They provided broad perspectives on the policy problem and on potential measures to provide income support. They offered analysis on specific policy options and broad design considerations. I draw on interview material throughout this paper to support its findings.

2.3. Multi-Criteria Analysis

I use a multi-criteria analysis to compare four policy options. I formulated criteria and measures based on background literature, lessons from case studies in the policy scan, and from interview material. Based on these sources, I emphasize policies' abilities to respond to workers' needs and their economic viability. Drawing lessons from EI and its ongoing modernization, I focus on cost, feasibility, and stakeholder support as key government management criteria.

2.4. Limitations

While I seek to identify policy options to support precarious workers through income shocks in this paper, I was unable to consult workers due to their vulnerability and the ethical risks posed. To mitigate this limitation, I consulted materials from worker advocate groups in the design of policy options and analysis.

Chapter 3. Precarious Work

3.1. Conceptualizing Precarious Work

Precarity is a condition of risk[3] and uncertainty, in which planning for the future becomes nearly impossible (Walsh, 2019). Precarious work is "employment that lacks standard forms of labour security" or "employment characterized by heightened labour insecurity" (Vosko et al., 2009, p. 2). Four job characteristics that contribute to this insecurity for workers are explored in the following section: the degree of certainty of continuing work, the degree of control over working conditions and wages, the level of protection afforded to workers, and income level (Rodgers, 1989). Work arrangements involving several dimensions of precariousness can be described as "precarious work" (Campbell & Price, 2016); which leads to a state of insecurity for workers (Peetz, 2019).

Certainty of Continuing Work

Rodgers' (1989) first dimension of precarious work is the certainty of continuing work. He argues that jobs "with a short time horizon, or for which the risk of job loss is high" (p. 3) are less secure than those with longer or more certain time horizons. From this dimension, permanent indefinite contracts have the lowest degree of precarity, whereas temporary contracts and gig work (discussed further below) are highly precarious because of the low certainty of the work's continuing availability either after the end of a temporary contract or even after the completion of a specific task.

Degree of Control over Working Conditions and Wages

In addition, Rodgers (1989) contends that "work is more insecure the less the worker (individually or collectively) controls working conditions, wages, or the pace of work" (p. 3). Those with highly sought-after or specialized skills may be able to exert greater control over working conditions, wages, or workplace by virtue of their bargaining power, whereas those in low-skill work may experience greater precarity due to a lower degree of control.

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[3] This paper uses the term risk in keeping with the terminology used by literature on precarious work. However, it is recognized that in some circumstances, the term "uncertainty" may more accurately describe the conditions faced by workers, as the odds of income shock are not fully known.

Gig work is an obvious example of work with a low degree of control over conditions, wages, and pace. The availability of tasks on gig platforms is highly irregular and pay varies greatly based on demand for services, irrespective of the time required to complete a task. In addition to this irregular availability and pay for work, workers are pressured to accept most jobs or otherwise be prevented from working on an app, leading to a situation in which gig workers feel a lack of control over their work schedule and a need to be constantly available (Churchill & Craig, 2019, p. 6).

Level of Protection

The third dimension of precarious work is the level of protection afforded to workers. This encompasses protection against "discrimination, unfair dismissal or unacceptable working practices, but also in the sense of social protection, notably access to social security benefits" (Rodgers, 1989, p. 3). Workers who experience a lower level of protection against the risks associated with employment, ranging from job loss to workplace injuries, are more insecure in their employment.

In Canada, many social protections, from labour standards to EI, are designed around the full-time permanent employment model; workers outside of this model "are often excluded from programs and regulations intended to keep people safe, healthy and financially secure" (HUMA, 2019, p. 12). EI is the primary protection for workers against the risks of income loss, however its design often excludes non-standard workers. Because of eligibility requirements for EI, the level of protection for workers in Canada largely hinges on their employment arrangement, with full-time permanent and unionized workers having the highest level of protection and self-employed workers having the lowest level of protection. Interviewees raised concerns that many Canadian workers are misclassified as contractors, rather than employees, so that firms can avoid paying for social protections.

Income Level

Income is a standalone dimension of precarious work; low income causes poverty and insecurity (Rodgers, 1989). This means that jobs with a high degree of uncertainty but also a high income, such as high-skilled contractors, can be excluded from definitions of precarity. Jobs that fail to provide adequate pay to meet workers' needs creates a continuous state of risk, irrespective of other job characteristics (Drache et al., 2015). Low income can also serve a proxy for other dimensions of precarious work. Income below what a worker would need to meet their needs implies a low degree of control over wages, which may lead them to accept work with other precarious conditions.

3.1.2. External Factors in Precarious Work

Given that precarious work is a situation of increased risk for workers, it can also be viewed as a way for employers to shift the risks of a job onto workers (ILO, 2011; LMIC, 2021). For example, employers can shift risk onto workers by hiring temporary workers instead of full-time employees; this can enable employers to shift the risks of changing economic conditions onto workers, allowing them to adjust the size of their workforce quickly. Contracting can further shift risk onto workers, removing employer obligations to pay for social protections like EI, and reducing worker certainty or control over wages.

While this shift is part of larger economic changes such as technological change and globalization, institutional factors such as the regulatory environment play a significant role (Green et al., 2017). Over the past several decades, policies in Canada and many other OECD countries have enabled this shift, resulting in the proliferation of precarious work arrangements (Drache et al., 2015; Peters, 2022). Labour market deregulation has occurred through changes to labour codes and employment standards, as well as lack of enforcement of labour standards, leading to the "disappearance of good [unionized, full-time permanent] jobs and their replacement by low-wage and non-standard jobs" (Peters, 2022, p. 14). De-unionization and a failure to implement policy responses to changing conditions have also played a role in this shift away from standard work. This has been done to create greater flexibility and competitiveness for employers, but has resulted in a growing class of precarious self-employed workers (Peters, 2022). These changes have enabled firms to shift risk onto workers.

3.2. Self-Employment and Precarious Work

While non-standard employment arrangements generally offer less protection to workers, categorizing all non-standard employment as precarious can be misleading and fails to recognize the diversity among workers (Vosko, 2005). This research focuses on self-employment as a form of precarious work because these workers are excluded from EI. However, even within the category of self-employment, further distinctions are required to identify precarious workers. Self-employed individuals who have employees generally have greater control and certainty over their work than those who work alone (Vosko, 2005). Similarly, the distinction between incorporated and unincorporated self-employed individuals is important, with incorporated self-employed individuals often having higher incomes and more control (Jeon et al., 2019). Since incorporation and a self-employed person's status as an employer of others serve as a proxy for precarity, unincorporated solo self-employed workers are the focus of this research.

Unincorporated solo self-employed workers are as a broad group work alone (without employers or employees) and have not established their business as a separate legal entity. As there are many tax and legal advantages to incorporation (Statistics Canada, 2015), unincorporated self-employed workers are typically less well-established in their business. Their earnings are typically low (Statistics Canada, 2022a). This category includes workers such as self-employed freelancers, day labourers, and those with early-stage small businesses, as well as gig workers (Jeon et al., 2019). Gig workers are unincorporated solo self-employed workers without a business number, indicating less continuity and predictability of their work (Jeon et al., 2019).

3.2.1. Gig Work

Gig workers are a subset of unincorporated solo self-employed workers whose unique characteristics are important to consider separately from this broader category. They are compensated based on tasks completed, rather than a base salary. The work is temporary, meaning that workers are only contracted for the duration of an individual task or project. The location, timing, amount, and continuity of work is flexible, meaning that the worker has the agency to select gigs based on criteria that meet their needs (Watson et al., 2021). This form of work has existed for decades but has proliferated with the development of digital platforms for gig work. This includes digital platform-based work like driving for Uber or Lyft, cleaning through Mopify, or completing tasks through TaskRabbit, but it also includes older forms of gig work such as directly selling products for companies such as Avon or Mary Kay, or more traditional gig work performed by comedians, babysitters, or some photographers (Watson et al., 2021).

Gig work is a sizable and growing segment of solo self-employment in Canada (Jeon et al., 2019). These employment arrangements are of particular concern because they expose workers to significant insecurity while structurally preventing them from protection from those risks. This highlights a significant gap in Canada's social protections for workers.

3.3. Trends in Solo Self-Employed and Gig Work

In 2022, 1.3 million workers were unincorporated self-employed workers without employees, representing 6.6% of Canada's total workforce[4] (Statistics Canada, 2022c). The number of solo self-employed workers is growing; they make up up 73% of all self-employed workers in 2020, up from 65% in 2000. (Amery, 2021). During the COVID-19 pandemic, the number of Canadians who were self-employed decreased, but the proportion of solo self-employed workers increased (Amery, 2021).

Low-income workers make up the majority of the solo self-employed workforce, with median annual earnings of $15,400. Their earnings are significantly lower than the $30,000 median annual earnings for self-employed workers with employees. Overall, 60% of self-employed workers are considered low-income, compared to only 32% of employees. However given their concentration at the bottom of the self-employment income distribution, a larger proportion of solo self-employed workers are low-income (Statistics Canada, 2022a). Notably, Canada has the largest wage gap between full-time permanent employees and solo self-employment among all OECD countries (Peters, 2022).

Gig work is growing quickly as a work arrangement. The number of Canadians in gig work increased 45% from 2005-2016 from 5.5% to 8.2% (Jeon et al., 2019). A 2021 survey of American workers found that 16% had earned money from online gig platforms and 9% were active in gig work (Anderson et al., 2021). Assuming similar proportions in Canada and accounting for non-platform gig work, the current proportion of gig workers in Canada is likely higher than 2016 estimates. A 2018 Bank of Canada survey of 2,000

[4] This is likely an underestimate of the solo self-employed workforce, as the Labour Force Survey focuses on workers' primary jobs; tax data suggests that the proportion of gig workers alone is around 8%.

workers found that 30% engaged in gig work (Kostyshyna & Luu, 2019); the actual proportion likely lies in the middle of Statistics Canada and Bank of Canada estimates.

Roughly half of gig workers in Canada engage only in gig work, while others use it to supplement jobs as employees. Gig workers have relatively low incomes; the median net gig work income in 2016 was $4,303, and workers in the bottom 40% of Canada's income distribution are twice as likely to engage in gig work (Jeon et al., 2019). While gig work is temporary for some, one quarter remain in gig work for over three years. This work arrangement is significantly more prevalent among immigrants than Canadian-born workers (Jeon et al., 2019).

Gig workers may be pushed into self-employment or gig work due to insufficient income from primary employment or due to job loss (Kostyshyna & Luu, 2019). Men are typically pushed into gig and solo self-employed work by economic downturns and job losses, while women are typically pushed into these forms of work by unpaid care responsibilities (Jeon et al., 2019; Vyas, 2021). Gig workers tend to have lower levels of education and tend to be women, and the share of women in gig work has increased faster than men (Jeon et al., 2019).

Based on Rodger's definition of precarious work and the dynamics of the Canadian labour market, solo self-employed and gig workers are most affected by precarious work in Canada. As a group, these workers face the greatest labour market risks with the least protection. These workers' low income, lack of control over their working conditions or wages and the uncertainty of their future work leave them with significant income insecurity, while their classification as self-employed workers leaves them without protection from EI.

Chapter 4. Income Shocks and Precarious Work

4.1. Income Dynamics

In addition to low incomes, self-employed and gig workers face income irregularity and uncertainty, which creates additional precarity. Short-term contracts, multiple income streams, and significant fluctuations as contracts begin or end are common for these workers. For gig workers, this cycle is heightened because they are paid for tasks and spend unpaid time searching for gigs in between paid tasks (Lane, n.d.). Gig workers may also be paid below minimum wage if unexpected factors slow down their completion, and rates of pay for task completion can vary widely, making income unpredictable (Milkman et al., 2021).

Many low-income gig workers are price-takers; Canadian app-based gig workers claim that “app employers frequently impose new contracts on workers without any notice, often locking us out from going online until a new contract is accepted” (Gig Workers United, 2022). Income uncertainty is further heightened by some platform pay policies, which allow customers to reject services after completion, leaving workers unpaid (Lane, n.d.). These dynamics lead to highly unpredictable and irregular incomes.

The relative low income of many self-employed workers makes them more vulnerable to income variations or shocks. Inadequate incomes prevent workers from being able to plan and save for emergencies and for the future, worsening the impacts of income shocks. While income adequacy for these workers is an important policy problem, this paper focuses on supporting these workers through income shocks.

4.2. Income Shocks

Income shocks for self-employed workers are unlike those experienced by traditional employees. While employees may lose their jobs entirely due to layoffs, self-employed workers typically experience income shocks as significant reduction in demand for their services. This may include cancellation of contracts from key buyers or reduced demand for a platform-based service. Though self-employed workers may still be working and may not lose all of their income, income shocks can have similar magnitude to becoming unemployed. This is distinct from the normal income volatility experienced by self-employed workers, which is outside of the scope of this paper.

Self-employed workers have some control over their income as they can choose when to work, but they may still experience income shocks that are beyond their control. The most clearly exogenous income shocks are widely experienced, such as disasters. One interview participant explained:

> The pandemic was the perfect example of like an external exogenous shock to the world that prevented the self-employed from being able to make an income […]. That's like clearly involuntary. I think other things in that category are like some natural disasters, some emergencies, like a wildfire, a flood, or hurricane. – Interviewee

In these scenarios, income support systems can respond assuming that workers are unemployed because of the exogenous event; during the COVID-19 pandemic, emergency response benefits were offered broadly without verifying workers' reason for separation. Employees may experience a layoff, while self-employed or gig workers may be unable to work because of significantly reduced demand for services or barriers to operation. However, typically only employees eligible for EI have been able to access income support in these situations.

In contrast, income shocks that are less universal, such as changes in economic conditions or difficulty collecting payments, may be more difficult to verify for income support. One interviewee explained:

> Things that are maybe a grey area [are] things like […] [a payer] just last-minute change a contract or withdraw, or [say] "we've lost our budget". Or there has been an economic change, like there's been an industry change; […] something outside of your control that you were expecting to happen just like suddenly doesn't, and you don't have income from that. – Interviewee

Though these shocks are less verifiable, they can present real income risks to self-employed workers. For the purposes of verification, recessions or industry-wide declines may be seen similarly to disasters, as a subset of workers is broadly affected by a known macroeconomic event.

Self-employed workers may also experience income shocks on a personal level that are outside of their control. Interviewees noted that workers on short-term contracts may experience difficulty finding work after a contract ends, or may experience seasonal dips in demand. At the same time, self-employed workers have the freedom to control when they work, meaning that they may voluntarily choose an income decline to take time off. Distinguishing between these circumstances is not possible on a large scale.

4.3. Policy Problem

Unincorporated solo self-employed workers, including gig workers, experience many dimensions of precarious, as work explored above, contributing a reduced ability to withstand income shocks. At the same time, they are excluded from EI as a social safety net due to their work arrangements. This reveals a gap in income support for a growing subset of vulnerable workers. In response to this emerging challenge, this paper addresses the policy problem that a growing subset of workers in Canada is highly vulnerable to income shocks due to the nature of their precarious employment.

Chapter 5. Debates on EI Coverage for Self-Employed Workers

Canada's primary support for workers during income shocks is the EI program. This is a mandatory social insurance scheme, with premiums paid by employers and employees. However, self-employed workers do not pay premiums and are not covered for job loss.[5] As part of EI modernization, the Government of Canada has committed to extending EI coverage to self-employed workers (ESDC, 2022b). This aligns with many other OECD countries, which provide some level of coverage to self-employed workers.

5.1. Employment Insurance

EI's intent is to provide temporary income support to workers who are unemployed or are unable to work during life events such as illness or childbirth (ESDC, 2016b). Workers are eligible to receive EI regular benefits if they have worked a minimum of 420 to 700 insurable hours, depending on their region; if they became unemployed through no fault of their own; and if they are actively looking for work.

EI is geared to income; higher earners receive larger benefits. Workers receive 55% of their average weekly earnings, up to maximum yearly insurable earnings of $61,500. Benefit duration ranges from 14 to 45 weeks, depending on the unemployment rate in a worker's region and the amount of insurable hours they have accumulated (ESDC, 2015).

EI operates on an insurance model and is self-sustaining through premiums. It pools risk among workers, requiring strict labour market attachment and eligibility criteria to ensure sustainability. Premiums are held separate from other government revenues in the EI Operating Account (EIOA) and benefits are paid from this account; premiums are subject to change to sustain the account on an ongoing basis.

EI is also redistributive; it pools risk among those in stable jobs with those more likely to make claims (IRPP Working Group, 2022). Yet at the same time, EI excludes

[5] Self-employed workers may opt into EI coverage for Special Benefits, which provides income replacement for maternity, parental, sickness, and caregiving leave.

many of the most economically disadvantaged workers due to its strict entry requirements (Crane, 2018). This disproportionately excludes workers from demographics that are on the margins of the Canadian labour market, including women, youth, visible minority and immigrant workers (L. Vosko, 2012).

5.1.1. EI Special Benefits for the Self-Employed

As part of EI, Special Benefits for Self-Employed Workers (SESB) allows self-employed workers to opt into EI coverage for life events requiring maternity, parental, sickness, or caregiving leave. Self-employed workers who register for SESB and pay premiums at least one year in advance can make a claim if they have decreased the amount of time they spend on their business by more than 40% (Service Canada, 2015).

5.2. Moral Hazard

The difficulties of insuring self-employed workers underpin debates about whether these workers should be covered by EI. The greatest perceived challenge is the difficulty of verifying these workers' reason for job separation or income shocks. This is important because EI is only provided to workers who lose their jobs through no fault of their own, which prevents workers from accessing benefits at will. This is vital to EI's financial sustainability.

Employers must submit a record of employment to verify the reason for job separation. However, self-employed workers have no employer to provide this verification, meaning that there is greater risk of these workers collecting benefits improperly. This moral hazard is perceived to be significant, as self-employed workers have a high degree of control over their work availability (Gray, 2021). As one interview participant explained:

> The assumption with self-employed workers is always that if they're experiencing volatility, well they chose that. Like, they can choose when to work or not work. So why should we provide a benefit that essentially allows them to take, you know, a holiday just because they want it? – Interviewee

Interviewees noted that this perception of self-employed workers having control stems from privileged workers, such as entrepreneurs, doctors, and lawyers. These workers' flexibility does not diminish the precarity of low-income self-employed workers experiencing volatility beyond their control. However, differentiating between reasons for income shocks for self-employed workers remains difficult, creating a high risk of moral hazard.

5.3. Administrative Design Challenges

Verifying self-employed workers' income level is another challenge, as EI calculates benefits based on weeks of earnings. Problematically, "the absence of wage or salary income [for self-employed workers] […] renders it difficult to measure anything resembling what is labelled generically as 'normal flow of earnings' " (Gray, 2021, p. 5). There are ways to address this; SESB relies on the previous year's tax income, while other jurisdictions offer a flat-rate to self-employed workers to avoid this problem (Citizens Information Board, 2022b).

Self-employed and gig workers may experience income shocks due to reduced demand, but they may not completely lose their jobs like an employee would. Interviewees described gig workers who may spend all day on an app but only pick up a handful of deliveries, or contract-based self-employed workers who may have lost four out of five of their contracts, but are still working. The lack of clear job separation presents a challenge to insuring these workers under a system designed around job loss. However, this challenge may be addressed through provisions such as under the SESB stream, which requires workers to have reduced the time spent on their self-employment activity by a minimum of 40% (ESDC, 2016a).

5.4. Adverse Selection and Financial Sustainability

A final barrier to covering self-employed workers is adverse selection. Interviewees noted that mandatory EI coverage for self-employed workers is challenging in Canada, given the lack of support from workers and employers for this approach. However, if EI were extended voluntarily to self-employed workers, only those who perceive themselves to be at high risk of income shocks would participate. Because EI depends on pooling risk among low- and high-risk workers, this would create an unsustainable risk pool that would undermine EI's financial viability.

While some interviewees believe that these challenges can be addressed through EI, others suggested that these challenges precluded self-employed workers' inclusion in EI. Some thought these challenges could be better addressed under a separate program, while others saw them as a pervasive barrier to providing income support to self-employed workers through any income support program.

Chapter 6. Policy Scan

This chapter explores a range of income support models. The first section focuses on existing policies in Canada, selected for their potential to be scaled to provide income support to precarious self-employed and gig workers. The second details a proposed policy designed specifically for Canada's context to provide income support to a broad range of uninsured workers.

The third section analyses policies from jurisdictions that have integrated self-employed workers into their social safety net. These jurisdictions were selected to reflect the breadth of income support policies among OECD countries. Each case was selected because it offers specific lessons on the design and implementation of income support policies, including contextual factors. This broad scan lays the groundwork for a narrower set of policies that may be feasible in the Canadian context.

6.1. Canadian Policy Scan

Several existing Canadian policies could provide a model for income support for precarious self-employed and gig workers. Within the EI program, they include SESB and EI for specific groups of self-employed workers. Outside of EI, COVID-19 emergency response benefits offer an alternative, more inclusive model to income support. Each offers insights into the design of income support for solo self-employed and gig workers.

6.1.1. EI SESB

The SESB model described above could be expanded to further protect self-employed workers against job loss. However, in its current form, the benefit has major disincentives to participation. Over one-third of self-employed workers are unable to access SESB because they do not meet the minimum income requirements. Additionally, a one-year waiting period for benefits creates a barrier to access (ESDC, 2016a).

The requirement to pay indefinite premiums after claiming benefits is also a disincentive. The variability of self-employment income makes committing to paying premiums a disincentive for many (ESDC, 2016a), especially for low-income workers, for whom EI premiums represent a significant financial burden.

SESB also creates distortions that could make the initiative difficult to expand. As a voluntary program, it experiences adverse selection, meaning that those who enrol are disproportionately likely to claim benefits. Prior to the pandemic, only 2.5% of self-employed workers were enrolled (ESDC, 2022a; Statistics Canada, 2022b); these were primarily women, who make 95% of claims, primarily for maternity and parental benefits (ESDC, 2016a). If expanded beyond life events to job losses, there is significant potential for further adverse selection and moral hazard that could jeopardize the sustainability of the EI program.

6.1.2. EI for Barbers, Hairdressers, and Taxi Drivers

One EI carveout offers a potential model to insure some self-employed workers. Self-employed barbers, hairdressers, and taxi drivers are covered under EI; the owner of the establishment or company they work through is designated as their employer for the purposes of EI, and both the “employer” and “employee” pay EI premiums, despite these workers’ independence as contractors (CRA, 2015). As with EI benefits for employees, eligibility is calculated based on a minimum number of insured hours and benefit rates are calculated based on the hairdresser or barber’s insurable earnings (CRA, 2005).

This program demonstrates that EI coverage can be extended to self-employed workers whose business is dependent upon another business, whether as a major buyer or as a platform to access customers. This may be scalable to gig workers tied to a specific business, including platform-based gig workers.

6.1.3. Pandemic Response Measures

Emergency COVID-19 response benefits may also be models to extend income support to self-employed and gig workers. The Canada Emergency Response Benefit (CERB) was a flat-rate benefit of $500 per week that was available to all Canadians who were unable to work because of COVID-19, as long as they had earned $5,000 in the previous year (Service Canada, 2020). The Canada Worker Lockdown Benefit (CWLB) was available after the end of CERB to those unable to work due to lockdowns. It provided a flat-rate $300 weekly benefit when public health orders resulted in employed and self-employed workers losing their jobs or more than 50% of their average weekly income (CRA, 2021).

Pandemic benefits were widely used; 35% of Canadian workers who met the minimum income received CERB payments. Recipients were clustered among workers who were hardest hit by shutdowns, including over half of workers in the bottom three income deciles (Statistics Canada, 2021). Demographic groups more precariously positioned in the labour market, including women, youth, visible minority, immigrant, and Indigenous workers (Vosko et al., 2009), were more likely to claim (Statistics Canada, 2021). In total, $74 billion in CERB benefits were paid (OAG, 2021).

CERB and CWLB contrast with the EI model in several notable ways. Firstly, labour market attachment eligibility criteria were much lower; pandemic benefits expanded eligibility to the self-employed and those with weaker labour market attachment. This was made possible partly by their funding models; they were financed through the Consolidated Revenue Fund (CRF) and did not require contributions. This contrasts with EI's insurance model, which requires stronger labour market attachment to ensure the EIOA's sustainability. Additionally, while recovery benefits were paid at a flat rate, EI benefits are geared to income.

Pandemic supports were introduced because the EI program was ill-equipped to respond to COVID-19. EI does not cover enough of the Canadian workforce, especially in sectors hardest hit by the pandemic. For this reason, they have been looked to as a model for social safety net reform (Robson, 2020).

6.2. Canadian Literature Scan

Beyond the programs currently in place in Canada, a Temporary Unemployment Assistance (TUA) program has been proposed to support uninsured workers. This proposal was designed specifically for Canada's context, and thus may be a model worthy of consideration.

6.2.1. Temporary Unemployment Assistance

TUA, which was originally proposed by the Mowat Centre, would offer income-tested support to those ineligible for EI for a temporary period. It would complement EI for workers who cannot reasonably be included in the social insurance model (Mendelson & Battle, 2012).

Mendelson and Battle propose TUA as a temporary forgivable loan, with repayments contingent on the recipient's annual income. They propose:

> It needs to be temporary, so that no one can remain on it for longer than some specified period (e.g., six months every five years). It should allow recipients to carry on with their job search and continue most essential aspects of their normal life. And it needs to give recipients the opportunity to get back on their feet without losing everything and having to restart their financial life from zero (2012, p. 176).

The TUA would be available to all unemployed adults actively seeking employment. The loan would be forgivable, contingent on income; loans to those reporting a very low income in that tax year would be forgiven, while they would be partially or fully repaid on a gradual scale with higher reported incomes. It would not be available to those receiving EI (Mendelson & Battle, 2012).

The flat-rate benefit would be a percentage of what a worker could earn while working full-time at the provincial minimum wage. This would link the benefit to provincial labour standards and would prevent disincentives to work, as a recipient could always receive more while working. Mendelson and Battle (2012) propose repayment through the income tax process, based on reported income. Multi-year repayment plans, such the Registered Retirement Savings Plan (RRSP) homebuyers' plan, could be considered; a lower burden of upfront repayment could decrease the negative impacts on workers' personal finances (Davis, 2012).

6.3. International Jurisdictional Scan

International approaches offer a variety of models for including self-employed workers in income supports. The cases below reflect the range of approaches successfully taken in countries with insurance-based income support programs. They were selected because they respond to the ongoing concerns of Canadian policymakers surrounding the integration of self-employed and gig workers in EI: moral hazard and adverse selection, financial sustainability, and worker misclassification. While many of these models may be challenging to implement in Canada's context, they demonstrate that successful inclusion of the self-employed in income supports is achievable despite the challenges identified above.

6.3.1. Denmark: Unemployment Insurance based on Work Activities

Denmark's unemployment insurance system provides voluntary coverage to all workers, including self-employed workers. Like Canada's EI SESB, workers must register in an unemployment fund one year prior to making a claim (European Commission, 2022). The program insures workers based on work activities, requiring a minimum income of €32,000 over 3 years, and does not distinguish between worker classification (e.g. employed and self-employed). This system was implemented in 2018 to respond to a growing number of non-standard and self-employed workers, which the previous system was ill-equipped to handle (European Commission, 2020). Given the difficulty of determining reasons for separation from work for self-employed workers, Denmark instituted a three-week waiting period to receive funds as a disincentive to claiming the benefit when the self-employed could otherwise work; this is in contrast to employed workers, who do not face any waiting period to access the benefit (European Commission, 2022).

Importantly, this model exists within Denmark's more generous social security system, 'flexicurity', which is designed to offer relatively generous income security to workers in exchange for labour market policies with a high degree of flexibility for hiring and firing (Danish Agency for Labour Market and Recruitment, 2022). This may also incentivize more workers to opt into insurance. Due to the substantial cross-national differences between the Danish and Canadian systems, it may be difficult to translate this policy to Canada without changes to the Canadian context. Flexicurity involves an overall different approach to labour market policies than is found in Canada, and implementing only one element may prove a challenge; without Denmark's flexibility for firms in hiring and firing, only the most precarious workers are likely to enroll in a voluntary insurance scheme, leading to significant adverse selection issues.

6.3.2. Ireland: Mandatory Universal Unemployment Insurance

Ireland's mandatory employment insurance (Jobseeker's Benefit) includes self-employed workers, indicating that despite design concerns raised in Canada, coverage can feasibly be extended to this group. Coverage of self-employed workers began in 2019. Like employed workers, their coverage is automatic, and they must pay premiums. Self-employed workers in Ireland pay the same premium rate on their earnings as employed workers, at 4%. Employers pay a larger premium rate of 8.8% to 11.05%, while no equivalent premium is paid by employers or the government for self-employed workers – like SESB in Canada. Both groups of workers have the same qualifying requirements for the Jobseeker's Benefit and are eligible to receive the benefit for the same duration (Citizens Information Board, 2022). Workers under a minimum income threshold of €5,000 per year are exempted from making contributions, however they can voluntarily contribute €500 to be covered by Ireland's social protection scheme overall; this offers an incentive to participate, as workers will be repaid this amount in their first year of pension coverage.

Unlike in Canada, where self-employed workers do not currently pay EI premiums, self-employed workers in Ireland have been required to contribute premiums for decades. Covering them under the Jobseeker's Benefit was seen to increase fairness by providing them with the same access to benefits for the same contributions as employees. In contrast, Canadian self-employed workers and firms have mounted opposition to mandatory coverage under EI because they are opposed to paying premiums (ESDC, 2022c). As a result, Canadian policymakers have signaled an unwillingness to impose mandatory premiums, making the Irish model politically unlikely at this time in the Canadian context.

6.3.3. France: Separate Gig Worker Regime

Another income protection option is a standalone program designed solely for self-employed workers, as exists through France's *Intermittents du spectacle* program for artists. This program offers income support to performers and technicians in the entertainment sector in France, whose work consists of standalone gigs (shows, or *spectacles* in French) with periods of unemployment in between (Gray, 2021). To be eligible, workers are required to have worked a minimum of 507 hours (43 days) over the past 304 days. They receive benefits based on their previous earnings. The system allows claimants to work while on claim, which reduces the benefit amount but extends the claim period.

The *Intermittents du spectacle* program is sometimes criticized for its design, which is perceived to incentivize repeat use. Approximately 40% of entertainment sector workers drew on the program in 2015;

> It provides little incentive to work beyond the minimum number of hours required to be entitled to unemployment benefits. It allows show-business workers to combine earned income with unemployment benefits indefinitely, if they work at least 2 months over any 10-month period. (Cahuc, 2018, p. 29)

Because of the generous eligibility requirements and the allowance of repeat use, the program incentivizes workers to quit after meeting the minimum number of hours, a pattern so entrenched that "many companies have adapted their workforce management in order to take maximum advantage of the facilities provided by unemployment insurance" (Cahuc, 2018, p. 30). As a result, workers under this scheme draw 5.2 times more than they contribute in premiums (Cahuc, 2018).

This program has been used as an example in Canada to argue for the unworkability of including gig workers in EI or providing a standalone income support program; the adverse selection and moral hazard challenges are seen as too costly and insurmountable (Gray, 2021). While an income support program with the same program parameters as *Intermittents du spectacle* would be unsustainable in Canada, this is not to say that any income support program for gig workers, designed with lessons learned from the French example, would be unsustainable.

6.3.4. California: Employee Classification Legislation

The State of California has taken a different approach to extending income support and other protections to some self-employed workers. Since worker classification is one main reason for self-employed workers' exclusion from income support benefits, California has clamped down on rampant worker misclassification through labour code amendments. California Assembly Bill 5 (AB-5), passed in 2019, amended California's labour code so that workers are presumed as employees by default and that onus is on the employer to prove that a worker is an independent contractor (AB-5, 2019). The Bill also amends the definition of employee within unemployment insurance legislation (equivalent to Canada's EI program) to reflect this. The express purpose of this amendment is to ensure that employers pay unemployment insurance premiums for workers who are rightfully employees and that these workers are eligible to receive benefits (AB-5, 2019).

The ABC test used in AB-5 establishes worker classification by stating that a worker is an employee unless the employer proves all three conditions:

(A) The worker is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact;

(B) The worker performs work that is outside the usual course of the hiring entity's business; **and**

(C) The worker is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed (State of California, 2019).

Effectively, the ABC test confirms that workers are independent contractors only if they are not controlled by, or subordinate to, the employers; if they do not perform the employer's main business function (e.g. drivers perform ride-sharing and delivery apps' main function); and if they have an independent business outside of the employer, meaning that they are not economically dependent on the employer (Davidov & Alon-Shenker, 2022). Building on older tests of employment classification, prong B responds specifically to app-based gig platforms, which outsource their main business activities to contractors (Davidov & Alon-Shenker, 2022).

A referendum in California passed in 2020, Proposition 22, exempts app-based delivery and transportation workers from the ABC test, maintaining these workers' status as independent contractors. Proposition 22 was advanced by major digital gig platforms with more than $200 million in funding (O'Brien, 2020). Regardless, most contractors and gig workers remained covered by AB-5. In 2021, Proposition 22 was ruled unconstitutional by a California Superior Court Judge (*Castellanos v. State of California*, 2021), however appeals of this case will likely not be settled below the United States Supreme Court (Cutler, 2022). Despite the uncertainty surrounding AB-5 and Proposition 22, the ABC test is seen as a possible model for other jurisdictions, including Canada and the European Union (Davidov & Alon-Shenker, 2022). While it has not been implemented in other jurisdictions, it is gathering the interest of policymakers worldwide.

6.4. Lessons Learned

These income support models offer relevant lessons for designing policy for Canada. Firstly, they reveal that program design must be carefully considered. The *Intermittents du Spectacle* model shows that moral hazard concerns raised in Canadian policy debates are real and may be difficult to rectify once introduced. However, the Danish model demonstrates that thoughtful program design can address these concerns for self-employed workers.

Secondly, the models explored reveal that existing policy context matters. Denmark and Ireland were able to extend insurance-based income support to self-employed workers because of the contexts of their social security systems. Denmark's flexicurity system and generous benefits mean that workers have greater incentives to enroll in voluntary insurance schemes, reducing adverse selection. Ireland already required self-employed workers to pay premiums, unlike in Canada, where worker opposition to coverage is based in a desire not to pay premiums. However, given the widespread opposition to mandatory EI coverage for all self-employed workers in Canada (ESDC, 2022c), such models are unlikely to be implemented successfully; this leaves the issue of adverse selection unresolved.

Although policy context may hamper adoption of the Danish or Irish models in Canada, the COVID-19 pandemic altered Canada's policy context and expanded the possibilities for new income support models. It has created a window of opportunity to explore income support models based on those introduced during the pandemic. The success of pandemic supports in Canada and the lessons learned may provide templates for new models of more generous, inclusive, and administratively simple income support programs moving forward.

Finally, the Californian model demonstrates the relevance of legal tools in addressing precarious workers' vulnerability to income shocks. Addressing the issue of misclassification through legislation can reduce workers' vulnerability to income shocks without introducing new income support programs. This approach will also address other dimensions of precarity experienced by workers. This approach is relevant for Canada because of the ample room for improvement in its labour standards after years of deregulation (Peters, 2022).

This scan informs the policy options explored in the remainder of this paper. Policies that currently exist in Canada, including EI for some self-employed workers and pandemic response benefits, are promising because of their track record and acceptability among Canadian stakeholders and policymakers. Additionally, the TUA merits further consideration because of its specific design to address gaps in the Canadian system. In contrast, Denmark and Ireland’s models of income support exist in very different policy contexts to Canada’s; while they offer useful lessons, they are removed from further analysis because they are likely to be met with widespread stakeholder opposition. Likewise, France’s model is removed because of its clear failures to provide sustainable income support and encourage labour market attachment. California’s model, meanwhile, merits further consideration because it has the potential to respond to Canada’s own problem of misclassification and integrate workers into Canada’s existing income support system.

Chapter 7. Policy Options

This chapter outlines the suite of policies that will be analysed to respond to the policy problem. Building on the lessons learned from the policy scan and expert interview testimony, these options will be analysed because of their potential to be implemented in the Canadian context, as noted above.

7.1. EI for Dependent Contractors

Building protections for self-employed and gig workers into the existing EI program would reflect the policies of several other countries and the commitments of the Government of Canada as part of its EI Modernization initiative (ESDC, 2022b). However, based on findings and considerations outlined in Chapter 6 and the lack of stakeholder support for mandatory EI for self-employed workers in Canada, this policy option proposes a narrower approach.

This option would extend the model of EI for taxi drivers, hairdressers, and barbers to dependent contractors, such as platform gig workers. This means that platforms and agencies would be considered employers for the purposes of EI and would be responsible for submitting employer and employee premiums and records of employment. This model would operate in the same way that existing carve-outs for taxi drivers, hairdressers, and barbers currently operate. Self-employed workers who use these platforms to find work would be eligible for EI regular benefits if they lost work through no fault of their own and met the entry requirements, just like regular employees.

This approach would extend EI coverage to all gig workers, including digital platform workers and non-platform workers. However, it is recognized that some gig workers in the informal economy would not be covered by this approach because they work under the table. Despite this limitation, the model would still cover a substantial number of self-employed workers under EI while remaining feasible compared to a universal coverage approach, which is widely considered unrealistic in Canada.

7.2. Temporary Unemployment Assistance

Providing income support for self-employed and gig workers outside of the EI program offers greater freedom to tailor supports to the realities of these workers. While it has not been tested in Canada or elsewhere, the TUA model offers income support designed to encourage labour market attachment to workers unable to receive EI (Mendelson & Battle, 2012). It would provide time-limited income support through a flat-rate forgivable loan to workers who are unemployed and seeking work. TUA would offer a loan regardless of the cause of unemployment, which would negate the challenge of validating self-employed workers' reason for separation. However, the TUA would only be available to workers once every five years and would need to be repaid if a worker's annual income was over a certain threshold, intended to disincentivize misuse. TUA eligibility could be renewed in the event of large external shocks to ensure widespread support was available.

The TUA would be paid at a flat-rate of 90% of the minimum wage in the recipient's province or territory for a full-time schedule. Minimum wages range from $13.00 in Saskatchewan to $16.00 in Nunavut, meaning that at the low end, a weekly TUA payment would be $438.75 ($13.00 x 37.5 x 90%), and at the high end, the weekly payment would be $540. Unemployed workers are eligible for this payment for up to 26 weeks while they look for work.

The TUA would be repayable through the income tax system, with the repayment schedule scaled to the worker's annual income for the year in which they claimed. This gradual repayment scheme is illustrated below in Appendix A.

7.3. External Income Shock Support

Another model of income support outside of the EI program could provide assistance to low-income self-employed and gig workers without repayment requirements, but would be restricted to clearly exogenous circumstances. While this model is not in place in other jurisdictions or discussed widely in Canadian literature, it reflects lessons learned from COVID-19 response benefits in Canada. A similar proposal is also under development by Canadian academic Jennifer Robson (2021).

An External Income Shock Support (EISS) would provide time-limited income support to low-income workers who experience exogenous shocks, such as a natural disaster or economic shocks, but who do not qualify for support through EI. Eligibility for this support would be determined based on a worker's eligibility for the Canada Worker's Benefit (CWB) in the previous tax year, ensuring that support is targeted to low-income precarious workers. The EISS builds on income support provided to low-income workers through the CWB, providing additional income support when workers receiving CWB lose their income due to circumstances outside of their control.

Similar to the CWLB and other COVID-19 emergency supports, an EISS would be paid at a flat-rate of $300 per week. It would be triggered by an exogenous event, and would be limited to geographic area and/or industries affected. Eligible events triggering EISS would include natural disasters and emergencies that affect ability to work on a large scale, such as floods, earthquakes, wildfires, and future pandemics. They would also include large-scale economic shocks such as recessions, significant commodity price drops, and industry collapses. EISS triggers would be designed to be as comprehensive as possible, however the EISS could be deployed on a discretionary basis for unforeseen disasters and shocks. It would be available for up to 26 weeks, as long as the worker was unable to earn at least 50% of their average pre-shock weekly income, as with the CWLB. This support would be funded separately from the EIOA through the CRF.

7.4. Improvements to Employment Standards for Self-Employed and Gig Workers

Outside of income support programs, employment standards for self-employed and gig workers could be used to reduce precarity from income shocks by bringing a greater number of workers under EI coverage. This approach would involve implementing the ABC test to address worker misclassification; workers would be presumed employees by default, with the onus on the hiring entity to prove that they are independent contractors by meeting three conditions:

A) The worker is free from control and direction of the hiring entity;

B) The worker performs work outside of the usual course of the hiring entity's business; and

C) The worker is engaged in independent business of the same nature. (State of California, 2019)

Implementing the ABC test would reclassify a significant number of contractors as employees, qualifying them for EI coverage and for standard employment protections, including collective bargaining rights and minimum wages. Legislation to codify the ABC test should also spell out the extension of other employment standards to gig workers, such as ensuring that they receive pay for time spent searching for jobs on platforms, rather than just time engaged in a job. Legislation should also enumerate the responsibilities of platforms as employers. While platform gig workers would be a large group of the workers affected, non-platform workers currently misclassified as independent contractors, such as some truck drivers or workers for certain agencies, would also be reclassified as employees.

Interviewees stressed the importance of employment standards reforms to address a broad range of experiences of precarity caused by the proliferation of gig work. While more comprehensive employment standards reforms may also be considered to address broader issues with gig work, these reforms are outside of the scope of this research.

Chapter 8. Criteria and Measures

The following multi-criteria analysis (MCA) matrix is used to evaluate the policies introduced above. Below in Table 1, the evaluation criteria for achieving both societal and government management objectives are outlined.

Table 1: Evaluation Criteria and Measures

Objective	**Criteria**	**Definition**	**Measure**	**Scale**
Societal Objectives				
Protection (key objective)	Capacity to respond to income shocks	Projected ability of measure to provide support to precarious workers during income shocks	Proportion of uninsured workers and income shock events eligible for income support (High is desirable)	High = most workers covered for wide range of shocks Moderate = some workers or events covered Low = little change in workers or events covered
Efficiency	Market incentives	Projected effect of measure on incentives for workers to work (moral hazard) and incentives for firms to use precarious work arrangements	Level of impact on market incentives by measure (Positive impact is desirable)	Positive impact = Incentives to work remain high and incentives for precarity reduced Moderate impact = Incentives to work reduced or incentives for precarity increased Negative impact = Reduced incentives to work and increased incentives for precarity

Objective	Criteria	Definition	Measure	Scale
Equity	Equity with EI	Equity in income support created between precarious workers and those eligible for EI	Equivalency of income support across classes of workers (High is desirable)	High = most workers receive equivalent support Moderate = some variations in support by class of worker Low = significant variations in support by class of worker
Government Management Objectives				
Administrative Complexity	Ease of administration	Degree of complexity involved in implementing and administering the measure, including verifying eligibility and enforcing clawbacks	Level of complexity in implementing and administering measure (Low is desirable)	Low complexity Moderate complexity High complexity
Cost (weight x2)	Cost	Projected cost administering the measure on an ongoing basis, including long-term fiscal sustainability in response to economic shocks	Cost of implementation, ongoing administration, and benefits, minus revenues raised (Low is desirable)	High cost Moderate cost Low cost

Objective	Criteria	Definition	Measure	Scale
Stakeholder Acceptance	Desirability to precarious workers	Projected desirability and uptake of the measure by precarious workers	Level of acceptance and uptake of the measure by precarious workers (High is desirable)	High = widespread acceptance and uptake Moderate = widespread acceptance, but little uptake Low = little acceptance or uptake of measure
	Desirability to firms	Projected desirability of the measure by firms	Level of acceptance by hiring entities (High is desirable)	High = industry acceptance Moderate = neutral or mixed acceptance Low = opposition to measure

Chapter 9. Policy Analysis

This chapter analyses the four proposed policy options using the criteria and measures outlined in Chapter 8. Table 2 summarizes this analysis. Following the detailed policy analysis, Chapter 10 provides a recommended approach.

Table 2: MCA Summary Table

Criteria	**EI for Dependent Contractors**	**Temporary Unemployment Assistance**	**External Income Shock Support**	**Employment Standards**
Capacity to Respond	Low (1)	High (3)	Moderate (2)	Moderate (2)
Market incentives	Negative (1)	Moderate (2)	Moderate (2)	Positive (3)
Equity with EI Recipients	High (3)	Low (1)	Moderate (2)	High (3)
Ease of administration	High (1)	Moderate (2)	Low (3)	Moderate (2)
Cost (weight x2)	**Low (6)**	**Moderate (4)**	**High (2)**	**Low (6)**
Desirability by workers	Moderate (2)	Low (1)	High (3)	High (3)
Desirability by firms	Low (1)	High (3)	High (3)	Low (1)
MCA Score	**15**	**16**	**17**	**20**

9.1. EI for Dependent Contractors

9.1.1. Capacity to respond to income shocks

This measure will have **low capacity** to respond to income shocks. While the coverage of dependent contractors would affect the approximately 8.2% of Canadian workers in gig work, self-employed workers who are not attached to a firm (e.g. truly independent contractors who do not receive work or clients through a firm) would remain ineligible for support, affecting approximately 15.9% of workers (Jeon et al., 2019).[6]

Moreover, coverage by EI is not equivalent to access to EI; program requirements may keep income support out of reach for many gig workers. Without changes to the EI program's entry requirements, approximately one-third of self-employed workers will fall under EI's current minimum income threshold (Statistics Canada, 2022a). A larger number of gig workers may be affected, given their relatively lower income compared to other self-employed workers.

As noted in Chapter 5, gig workers may experience a significant reduction in income-generating opportunities without experiencing traditional job loss. This will create challenges for gig workers to access EI, which is designed to respond to traditional job loss. This means that EI will fail to protect most precarious self-employed workers from income shocks.

9.1.2. Market incentives

Integrating gig workers into EI will have **negative** market incentives. Determining gig workers' reason for separation will be a greater challenge than for contractors currently covered by EI, as one interviewee explains:

> There's so many more people on the Uber platform, for example, than taxi drivers driving for a specific cab company that you still could run into the problem [of workers deciding] "Well, okay, great. Uber's paying into my EI account, I'm paying a little bit in, I'm just gonna take a little break for three weeks." How does Uber have any idea what's going on with you? They have no clue. – Interviewee

This may weaken labour market attachment incentives for gig workers. Though these effects may be limited because this proposal focuses on workers who can be tracked by a firm, it is nonetheless a concern for the EI program that will likely create moral hazard distortions.

[6] Author's calculation based on CEEDD data published in Jeon et al, 2019.

Interviewees also raised concerns about the negative effects of extending EI to gig workers on firms' behaviour. Firms may be incentivized to seek new ways to avoid EI by further entrenching workers at an arm's length. One example of this is the Drivers Inc. scheme within the trucking industry, used to avoid EI premiums (Canadian Trucking Alliance, 2018). One interviewee explained:

> Basically, they go and tell truckers to register as a self-employed individual, […] even though they are ostensibly working completely for the trucking company, and they don't even own their own rigs or anything like that. – Interviewee

This practice of misclassification to avoid EI is illegal (ESDC, 2022d), but is allowed to flourish because of poor enforcement (Canadian Trucking Alliance, 2018). Keeping employees at arm's length exacerbates and entrenches elements of precarious work, and could be a significant negative consequence of this proposal.

9.1.3. Equity with EI

This option scores **highly** for equity with EI recipients. This is because among workers impacted, coverage under EI is equal to that of traditional employees. However, due to access barriers that persist for non-standard workers (Crane, 2018), newly covered workers may still experience lower EI eligibility. It is also important to reiterate that under this option, only dependent contractors, not truly independent self-employed workers, gain equal access to EI. These shortfalls are accounted for in the above analysis of this measure's overall capacity to respond to income shocks.

9.1.4. Ease of administration

Implementing and administering this option will be **highly complex**. EI is currently bogged down by overcomplex requirements (IRPP Working Group, 2022); adding another provision for a new class of workers will exacerbate this problem. Interviewees noted potential for inconsistencies in EI eligibility introduced by this option to lead to legal challenges and further eligibility carve-outs, compounding program complexity.

Verifying the reason for job separation for these workers will challenge the program's ability to process applications while also preventing program misuse. Adding integrity measures will increase the cost of administering benefits and may make it difficult for many self-employed workers to access EI. Yet, without added protections against fraud, costs to the EIOA may increase drastically and the overall sustainability of the program may be compromised.

9.1.5. Cost

The ongoing costs of this measure will be **low**. Implementation and ongoing use of this measure will increase the cost of administration and benefits paid, but these costs will be largely offset by new premium revenue from both workers and firms. However, there may be a significant increase in claims from dependent contractors if job separations are not validated. The complexity of verifications for this group means that costs of administering integrity measures will need to be higher than the administrative costs for workers in standard employment. Overall, these costs will be absorbed into the EIOA with relatively little impact, given the scale of workers added compared to workers covered by the program overall.

9.1.6. Desirability by precarious workers

This option will be **moderately desirable** among precarious workers. It offers increased income support to workers previously not covered by EI, which has been a request during the EI modernization consultations. However, requiring dependent contractors to pay mandatory premiums will also create pushback (IRPP Working Group, 2022). This may especially be the case for the lowest-income dependent contractors, who are the least able to pay EI premiums and who will not meet EI eligibility requirements.

Additionally, workers will likely oppose the inclusion of gig workers under EI without addressing misclassification (ESDC, 2022b). Creating a separate stream of EI for these workers may be seen as entrenching their classification as contractors. As one interview participant explained:

> That kind of seems like a band-aid solution versus like, what are the courts going to say [about misclassification]? Like, what is this new employment form? And how do we properly cover not only the EI labour protections, but also minimum wage, vacation days? […] These are different working

> relationships, how do all our social security systems need to change to protect these workers? – Interviewee

This option would be redundant if misclassification were addressed, thus for many workers, it would be unattractive in comparison to their full demands.

9.1.7. Desirability by firms

This measure will receive **opposition** from firms who depend on self-employed workers, as it will increase personnel costs. Affected firms have expressed opposition to any extension of mandatory EI coverage because of the associated requirement to contribute premiums (ESDC, 2022c; IRPP Working Group, 2022). However, interviewees note that policies that force employers to pay EI premiums may be desirable for policymakers, as this would correct a market distortion.

9.2. Temporary Unemployment Assistance

9.2.1. Capacity to respond to income shocks

The TUA has a **high capacity** to respond to income shocks. Of all options considered, the TUA is the most widely accessible, as it is open to any worker who cannot receive EI. It also covers income reductions regardless of their cause, making it more effective than the existing EI program in providing support during income shocks. All of the roughly 40% of unemployed workers who are not eligible for EI would be eligible for the TUA.

However, actual effectiveness of the program may be lower due to the program's design as a forgivable loan; the TUA may postpone financial challenges related to job loss, as many workers will be required to repay part of the TUA. This is explored further under equity considerations.

9.2.2. Market incentives

The TUA's design scores **moderately** on market incentives. Self-employed workers are disincentivized from using it unnecessarily or taking a vacation funded by the program. As one interviewee explains:

> If it's a repayable loan, it covers off some of the moral hazard [issues] around self-employed workers. It's like, if I know I have to repay this at some point, I'm not just going to dip into it for the sake of it. – Interviewee

This is because the loan amount is lower than a worker could be making if they were employed. Additionally, a worker who uses the TUA to fund a temporary break from work will likely be required to repay a significant portion, while also depleting their ability to access the fund for the next five years. While the TUA may provide a sufficiently generous safety net to encourage some workers to shift to riskier forms of employment, interviewees perceived this risk as marginal.

The TUA's main distortional impact emerges from its lack of relationship to employers. Some interviewees raised concerns with income support programs that do not require firms to pay premiums or address employment classification. Interviewees expressed concern that such programs could incentivize further precarious employment relationships. As one interviewee explained:

> You make it a better business model than it would be if your supports weren't there. So that's one of my biggest concerns with helping out gig workers, is I'd almost rather see it done through other means where we are not taking actions that could end up propping up a form of work that we really, I don't think, want. – Interviewee

The TUA and other income support programs not involving employers will have lower distortionary effects if implemented in conjunction with changes to employment standards.

9.2.3. Equity with EI

The TUA scores **low** on equity with EI because of the requirement to repay benefits. Since workers who are ineligible for EI are typically in non-standard work and have lower incomes (Crane, 2018), the TUA creates a two-tier income support system in which lower income workers must repay their income support, while higher income workers can benefit from EI. Notably, rather than spreading risk across workers through premiums, it individualizes risk by requiring workers who have experienced hardship to repay.

Interviewees emphasized this inequity as concerning given the potentially destabilizing effect of low-income workers being required to repay even a partial loan amount. One interviewee explained:

> Focus[ing] on lower wage, precarious workers, […] they don't have access [to excess] income. The repayment that you're gonna then enforce on them is actually just likely to end up being an issue of financial hardship. – Interviewee

The TUA has been referred to by commentators as a government-backed “payday loan” for low-income workers, in stark contrast to the insurance-based EI program (Ontario Federation of Labour, 2011).

9.2.4. Ease of administration

The TUA scores **moderately** for ease of administration. On one hand, as the creator of the TUA highlights:

> [It] could be administered relatively easily through the tax system. [Administering the TUA] through existing infrastructure is definitely a benefit, certainly simpler than administering EI. – Michael Mendelson, Interviewee

The administration of COVID-19 recovery benefits has demonstrated the relative ease of providing income support through the tax system. The program’s separation from EI and its relatively unrestricted parameters address many of the complexities that would challenge implementation of option 1.

However, many interviewees highlighted that loan repayments would introduce significant complexity. As one interviewee explained:

> There's, frankly, just the administrative hassle of [trying to] get somebody making $30,000 a year to repay $3,000. Yeah, really? Okay. Good luck with that. Is that really worth the time and effort of the Canada Revenue Agency to go after them on that? – Interviewee

The government’s experience administering CERB repayments highlights the difficulties of recovering income support from workers (Major, 2022). Implementing a program designed to recover payments on an ongoing basis would likely require administrative resources that would outweigh the benefits of recovering funds.

9.2.5. Cost

Moderate costs are associated with this policy option. The TUA would be funded through the CRF without premiums, meaning that all costs would fall on the government. Mendelson and Battle (2012) project that one-fifth of all unemployed workers who do not qualify for EI would take the TUA in any given year, meaning a projected uptake of roughly 140,000, with an associated annual cost of approximately $980 million. However, given the expected hesitancy by low-income workers to take up the TUA (explained below), uptake and associated benefit costs would likely be a fraction of this number.

Some benefits would be recovered through loan repayments, reducing the overall cost. It is difficult to project the average amount of TUA loans that would be repaid, but the TUA would be less costly than a non-repayable scheme. However, the significant administrative costs associated with benefit recovery will offset some of these cost savings.

9.2.6. Desirability by precarious workers

The TUA will have **low desirability** among precarious workers because of its repayment requirements. Since EI recipients receive non-repayable income support, those who are ineligible for EI are likely to balk at repaying income support. As one interviewee explained:

> Telling them that “hey, we'll help you, but only if you pay it back” is probably not a very great political message. […] I think [there would] be a lot of opposition to asking people to repay what is essentially like a critical support. – Interviewee

Additionally, evidence indicates that low-income people are less likely to take on debt (Fidan & Manger, 2022), resulting in projected low levels of uptake. As one interviewee explains:

> Anytime that you structure a program and describe it as a loan, even if it is partly forgivable, you will have a non-trivial number of low wage workers who will self-select out. So even if this program could really help them, they won't do it because they are debt averse, right? And their confidence in their ability to repay would be more limited. […] So if you actually care about

> designing a program that reaches the people that you intend, not entirely sure if a loan is the right frame to begin with. – Interviewee

This is a significant issue because of its potential to stymie this measure's overall effectiveness at protecting precarious workers. Uptake levels are unknown, but the authors of the TUA proposal recognize that uptake will likely be low (Mendelson & Battle, 2012). The 2.5% uptake of EI SESB (ESDC, 2022a), which also requires a financial commitment from workers, may indicate the scale of worker engagement with the TUA.

9.2.7. Desirability by firms

The TUA scores as **highly desirable** for firms. This is because it does not require financial contributions from firms or affect their legal relationship to workers. While this may increase desirability for firms, it is also a market distortion that can be seen as negative from the perspective of policymakers because it encourages precarious work arrangements.

9.3. External Income Shock Support

9.3.1. Capacity to respond to income shocks

EISS will be **moderately effective** at responding to income shocks. Like the TUA, it is widely accessible with few qualification requirements, creating broad coverage for precarious workers. This will have a significant impact; only 12% of unemployed workers under the CWB threshold are currently eligible to receive EI benefits (Statistics Canada, 2019), meaning that in the event of an exogenous shock, the vast majority of precarious workers would benefit from the EISS. However, the EISS provides support for a more limited set of income shocks and more targeted subset of workers than the widely flexible TUA or the EI program. EISS's requirement for a shock to be external and verifiable on a broad scale makes this proposal ineffective at responding to income losses on a personal scale.

9.3.2. Market incentives

This measure scores as **moderate** for market incentives. Because the EISS is targeted towards low-income workers during exogenous economic shocks, it acts as a stabilizer during volatile periods while avoiding the distortions and market failures of chronic program use.

However, like the TUA, the EISS has the potential to validate and support the business practices of firms that outsource to gig and contract workers; it provides support to low-income workers irrespective of their employment classification, and does not draw funding from firms. This distortion is considered lower impact than the TUA because of the limited circumstances under which the EISS can be used; it cannot be seen as an income support for regular ongoing circumstances in the same way that the TUA would be. This distortionary effect can be further mitigated by introducing the EISS in conjunction with measures that address misclassification.

9.3.3. Equity with EI

This measure introduces **moderate** improvements to precarious workers' equity with workers covered under EI. Their access to coverage more closely resembles that of workers covered by EI; they can now access coverage for exogenous shocks in addition to life events covered through EI SESB. However, gaps persist in coverage for personal income shocks that are not externally verifiable, and workers at the top end of EISS eligibility would receive less money than in the event of an income shock than if they were covered by EI.

9.3.4. Ease of administration

This measure's flat-rate and its design similarities to the CWLB make it **simple to administer** through existing CRA infrastructure. This is a significant benefit given the program's role as an immediate response to disasters and exogenous events; the COVID-19 pandemic demonstrated that this is an important capability of an income support program (Robson, 2020).

The most administratively challenging elements of the EISS would be designing program triggers; while identifying large-scale exogenous shocks such as natural disasters is relatively straightforward, recessions and events affecting specific sectors may be more challenging to trigger. Without thorough and well-considered legislative triggers for the EISS, there is a risk that the EISS will be triggered inconsistently based on political decisions. However, designing automatic triggers linked to states of disaster and emergency, Bank of Canada economic assessments, and real-time economic and labour market indicators is possible and would result in a relatively easy to administer program.

9.3.5. Cost

Of all measures considered, the EISS will have the **highest cost**. Unlike the other two direct income support programs, the EISS does not rely on contributions from workers, meaning that it would be funded entirely through the CRF. To contain costs, the EISS would only be available to the roughly 10% of the Canadian labour force that is eligible for the CWB (CRA, 2022a).

The CWLB, which paid $914 million in benefits over a six-month period (CRA, 2022b), can be used to estimate costs. Assuming 20% of CWLB recipients would be eligible for CWB (recognizing that low-income workers are disproportionately likely to be affected by economic shocks), the EISS may cost around $183 million in benefits during a similarly widespread economic event as lockdowns over the Omicron wave of COVID-19. These costs would not be constant; the EISS would experience periods with few to no benefits outlaid and periods of significant cost during economic shocks.

The EISS is susceptible to unpredictable cost fluctuations during large disasters or economic downturns. This is notable considering that the severity and frequency of natural disasters is expected to increase with climate change. However, given that it responds to macroeconomic events, it will also act as a stabilizer, which will promote economic recovery.

9.3.6. Desirability by precarious workers

EISS will be **highly desirable** among precarious workers. As an income support program that is classification-agnostic and does not involve premiums, it would address worker priorities expressed in EI modernization consultations (ESDC, 2022c). Because of its similarities to the widely-praised pandemic benefits' simplicity and broad eligibility, the EISS is expected to draw similar support. Although there may be some worker concerns that the benefit does not extend to all circumstances of income loss, EISS addresses a main worker request for ongoing support during exogenous events.

9.3.7. Desirability by firms

EISS will also be **highly desirable** among firms who contract self-employed and gig workers. Like the TUA, it offers workers income protection but does not require employers to pay premiums or challenge existing worker classification. Since the EISS is responsive to economic shocks, it will likely be supported by firms in industries prone to layoffs with market volatilities because it will be seen as responsive to vulnerabilities of these industries. There may be some concern among firms that the EISS does not extend to mid- and higher-income workers, but this is likely to be subdued given the additional costs that would come with universal coverage.

9.4. Employment Standards

9.4.1. Capacity to respond to income shocks

Reforms to employment standards will have **a moderate effect** in response to income shocks. On their own, employment standards do not directly respond to income shocks, but the reclassification of many workers as employees will significantly increase the number of workers covered under EI. This will affect at least 207,000 digital platform workers (Statistics Canada, 2023) and many of Canada's other gig workers, who make up 8.2% of the overall working population (Jeon et al., 2019). Interviewees emphasized misclassification as an underlying barrier to income support for many workers, and while they recognized that a legislative framework would not catch all workers, it is seen as an important part of the solution.

However, without updates to the EI program to reflect the realities of these workers, many may face barriers to accessing EI. Workers may not meet entry requirements, and the EI program's difficulties with handling non-standard work arrangements or multiple simultaneous employers may also pose a barrier to access, as discussed in option 1.

9.4.2. Market incentives

This option would create **positive** market incentives by addressing the policy problem of outsourcing work to non-employees. This would dilute the strength of current market incentives that have led to the proliferation of business models relying on precarious workers. However, some unintended consequences may negatively affect workers; firms may hire fewer workers or impose new cost-cutting measures. Some firms may even pull out of the market altogether, as seen with Foodora in Ontario (O'Kane, 2020). Most firms are expected to adapt without pulling out; in California, there is no evidence of businesses leaving due to AB-5. Since Canada is a similar-sized market to California, it is unlikely that businesses withdrawing from the Canadian market will have a significant impact. Nonetheless, there is a risk that if Canadian provinces implement the ABC test without coordination, businesses may leave these smaller markets.

9.4.3. Equity with EI

Amending employment standards will increase precarious workers' equity with EI recipients to a **high degree**. This is because workers reclassified as employees will be entitled to the same EI coverage as standard employees, along with other important worker protections. It is important to note that as non-standard workers, fewer gig workers may be eligible to receive EI benefits because of strict entry requirements (Crane, 2018).

9.4.4. Ease of administration

Changing employment standards will involve a **moderate level** of administrative complexity. Most will occur in the design and initial implementation of employment standard changes; ongoing administration will be relatively simple. In Canada, the main administrative design challenge will be in coordinating standards between the federal government and provinces; one interviewee noted "even if they are roughly aligned in terms of standards, by and large, the devil can be in the details". Each province and the federal government would need to update their labour laws and employment standards; the coordination between many actors adds administrative complexity.

Additionally, there will likely be significant arbitration of employment relationships with the initial coming-into-force of the ABC test. This measure requires enforcement of employment standards to be remain effective, requiring ongoing administrative resources.

9.4.5. Cost

This measure will have relatively **low cost**. There will be upfront administrative costs associated with designing and implementing legislation, as well as ongoing administrative costs related to arbitration and enforcing labour codes, but these costs are modest compared to income support programs.

The classification change will introduce EI coverage for more workers, but will also increase EI premium revenue from those workers and their employers. Interviewees noted that the requirement for employers to pay premiums makes this policy option a more desirable solution:

> I think it solves [the policy problem] in a better way than just making EI for those workers. Because with the classification change, the employer has to pay premiums too, mandatorily, versus making this like separate boutique program for the self-employed [in which] like, maybe the employer doesn't pay at all. – Interviewee

Since EI is fully funded by employers and employees, the change in benefit coverage will be cost-neutral for government. Any increase in claims made by newly reclassified workers would be covered by EI premiums. However, there is a risk that premiums may increase if EI use by this group is substantially heavier than among average employees.

9.4.6. Desirability by precarious workers

This option is expected to be **highly desirable** among precarious workers. It fully addresses the demands of Canadian gig workers to be reclassified as employees (Gig Workers United, 2023). In addition, the implementation of the ABC test in California was met with significant gig worker support (Rideshare Drivers United, n.d.), demonstrating the expected reaction in Canada. While some workers may be dissatisfied with the requirement to pay EI premiums, the overall gains for these workers' employment standards will likely outweigh these concerns.

9.4.7. Desirability by firms

This option will receive **significant opposition** from firms who hire gig and contract workers. This is because amending employment standards to address misclassification undermines their business model by imposing employment costs, including fair pay, payroll taxes and EI premiums. Strong opposition can be expected based on the reaction of industry groups to AB-5 in California, including Uber and Lyft's legal challenge of the law (Cutler, 2022), and Foodora's exit from Ontario when the province ruled that its workers had the right to unionize (O'Kane, 2020).

Chapter 10. Recommendation

A combination of an EISS and amendments to employment standards is recommended to improve access to income support for precarious workers. For gig workers, this approach addresses long-standing concerns about worker misclassification, which will address worker precarity from many angles. Amending employment standards will extend income support to gig workers at a low cost to government, as costs will be borne by employers and employees. By shifting the costs of income support onto the companies reliant on gig work, this measure may also reduce the incentives for firms to engage in business practices that exploit worker precarity.

Updates to employment standards will not provide income support to truly self-employed workers or to gig workers who are covered by EI but who do not meet minimum entry requirements. For these reasons, the EISS is recommended to provide a base level of income support to low-income workers during economic shocks. This measure will ensure that the most precarious workers are supported during economic shocks, while largely avoiding the challenges of moral hazard associated with widescale insurance for the self-employed. This approach also avoids the low uptake and repayment issues associated with the TUA. Though it does not cover precarious workers experiencing non-exogenous income shocks, it substantially increases the situations under which these workers can access income support.

Together, these measures update EI coverage for the contemporary Canadian workforce while also providing income support to those who cannot be covered under EI's insurance principles. Introducing these two prongs together is the best way to ensure that precarious workers receive widespread support without entrenching misclassification. Using employment standards to ensure more workers are covered under EI will also ensure that EISS costs remain modest and that program administration remains relatively non-complex.

Administratively, this approach requires federal-provincial coordination. While the EISS can be implemented unilaterally by the federal government, determining appropriate triggers will require input from local jurisdictions, as many disasters and shocks occur locally. Amendments to employment standards will require a coordinated approach between federal and provincial governments. Though most workers are regulated at the provincial level, there is potential for federal leadership and coordination on updates to employment standards. The federal government currently leads regulatory coordination on a range of policy files through multilateral working groups. Since provinces may experience economic competitiveness risks if addressing misclassification on their own, there is incentive for all parties to coordinate.

While employment standards updates will include gig workers under EI, changes to eligibility language within the EI program will be needed to improve accessibility for workers in non-standard employment (such as eligibility based on hours, rather than weeks worked). Further updates to the EI program outside of the scope of these recommendations that may be considered to improve accessibility for self-employed and gig workers include reducing entry requirements, adding provisions for workers in mixed employment, and updating EI SESB to automatically cover all workers.

Chapter 11. Conclusion

Canada's existing social safety net leaves a growing number of workers unprotected from income shocks, even as their work arrangements make them more vulnerable and less able to withstand these shocks. The problem involves not only the structure of the existing EI program, but also the changing nature of employment relationships and the various provincial and federal labour laws that govern them. This problem is growing as Canada's labour market continues to shift away from standard work, and especially as solo self-employment and gig work grow as proportion of overall work arrangements.

Debates about whether these precarious workers can be covered under EI have been ongoing, but the COVID-19 pandemic exposed the inadequacies of the EI program and highlighted the potential for alternative income support models. The pandemic and current efforts to modernize EI present a window of opportunity to update Canada's social safety net.

This paper presents policy options that may be viable for this current window of opportunity. It draws on lessons from existing Canadian policies and other jurisdictions, as well as the perspectives of experts. The recommendations of the creation of an EISS program and updates to employment standards offer an effective first step towards reducing the vulnerability of precarious workers to income shocks.

However, ongoing attention on precarious work is needed to proactively protect workers as employment arrangements continually evolve. These solutions do not address all income shocks for all workers, nor do they fully address the underlying precarity experienced in many jobs. Ensuring worker security must remain a policy priority going forward.

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Appendix A.

TUA Repayment

Very low-income workers who make less than the federal basic personal amount ($15,000 in 2023) would not be required to repay any of the TUA. Workers earning the basic personal amount up to the second income tax bracket ($42,020 in 2023) would repay the loan as a percentage of their income above the personal amount at a rate of half of the income tax for the first tax bracket. Workers making within the second tax bracket would be required to repay the loan as a percentage of their income above the second tax bracket threshold at a rate equivalent to the tax rate for that tax bracket. Workers who make above the second income tax bracket (a minimum of $98,040 in 2023) would be required to repay the full amount of the TUA (Mendelson & Battle, 2012).

Figure A.1 TUA Repayment Scenarios

Example 1: Anush earned $20,000 in 2023 and received the TUA for 7 weeks in Ontario, meaning that she received a loan of $3661.88 [($15.50 x 37.5 x 90%) = $523.13 x 7 weeks].

She is required to repay 7.5% (half of the tax rate of 15%) on the $5,000 she earned above the basic personal amount, meaning that she will repay $375 and keep $3,286.88.

Example 2: Kyle earned $53,000 in 2023 and received the TUA for 15 weeks in British Columbia, a loan of $7,922.81 [($15.65 x 37.5 x 90%) = $528.19 x 15 weeks].

He is required to repay 7.5% of the TUA on the $34,020 he earned in the first tax bracket and 20.5% of the $3,980 he earned in the second tax bracket. This means that he will repay $3,367.40 of his loan ($2,55.50 + $815.90) and $4,555.41 will be forgiven.

Figure 0.2 TUA Repayment Amounts Based on Income

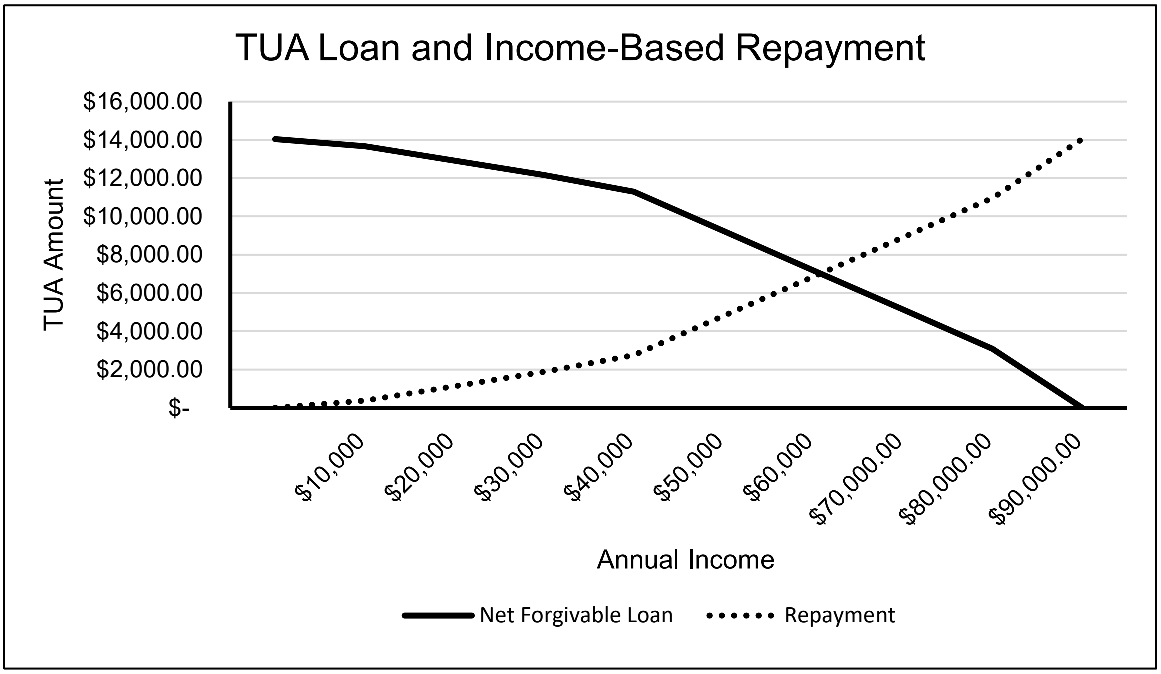

Figure A.2: TUA Loan and Repayment Amounts. Adapted from Mendelson & Battle, 2012, with updated figures based on 2023 minimum wages and tax brackets. Maximum loan amount represents a 26-week loan received in Nunavut.