



# The Impact of High-Benefit Policies on the Canadian Labor Market During the COVID-19 Pandemic

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**Abstract.** This paper studies the impact of the Canadian government's transition from a liberal welfare policy model to a social democratic welfare policy framework on the domestic labor market, paying special attention to the welfare system with high coverage and low conditions implemented during the COVID-19 epidemic (2020-2022). The purpose of this study is to evaluate whether the social democratic welfare system with high welfare and low barriers is still feasible in Canada's current labor market environment, especially considering its socio-economic impact after the pandemic. For example, economic stimulus benefits aimed at enhancing market vitality have inadvertently contributed to inflation in Canada. Similarly, government assistance aimed at making a living during the epidemic period has gradually become an obstacle to the return of labor force in the post-coronavirus pneumonia era. This paper studies Canada's welfare reform and its social impact in the recovery period after the pandemic, and puts forward feasible solutions, with a view to promoting the smooth transformation of the welfare system, alleviating the dual social pressures of inflation and labor shortage, and helping Canada's labor market achieve a more balanced and sustainable development.

**Keywords:** High-Benefit Policies, Canadian Labor Market, COVID-19 Pandemic.

## 1 Introduction

Social welfare is a policy implemented by the state to ensure that citizens can get corresponding support and assistance under special circumstances such as retirement, medical care and unemployment. A country with a perfect social welfare system is called a welfare state, and its core lies in the state's responsibility for the welfare of its residents. In modern welfare countries, most welfare systems involve a certain degree of wealth redistribution policy. For example, in a welfare country, the annual salary of the top entrepreneurs may be 10 times different from the average salary of ordinary workers. However, the real income gap between entrepreneurs and ordinary workers may be reduced to about four times through state intervention, such as tax adjustment, which is the so-called "wealth redistribution" policy. By setting different salary levels and collecting different taxes, the government will distribute some taxes to the unemployed,

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retirees and poor families who need government support to make a living, so as to achieve a balance.

Generally speaking, the system of welfare countries is roughly the same, but specifically, the welfare systems and types of various countries can be further divided into three modes: social democracy, conservatism and liberalism, which is based on the classification proposed by the Danish economist Esping-Andersen in 1990. The liberal welfare system is represented by North America, Canada and the United States. It mainly determines and assists low-income groups through economic, and family surveys and emphasizes labor incentives to avoid “dependence on culture”. However, its welfare coverage is narrow, which leads to the middle class becoming a vulnerable group. The conservative type is represented by Germany, France, Austria and other countries. Its welfare benefits depend more on the individual’s working hours, years of participation and performance. It has certain insurance calculation characteristics and provides strong protection for workers. However, it can lead to gender inequality (fewer benefits due to women’s low-paying jobs) and class solidification (the benefits obtained by a high-income people far exceed those of low-income people), and the social mobility is poor. The social democratic type is represented by Sweden, Norway, Denmark and other countries. Its welfare covers a wide range, which can meet the needs of the middle class. The eligibility for benefits has nothing to do with personal performance, qualifications and salary, and all citizens can enjoy welfare benefits. However, high welfare is accompanied by high tax rates, high cost, high demand for social trust and support, and the low-and middle-income classes are easy to rely on welfare for a long time, which brings great resistance to finance and reform.

In recent years, after the Liberal Party of Canada came to power in 2015, it gradually reformed the original liberal welfare system to the Nordic social democratic welfare system. Under this background, this paper will study the impact of Canada's welfare system reform on the labor market.

## **2 The Evolution of Canada's Welfare Policy System**

Canada is regarded as a typical representative of the “liberal welfare model” defined by Esping Andersen, which emphasizes market dominance, individual responsibility and selective assistance. However, since the Liberal Party came to power in 2015, Canada's welfare policy has gradually moved closer to the social democratic welfare system in Northern Europe. The first significant change is the child welfare policy-Child Welfare Subsidy (CCB) introduced in 2016, which provides monthly childcare subsidies to eligible residents (including permanent residents, refugees, legal temporary residents, etc.). Applicants must live with children under 18 and be the main person in charge. By 2020, the amount of this subsidy will be increased. For example, a single-parent family (with children under 6 years old and an annual income of no more than 25,000 Canadian dollars) will receive 6,765 Canadian dollars, while a two-parent family will receive it according to income classification, covering most residents [1].

The second change is Employment Insurance (EI), which provides temporary income support for workers who are unemployed or temporarily unable to work due to

involuntary reasons. The application conditions include that the accumulated working hours in the past 52 weeks have reached the standards set by the government (usually 420 hours). For employees who have paid EI premium, EI provides a salary replacement rate of about 55%, and the unemployed can receive it for up to 14 to 45 weeks.

The third is Canada's universal medical insurance system (Medicare), which provides free basic medical services for most Canadian citizens and permanent residents, including primary medical care, hospital care and doctor services. Applicants need to register for the provincial medical insurance plan and usually need legal residence status and meet the minimum residence period in the province (generally more than three months).

The fourth item is subsidies and tax refund for low-income families, including Canada Workers Benefit (CWB) and GST/HST tax refund. The former aims to provide cash subsidies to wage earners whose annual income is below a certain threshold, while the latter automatically calculates the annual net household income and directly returns the subsidies to the taxpayer's account without additional application.

Finally, during the epidemic in 2020, Canada launched the Canadian Emergency Assistance Benefit (CERB), which provided assistance of 2,000 Canadian dollars per month to residents over the age of 15 (who were unemployed due to the epidemic and earned more than 5,000 Canadian dollars in the past 12 months) to ensure basic living [2]. In 2021, the Canadian government launched a CRB policy to continue CERB to help Canadian residents tide over the epidemic. On the basis of the CERB policy, this policy adds repayment conditions, that is, if the annual salary of residents receiving this welfare exceeds 30,000 Canadian dollars after the epidemic, they need to return 50% of the excess to the government, while other conditions and amounts for receiving this welfare remain unchanged. These changes show that Canada's welfare policy is gradually approaching the Nordic model of social democracy.

### **3 Impact of High-Benefit Policies on Canada's Labor Market**

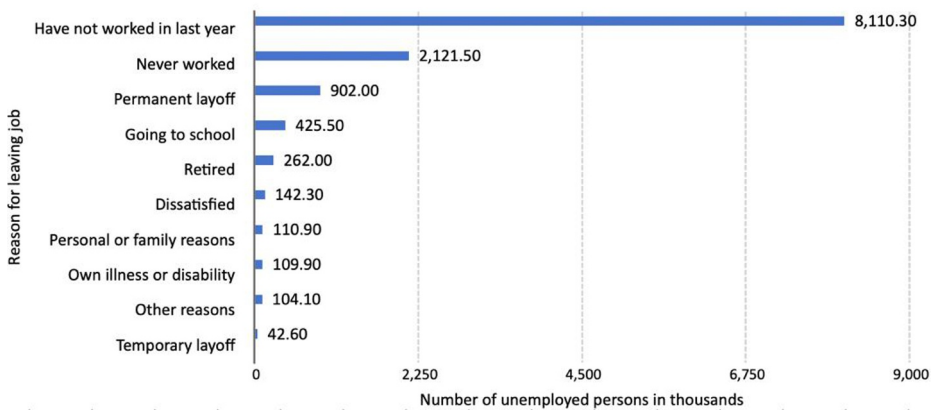
#### **3.1 Positive Effects**

Canada's welfare policy has played an important role in safeguarding basic people's livelihood, improving labor quality and promoting social equity. First of all, these basic welfare policies provide basic living security for workers, reduce the pressure of survival caused by unstable income, and enable workers to concentrate more on self-improvement. For example, EI provides training subsidies to help low-skilled workers learn new skills and improve their employability. Secondly, Canada's universal health insurance system has reduced the absenteeism rate of workers due to illness and improved the health level of the overall labor market. Welfare policies, such as CCB and CWB, help to reduce the burden of childcare and significantly alleviate the poverty problem. At the same time, the implementation of these policies has also promoted the increase of female labor participation rate. According to statistics, after the promulgation of CCB and CWB, the labor participation rate of Canadian women has stabilized at around 61%, which greatly promoted the inclusiveness and equality of the labor market [3].

During the epidemic, welfare policies such as CERB and CRB played a vital role in stabilizing the Canadian labor market. First of all, these policies make up for the insufficient coverage of the original unemployment insurance system, fill the welfare gaps of students, temporary workers and self-employed people, and avoid large-scale life interruption. Secondly, these welfare policies have alleviated the consumption shrinkage caused by income interruption, provided a stable demand base for small enterprises, and contributed to the stability of employment in the early stage of economic recovery. This continues to play a key regulatory role in maintaining labor supply and social order [4].

### 3.2 Negative Consequences

The welfare systems such as CCB, CWB, universal medical insurance and EI insurance are relatively perfect in application, which helps to prevent workers from relying too much on welfare. However, during the COVID-19 pandemic, CERB introduced by Canada brought a series of negative effects due to its high benefits, low threshold and wide coverage. First of all, CERB has inhibited participation in the labor market. Because workers can get a monthly subsidy of \$2,000 without looking for a job, some people who could have been re-employed choose to continue to receive benefits instead of looking for a job, which reduces their willingness to find a job [5]. In addition, the design of CERB and the existing EI insurance system is not effectively integrated, which leads to the disharmony between the systems, highlighting the structural problem of the lack of unity and coordination of the Canadian social security system. This is mainly due to the scattered evaluation mechanism in various provinces and the lack of experimental or accurate research and design, which makes it difficult to monitor the marginal benefits of the system and correct the diminishing effect. The following three figures show the unemployed population, inflation rate and unemployment rate in Canada according to statistics [6].



**Fig. 1.** Number of unemployed persons in Canada in 2023; by reason for unemployment during previous.

Data source: Statista Research Department, 2024

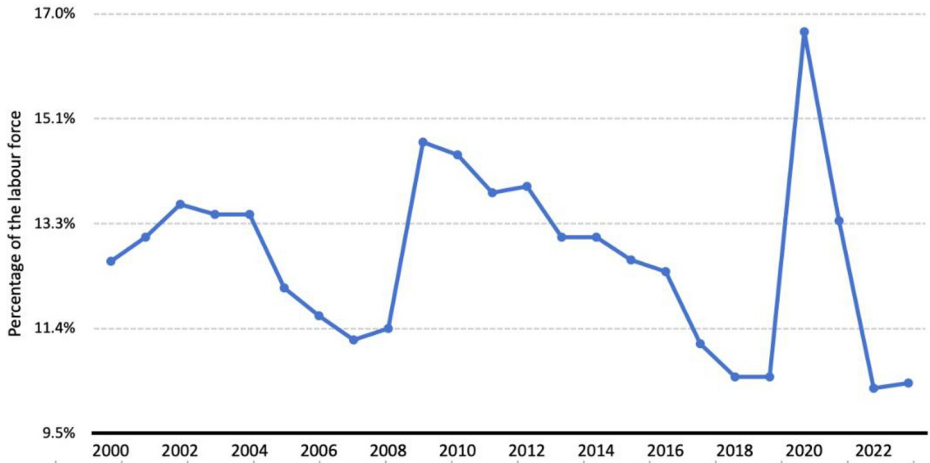


Fig. 2. Unemployment rate of 15- to 24-year-old in Canada from, 2000 to 2023

Data source: Statista Research Department, 2024.

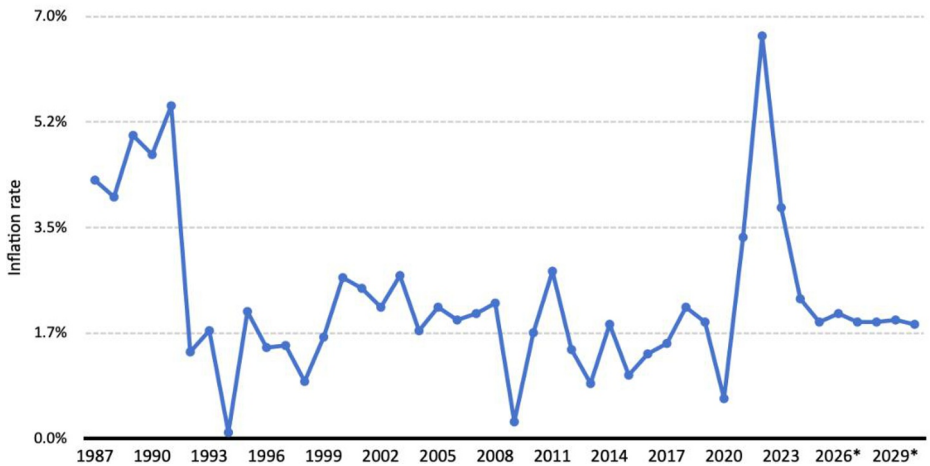


Fig. 3. Inflation rate from 1987 to 2030 (compared to the previous year).

Data source: Statista Research Department, 2024.

According to Figures 1, 2 and 3, during the epidemic period after 2020, there have been some significant changes in the unemployment rate and inflation rate in Canada. It can be seen that the inflation rate rose sharply in 2021 and 2022, and finally reached 6.8% in 2022, far higher than the 2% target set by the Bank of Canada. At the same time, the unemployment rate soared to 16.8% in 2020. Although it declined in 2023, it was still far higher than the average level from 2000 to 2019. This combination phenomenon of “high inflation + high unemployment rate” is the embodiment of the phenomenon of “lag Philip curve” studied by Fortin in 1991. Similar to the negative impact after the Canadian government relaxed the unemployment insurance welfare policy in

1971, this high-level welfare policy may weaken the employment motivation and make it difficult for the unemployment rate in the labor market to fall. Although high welfare may curb the epidemic and other problems in a short time, it may make some young people and low-skilled groups who were originally marginalized fall into dependence on welfare. According to Chart 1, in 2023, there were 8 million people who didn't work in the past year, and 2 million people never got formal work experience. These data clearly show that since Canada introduced welfare policies such as CERB and CRB in 2020, the problems they faced have changed from "passive unemployment" to "structural withdrawal" and "solidification of marginalized groups". Generally speaking, in the process of Canada's transition to a social democratic welfare system, there has been a failure of "high welfare + high inflation + high unemployment". The dislocation between welfare policy and labor incentives may lead to structural lag, which echoes Fortin's view that "when unemployment in the past continues to play a role in the future, the Phillips curve is no longer just a short-term trade-off but becomes a structural contradiction" [7,8].

### **3.3 Impact on Business Enterprises**

The impact of CERB on enterprises is not only reflected at the personal level, but also the impact on enterprises cannot be ignored. First of all, the application threshold of CERB is low, and most applicants belong to low-skilled groups, which leads to a shortage of talents when job opportunities are gradually restored, especially in catering, retail and service industries. Secondly, some enterprises report that even if they are willing to provide legal, paid and flexible job opportunities, it is difficult to attract labor to return to work. To some extent, this distorts the relationship between supply and demand in the labor market and slows down the pace of returning to work and production. This makes enterprises face great pressure when they return to work after the epidemic, such as improving the basic treatment of employees. Especially in the catering industry, people have to deal with not only the pressure of rising wages, but also the challenge of soaring store rents, which makes many catering and service industry practitioners face the risk of bankruptcy.

## **4 Policy Optimization Recommendations for Mitigating the Adverse Effects of Catastrophic Welfare Programs**

As a temporary welfare policy, CERB quickly stabilized residents' income during COVID-19, but the distortion of the labor market and the difficulty in recruiting enterprises caused by its termination cannot be ignored. However, this experience provides valuable experience for preparing for similar emergencies in the future. Therefore, when formulating temporary welfare policies to deal with disasters in the future, people should pay attention to the following points:

First of all, an "elastic withdrawal mechanism" should be introduced, so that workers can retain part of their benefits after resuming part of their working hours until they do

not need welfare support at all. Compared with CERB's "one size fits all" policy, this approach can effectively motivate people to gradually return to work.

Secondly, the government should cooperate with enterprises to establish a recruitment coordination platform. The future emergency welfare policy should fully learn the lesson that CERB is not connected with the enterprise recruitment system, and incorporate it into the employer's job information database, so as to realize the mechanism that welfare recipients will lose their welfare qualifications if they refuse to match the job. This practice can protect people's rights and help enterprises solve the problem of labor shortage during the period of returning to work [9].

Third, catastrophic welfare policies are always temporary, and the government should preset the end time and incentive measures when promulgating such policies. The lack of clear rhythm at the end of CERB has led to the problem of "dependence on the system" in the labor market. Therefore, when formulating disaster welfare policy, people should set up phased reduction plans, training plan continuation mechanism and incentive measures to reduce the structural impact brought by the end of the policy.

Finally, establish an independent evaluation mechanism. The actual social effect of CERB lacks timely data evaluation. Therefore, a unified evaluation mechanism should be established to bring catastrophic welfare into the dynamic monitoring system, so as to adjust the subsidy conditions and cycle in time to maximize financial efficiency and market coordination [10].

## 5 Conclusion

This paper discusses the process of Canada's current welfare system turning to a social democratic welfare mode during COVID-19 and pays special attention to the influence of high welfare policy represented by CERB on labor market and enterprises. It is considered that the implementation of COVID-19 welfare policy is a social experiment of the Canadian government in the reform of welfare system. Through the large-scale cash distribution policy, the original liberal welfare state model has been broken, showing a tendency of "de-commercialization" that is more inclined to social democratic countries. At first, this transformation effectively eased the impact of unemployment and guaranteed the basic livelihood of Canadian residents. However, with the development of the epidemic in the later period, this high welfare policy design has exposed a series of structural problems, such as weakening employment incentives, solidification of the dependence of marginal groups and difficulties in recruiting enterprises, which eventually led to the predicament of high welfare, high unemployment and high inflation. Therefore, this welfare experiment is considered to be a failure, but it has also accumulated valuable experiences and lessons, which will be helpful to the formulation and implementation of welfare policy reform in the future. In the future welfare policy reform, people must balance efficiency and incentive, short-term assistance and long-term adjustment, and promote the effective coordination between welfare system and labor market, so as to ensure the stability of the bottom line of social security without damaging the vitality of market economy and labor market. Only in this way can people

establish a social security system with more flexibility, accuracy and dynamic feedback mechanism, paving the way for the reform of Canada's welfare system.

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