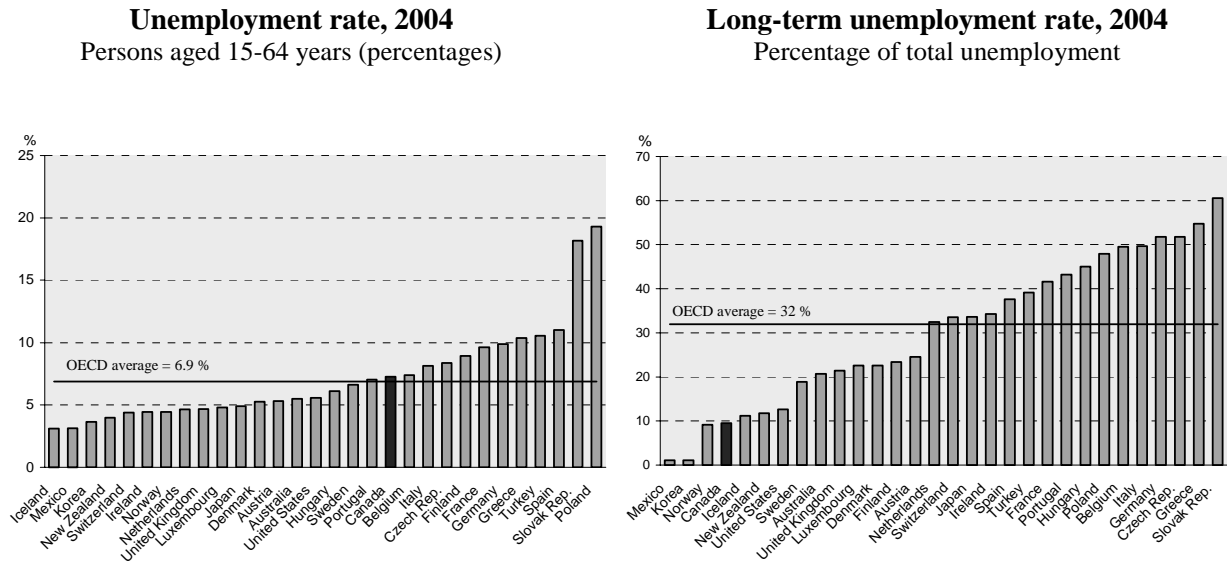


Employment Outlook 2005

How does Canada compare?

In 2004, unemployment in Canada, at 7.3%, stood just above the OECD average of 6.9%, while the share of individuals who had been unemployed for more than one year, at 9.5%, remained among the lowest in the OECD.



Source: OECD (2005), *Employment Outlook*, OECD, Paris

In spite of the low incidence of long-term unemployment, Canada has high levels of “repeat unemployment”. This could suggest a need for stronger activation policies, such as job-search counselling and support and participation in re-employment programmes after a certain period of unemployment. *OECD Employment Outlook 2005* shows that these policies can be effective if well-designed and implemented vigorously. They lie at the heart of the success in reducing unemployment, and in particular long-term unemployment, in countries such as Denmark, the United Kingdom and (until recently) the Netherlands, and within the past decade they have also been successful in Australia, Ireland and New Zealand. Several Canadian provinces have developed activation strategies for recipients of unemployment assistance, but there may be scope for further activating recipients of the more general benefit scheme, i.e. employment insurance.

It is also important to ensure that jobseekers have a financial incentive to go back to work. For instance, individual provinces in Canada provide employment-conditional benefits. An example is the recently introduced “Prime au Travail” or “Work Premium” in Québec, a new programme aimed at supplementing the income of working individuals with low pay. *Employment Outlook 2005* provides evidence that such in-work benefits, if well designed, can significantly promote welfare-to-work transitions.

Activation policies and in-work benefits can also help workers to navigate in "globalised" labour markets. Growing international trade and foreign direct investment has the potential to raise real incomes, living standards and new jobs in expanding sectors, but it also has the potential to cause job losses in some sectors.

Increasing international economic integration – including the quadrupling of imports from China between 1995 and 2003 – have proven to be compatible with an improving trend in overall employment and unemployment in Canada during the past decade. Nonetheless, the *Employment Outlook 2005* shows that the incidence of permanent layoffs is highest in the Canadian manufacturing industries where import competition has risen most. Furthermore, worker displaced by trade often bear large adjustment costs. It follows that policy makers confront an important structural adjustment challenge related to globalisation, namely, ensuring that workers displaced by trade are able to move into available jobs that make good use of their productive skills, while also softening the impact of any earnings losses on family incomes.

A well-designed system of unemployment benefits and active labour market programmes can lower adjustment costs for trade-displaced workers. However, the nature of the adjustment difficulties confronting trade displaced workers also suggest that certain types of assistance may deserve increased emphasis or that novel approaches are worth considering. For example, trade-displaced workers must often accept substantial pay cuts in order to become re-employed, probably because they are older and less-educated than other job-seekers in many cases, with skills that no longer correspond to current employer needs. This pattern implies that trade-displaced workers will often qualify for unemployment benefits that are relatively high compared with their *prospective* earnings, a pattern that could discourage rapid re-employment. In-work benefits may be particularly useful for encouraging these workers to become re-employed more rapidly. France, Germany and the United States have recently introduced wage insurance schemes, which provide a pay supplement to job losers accepting a new job at a lower wage than they had previously earned, where the supplement is calibrated to make up part of the reduction in earnings. Such schemes have yet to be carefully evaluated, but may hold considerable promise for reconciling incentives to become re-employed promptly with a more equal sharing of the costs and benefits of international trade and investment.

OECD Employment Outlook 2005 is available to journalists on the password protected web site or on request from the Media Relations Division. For further comment on Canada, journalists are invited to contact Glenda Quintini (tel: +33 1 45 24 91 94 or e-mail: glenda.quintini@oecd.org) or Raymond Torres (tel: +33 1 45 24 91 53 or email: raymond.torres@oecd.org) in the OECD's Employment Analysis and Policy Division.