

CANADA

GDP per capita growth since the mid 1990s has been higher than the OECD average, reflecting in part an acceleration in labour productivity. However, the latter remains below the US level, resulting in a significant income gap.

Priorities supported by indicators

Reduce work disincentives in the income support system

Provincial social assistance systems create welfare traps, and the federal Employment Insurance (EI) system reduces labour mobility and cross-subsidises firms heavily reliant on seasonal workers.

Actions taken: The incentives to move from social assistance to work have improved since the mid-1990s because of the introduction of the National Child Benefit, which does not depend on work status. The EI premium rate has been set so as to balance premiums and benefits at the aggregate level. However, in 2004, the federal government increased access to EI benefits for seasonal workers.

Recommendations: Reduce the “welfare wall”: Implement stricter job search and activation requirements, and coordinate abatement rates more tightly across programmes and jurisdictions. Shift the focus of the EI system towards its insurance objective: Introduce enterprise experience rating, lengthen the relatively short qualification and stand-down periods, and phase out differences in eligibility rules between regions.

Reduce barriers to foreign ownership

Canada has one of the most widespread foreign ownership restrictions in the OECD, mainly in telecommunications, broadcasting and domestic airlines. These are holding back competition and innovation.

Actions taken: Two parliamentary committees have taken different positions on cable/broadcasting restrictions.

Recommendations: Eliminate ownership restrictions. For example, use content rules to safeguard Canadian culture.

Further liberalise services

Removal of obstacles to inter-provincial trade in professional services and full implementation of the *Agreement on Internal Trade* has been slow. Competition remains almost non-existent in the provincially-controlled electricity sector. Securities regulation is unduly fragmented.

Actions taken: In its latest budget, Ontario announced that electricity prices would evolve in line with costs.

Recommendations: Dismantle remaining barriers to inter-provincial trade, including the regulation of professional services. Streamline securities regulation. Open up electricity markets to competition in all provinces.

Other key priorities

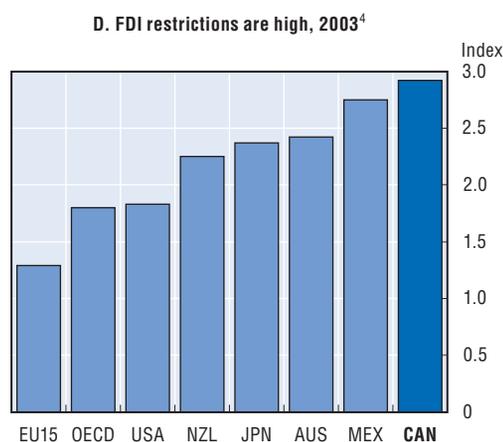
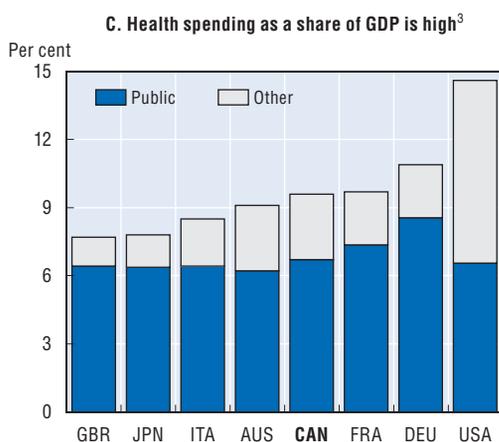
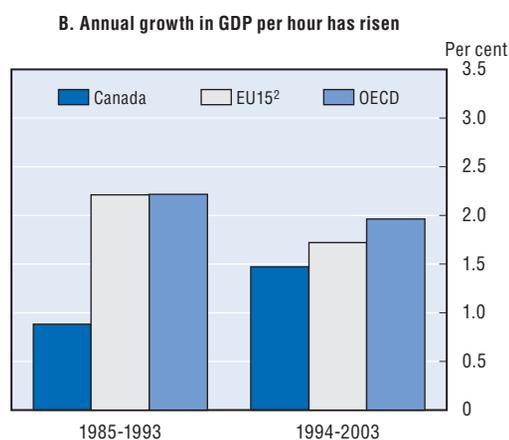
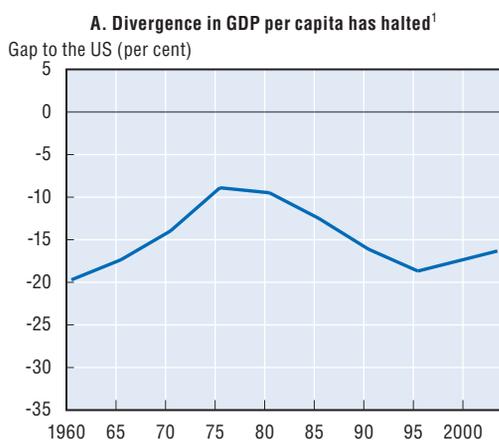
- Restrain growth in public health costs by introducing a mixed remuneration system for primary-care providers, and by allowing for output-based hospital funding and more contracting out.
- Continue to examine capital cost allowances to ensure that they are aligned with useful economic lives and remove provincial taxes on the purchase of capital goods as well as on firms' ownership of capital assets.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	0.7	1.6	2.5	1.7
Trend employment rate	70.3	70.4	72.2	72.8
Trend participation rate	76.6	76.4	77.5	78.5
Structural unemployment rate (NAIRU)	8.3	7.9	6.8	7.3

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).
2. Excluding Austria and Luxembourg.
3. Health expenditure as a percentage of GDP; 2002, except 2001 for Japan and Australia.
4. Index scale of 0-6 from least to most restrictive.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Health database; Chart D: OECD Regulation database.