

**Symposium on the Canada-U.S. Unemployment Rate Gap:
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In the mid-1990s the Canada-U.S. unemployment rate gap exceeded four percentage points. To shed light on the factors behind this unprecedented development, the Centre for the Study of Living Standards (CSLS), in partnership with the Canadian Employment Research Forum (CERF), organized in 1996 a major conference. Selected papers from the conference were published in a special issue of *Canadian Public Policy (CPP)* that was published in February 1998, edited by Craig Riddell and myself.

Since the mid-1990s the Canada-U.S. unemployment rate gap has declined significantly to its current level of about two percentage points. To analyze the reasons for this decline and update the analysis of the 1998 *CPP* volume, Jim Stanford, representing the Progressive Economics Forum (PEF), and myself organized a panel session at the annual meeting of the Canadian Economics Association, which took place May 30-June 2, 2003 at Carleton University in Ottawa. This symposium contains four articles based on presentations made at the session.

In the first article, Geoff Bowlby of Statistics Canada provides an overview of recent labour market trends, pointing out that employment growth in Canada has greatly outpaced that in the United States since 1996 and especially in 2001 and 2002 when the United States shed jobs. Indeed, the employment rate in Canada in December 2002 was higher than that in the United States. This difference in employment growth was the key factor behind the decline in the unemployment rate gap. Bowlby notes that while all industries in Canada have outperformed their U.S. counterparts in terms of employment growth, the difference has been most marked in manufacturing.

In the second article, Tiff Macklem and Francisco Barillas from the Bank of Canada examine the role of the incidence and duration of unemployment in the decline in the Canada-U.S. unemployment rate gap since 1996. They find that unemployment incidence in Canada relative to the United States has changed little, but relative duration has dropped significantly due to both a fall in Canada in the second half of the 1990s and an increase in the United States in 2002. They conclude that the different cyclical position of the two economies largely account for these developments.

In the third article, Craig Riddell from the University of British Columbia updates his well known decomposition of the Canada-U.S. unemployment rate gap. He first points out that differences in the measurement of unemployment between Canada and the United States, a factor first identified at the 1996 CSLS-CERF conference, now accounts for 0.7 to 0.9 points of the current gap and has been increasing over time. In addition, he estimates the structural gap in the unemployment rate between the two countries at just over 2 points in 2000. Over the 1981-2000 period, Riddell estimates that the increase in the labour force attachment of non-employed Canadians contributed about two-thirds to

the growth of the Canada-U.S. unemployment gap, but notes that the factors behind this increased attachment remains a puzzle.

In the final article, Jim Stanford from the Canadian Auto Workers revisits the “flexibility hypothesis” that asserts that poor labour market performance in Canada has been due to inflexible labour markets. Stanford concludes that the relative deterioration of Canadian labour market performance in the 1990s was clearly a result of uniquely negative macroeconomic conditions, not Canada’s more interventionist and egalitarian labour market structures and policies, while the decline in the unemployment rate gap since 1996 has been due to a rebound in macroeconomic conditions.

As the very brief summaries above hint, these four articles provide much insight into current labour market conditions in Canada and the United States. The key finding that emerges is the importance of macroeconomic conditions in accounting for the evolution of the Canada-US. unemployment rate gap in the 1990s and early years of the current decade.

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