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BETTER POLICIES FOR BETTER LIVES

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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries. The economic situation and policies of Canada were reviewed by the Committee on 21 January 2021. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 8 February 2021. The Secretariat's draft report was prepared for the Committee by Philip Hemmings (Senior Economist) and Peter Jarrett (Consultant), under the supervision of Isabelle Joumard (Head of Division). Statistical research assistance was provided by Béatrice Guérard and editorial assistance by Michelle Ortiz and Héloïse Wickramanayake. The previous Survey of Canada was issued in July 2018. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys

BASIC STATISTICS OF CANADA, 2019[1]

(Numbers in parentheses refer to the OECD average)[2]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	37.6		Population density per km² (2018)	4.1	(38.0)
Under 15 (%)	15.8	(17.9)	Life expectancy at birth (years, 2018)	81.9	(80.1)
Over 65 (%)	17.6	(17.1)	Men (2018)	79.9	(77.5)
International migrant stock (% of population)	21.3	(13.3)	Women (2018)	84.1	(82.8)
Latest 5-year average growth (%)	1.2	(0.6)	Latest general election	October-2019	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2016, OECD: 2019)		
In current prices (billion USD)	1 741.4		Agriculture, forestry and fishing	2.0	(2.6)
In current prices (billion CAD)	2 310.7		Industry including construction	25.0	(26.8)
Latest 5-year average real growth (%)	1.8	(2.2)	Services	73.0	(70.5)
Per capita (000 USD PPP)	51.5	(49.3)			
GENERAL GOVERNMENT Per cent of GDP					
Expenditure	41.0	(40.6)	Gross financial debt (OECD: 2018)	92.7	(107.7)
Revenue	41.5	(37.5)	Net financial debt (OECD: 2018)	19.4	(67.8)
EXTERNAL ACCOUNTS					
Exchange rate (CAD per USD)	1.33		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	1.19		Machinery and transport equipment	26.7	
In per cent of GDP			Mineral fuels, lubricants and related materials	22.1	
Exports of goods and services	31.9	(54.2)	Manufactured goods	10.9	
Imports of goods and services	33.5	(50.6)	Main imports (% of total merchandise imports)		
Current account balance	-2.1	(0.4)	Machinery and transport equipment	43.8	
Net international investment position	44.5		Miscellaneous manufactured articles	12.2	
			Manufactured goods	11.4	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	62.0	(57.6)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	5.7	(5.4)
Men	65.9	(65.6)	Youth (aged 15-24, %)	11.0	(11.7)
Women	58.2	(50.0)	Long-term unemployed (1 year and over, %)	0.5	(1.4)
Participation rate (aged 15 and over, %)	65.7	(61.1)	Tertiary educational attainment (aged 25-64, %)	59.4	(38.0)
Average hours worked per year	1,670	(1,726)	Gross domestic expenditure on R&D (% of GDP, 2018)	1.6	(2.6)
ENVIRONMENT					
Total primary energy supply per capita (toe)	8.0	(3.9)	CO2 emissions from fuel combustion per capita (tonnes)	15.2	(8.3)
Renewables (%)	16.4	(10.8)	Water abstractions per capita (1 000 m³, 2015)	0.9	
Exposure to air pollution (more than 10 g/m³ of PM 2.5, % of population)	1.8	(61.7)			
SOCIETY					
Income inequality (Gini coefficient, 2018, OECD: 2016)	0.303	(0.310)	Education outcomes (PISA score, 2018)		
Relative poverty rate (%, 2018, OECD: 2016)	11.8	(11.4)	Reading	520	(487)
Median disposable household income (000 USD PPP, 2018, OECD: 2016)	35.6	(24.4)	Mathematics	512	(489)
Public and private spending (% of GDP)			Science	518	(489)
Health care	10.8	(8.8)	Share of women in parliament (%)	29.0	(30.7)
Pensions (2018, OECD: 2017)	4.9	(8.6)	Net official development assistance (% of GNI, 2017)	0.3	(0.4)
Education (% of GNI, 2018)	4.9	(4.5)			

1. The year is indicated in parentheses if it deviates from the year in the main title of this table.
2. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

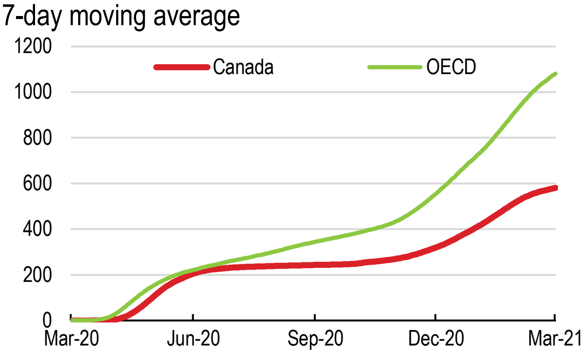
Executive Summary

Canada's vaccine rollout is bringing the prospect of an end to the crisis

Vaccine rollout is underway, but contagion remains an issue and confinement measures are still in place. Overall, Canada's COVID-19 related fatalities on a per capita basis have been below those for the OECD as a whole and considerably below the most severely affected countries. As elsewhere, age has been the key vulnerability, with around 90% of COVID-19-related deaths among those aged over 70 years. Also, racialised minorities have had a higher risk of COVID-19 infection and mortality. The first wave of the pandemic was concentrated in Quebec and Ontario, but case numbers became more widespread in the second wave. The second wave has seen provinces and territories selectively extending and re-imposing limits on activity. Canada's mass vaccination began in December, under a plan that envisages enough vaccine for every Canadian that wants one by September 2021. Some limits on activity are now being lifted.

Figure 1. Canada's per capita COVID-19 fatalities have been below the OECD average

COVID-19 cumulative deaths per million inhabitants, 7-day moving average



Source: Our World in Data, as of 2 March 2021.

StatLink https://stat.link/rboyhq

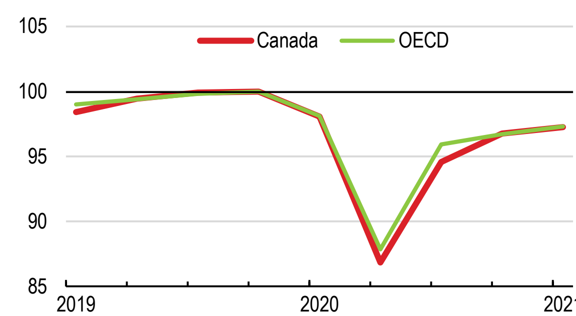
Those in low-wage jobs, notably young workers, women and racialised minorities have been hit hardest economically by the crisis, implying a potential widening of inequality. In addition, data confirm deteriorations in mental health during the lockdowns. Opioid-related harms and deaths have risen sharply.

Economic recovery has slowed

Canada's economy made a rapid partial rebound from the spring 2020 confinement but has since slowed. Output dropped by more than 15% in the first wave of the pandemic, and the rate of unemployment spiked up to nearly 14%. The initial rebound in economic activity was rapid, but the pace of growth has since diminished. Activity in the travel, leisure and entertainment sectors remains well below pre-crisis levels. Output shrank by 5.4% in 2020.

Figure 2. Output has followed a similar path to the OECD average

Real GDP, index Q4 2019 = 100



Note: The last quarter is an estimate.
Source: OECD Economic Outlook, Interim Report March 2021.

StatLink https://stat.link/37rqua

Risks and uncertainties remain large, notably around how quickly restrictions can be lifted as vaccine rollout proceeds. There are also upside and downside risks in how rapidly households will unwind precautionary saving. Volatile global energy prices have discouraged oil and gas investment. On the upside, the expected fiscal stimulus in the United States could bring a large boost to Canadian exports.

OECD projections envisage annual output growth of around 4.7% in 2021 and 4% 2022. This will bring output close to pre-crisis trends and drive falls in the rate of unemployment. Headline consumer-price inflation will be affected by energy prices in the near term, core inflation will pick up gradually.

Table 1. Recovery will be pick up again

(Annual growth rates, unless specified)	2019	2020	2021	2022
Gross domestic product (GDP)	1.9	-5.4	4.7	4.0
Private consumption	1.7	-6.1	3.5	3.1
Government consumption	2.0	-1.1	2.8	1.3
Gross fixed capital formation	0.3	-3.6	6.3	4.4
Exports of goods and services	1.3	-9.8	4.7	4.5
Imports of goods and services	0.4	-11.3	6.3	3.2
Unemployment rate (% of labour force)	5.7	9.5	8.5	7.0
Consumer price index	2.0	0.7	2.0	1.4

Source: OECD Economic Outlook, Interim Report March 2021 and provisional projections.

Continuing monetary support

An ultra-low policy rate and other monetary measures continue to provide substantial support for the economy.

The Bank of Canada cut its policy rate to 0.25% in the early stages of the crisis. The Bank's forward guidance on the policy interest rate, reinforced by its purchases of government securities, have eased borrowing conditions for households, firms and governments. Dissipating risks on some fronts have allowed the Bank to withdraw some liquidity support introduced at the beginning of the crisis. The upcoming 2021 renewal of the inflation-targeting regime provides an opportunity to adapt the Bank's monetary policy framework to achieve its 2 % inflation target, over time, and maintain well-anchored inflation expectations in the context of persistently low global policy interest rates and risks to real-side recovery.

House prices have been increasing since late spring, when easing of the initial round of containment measures began. Household debt (especially in the form of mortgage borrowing) remains high, but debt service is less onerous. Low borrowing costs may also be amplifying already substantial high-risk corporate bond funding.

Fiscal measures to support a greener and more inclusive economy

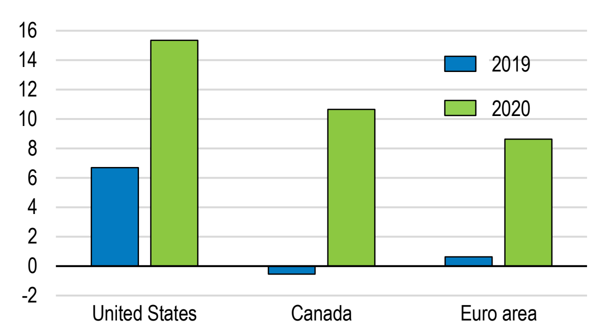
The priority should be to ensure fiscal policy provides the best assistance for households and businesses to recover from the crisis. Canadian governments have acted on a broad front to bolster demand and assist both households and businesses. Federal government measures have accounted for most of the fiscal response, which has been substantial. Prudent fiscal policy in recent years has helped provide scope for the large stimulus.

A high priority on fiscal support should remain while the economy is fragile. Crisis-related fiscal support can be withdrawn as the economy recovers. Nevertheless, a clear and transparent roadmap for preventing a spiralling public debt burden is needed.

A fiscal roadmap would help accommodate the need for additional resources in certain areas of public spending. Solutions to the gaps in socio-economic support and shortfalls in health care revealed by the crisis are likely to require additional resources for the longer term. Furthermore, the ageing-related spending pressures present before the pandemic will continue. Accommodating these fiscal demands in the medium and long term should be met through either savings in public spending elsewhere or tax increases.

Figure 3. Canada's fiscal boost has been large

General government deficit, % of GDP



Source: OECD Economic Outlook 108 database; and Statistics Canada.

StatLink https://stat.link/digsrf

There is scope to re-orient the tax system in ways that would bring structural improvement and generate some additional revenue. In particular, Canada's environmental tax revenues are smaller relative to GDP than for most other countries. The carbon price floor needs to steepen if Canada is to meet its official commitments. Recent federal government proposals for carbon-price increases announced as part of a strengthened climate plan are encouraging.

Helping business recover and adapt to the post-COVID economy

Many businesses continue to struggle, and the crisis is accelerating structural change in demand and business operations. The federal government should be prepared to step in with further measures to help businesses. Schemes offering them credit are welcome, but encouragement of other forms of financing and improvement to insolvency procedures should be considered.

Non-tariff barriers arising from inter-provincial differences in product, service and labour market regulation continue to hamper business activity. With respect to broadband services, there are longstanding concerns about the strength of provider competition, and provision for rural and remote households, notably for Indigenous peoples, remains a challenge. Canada scores well in international indicators of domestic corruption. However, its property register system is often exploited for money laundering.

Hard-wiring well-being into policymaking could help with recovery

A more structured policy approach to well-being would help Canada achieve a resilient and healthy post-COVID economy and society. The federal government is exploring how to incorporate a comprehensive dashboard of quality-of-life measurements into decision-making and budgeting. Many countries are using such dashboards, including indicators of individuals' current and future well-being and, often, measures of social inclusiveness and environmental sustainability. Canada is in a strong position to develop such a dashboard. It has good data on measures of well-being and has experience in integrating some dimensions of well-being into policy through its Gender Based Analysis Plus (GBA+).

Once agreed following public consultations, the dashboard should be hardwired into budgeting so as to ensure that all government ministries and agencies base their economic and social policy reforms on the same criteria. A key choice is whether to use the dashboard solely for budget policy changes or whether to apply it across the entire tax and spending baseline, as well as for regulatory impact and cost-benefit analyses.

Strengthening health care and welfare policy

COVID-19 has brought to light shortfalls in Canada's elderly care and welfare support. The initial wave of the pandemic saw around 80% of COVID-19 fatalities in long-term care facilities and retirement homes. In addition to highlighting challenges in containing the virus, this revealed broader problems in the quality of long-term care. The pandemic also revealed resource issues for public health services and has underscored the downsides of pharmaceuticals not being included in national public health coverage and Canada's limited provisions for sick-leave compensation.

The crisis has increased the prominence of a number of socio-economic challenges. Canada's gender wage gap for full-time workers is almost 5 percentage points above the OECD average. Addressing this would be helped by further progress in improving access to affordable childcare so that women can pursue fulfilling careers more easily. In addition, a wider problem of weak backing for those unemployed or experiencing poverty remains, despite the recently implemented National Poverty Strategy.

Housing affordability and homelessness are key issues. The prolonged low-interest environment has contributed to increases in the price of housing. Social and other forms of affordable housing are limited, and waiting lists are long. The policy initiatives underway are welcome, but more could be done.

Indigenous peoples remain underprivileged in most socio-economic dimensions, including income, employment, security, housing, life expectancy and physical and mental health. Some progress has been made in empowering their governments, including through a distinctions-based approach that makes greater efforts to tailor policy to each of the three Indigenous groups, First Nations, Métis and Inuit. However, a further strengthening of self-determination is needed, as are more resources to eliminate gaps with other Canadians.

MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring a solid recovery in output and jobs	
Economic recovery from the pandemic looks set to pick up again following the second wave of the pandemic, but the outlook remains surrounded by considerable risks.	- Continue fiscal support until the economic recovery is well underway. Adjust crisis-related support as the recovery progresses to ensure assistance focuses on jobs and viable companies.
Underlying consumer-price inflation will probably pick up only slowly.	- Accommodative monetary policy should be maintained to help economic recovery.
Longstanding concerns about high household and corporate debt are becoming more acute with the crisis due to the prolonged low-inflation environment.	- Maintain a close watch on housing and corporate debt, and, if needs be, tighten macro-prudential rules.
It is important to ensure that large fiscal deficits and public debt accumulation do not persist once the economy is on a solid path to recovery. Although the pension system is mostly funded, ageing will put pressure on public finance over the long term.	- Ensure a credible medium-term plan for controlling and lowering federal government debt. - After the pandemic subsides, debt stabilisation and the accommodation of additional spending commitments should be achieved through efficiency gains in public spending, where feasible. Should substantial additional revenues be required, prioritise an increase in the rate of the federal goods and services tax.
The business sector remains fragile in the wake of the crisis. Government schemes offering credit on favourable terms are welcome but need complementing with measures that help businesses in financial difficulties. Advancing on some of the longstanding structural issues in Canada's business environment would help recovery.	- Augment the insolvency system with an early-warning mechanism and a pre-insolvency regime for businesses in difficulty. - Expedite the removal of non-tariff barriers to internal trade. - Reduce the cost and improve the quality of telecommunications services, including broadband to rural and remote communities. - Tackle money laundering via the property market by tightening property registration rules to prevent the creation of opaque business structures.
Bringing well-being to the fore in the wake of the pandemic	
Canada has no official well-being framework.	- Develop a well-being framework including a dashboard of indicators for use in government decision making. - Use the well-being dashboard initially to identify policy challenges and to measure progress in outcomes.
Improving health and long-term care	
COVID-19 exposed shortfalls in the quality of long-term care and has raised the importance of mental health and public health policies.	- Seek efficiency gains and reduced waiting times in health care through better patient prioritisation, improved co-ordination between primary-care providers and specialists, greater use of telemedicine and the reallocation of some tasks from physicians to nurses. - Increase support for high-quality institutional and home-based long-term care. - Shift more resources towards mental health and public health.
Canada is among the few countries with a public health-care system that does not cover pharmaceutical drugs at the national level.	- Follow through with the plan to negotiate with the provinces and territories the gradual adoption of universal drug coverage ("Pharmacare").
Strengthening social welfare and creating more affordable housing	
Despite past policy efforts, the supply of affordable, high-quality child care remains inadequate, prompting involuntary part-time working and career breaks among women and contributing to gender inequality.	- Boost childcare provision through increased subsidies of services, tougher quality control, and more support for families to pay for these services.
Housing affordability has become an issue through prolonged growth in house prices and inadequate policy attention to social housing.	- Improve housing supply by ensuring a competitive construction sector, reducing rent controls and relaxing strict zoning and land-use regulations and urban containment policies. - Put more resources into social housing, and encourage alternative ownership arrangements.
Supporting the well-being of Indigenous peoples	
Canada's Indigenous peoples continue to suffer from deep disadvantages, despite substantial targeted schemes.	- Enhance self-determination among Indigenous peoples. - Maintain the distinctions-based approach to policy, and ensure adequate funding to eliminate gaps with other Canadians.
Building a more sustainable environment	
Without stronger incentives for economically efficient greenhouse gas emissions cuts, Canada will miss its official climate change goals.	- Follow through with the recent plan to accelerate the increases in carbon pricing and taxation through 2030 while protecting the poorest from the impact on their living standards. - Make greater use of taxation and charges to tackle environmental externalities, including from vehicle fuels, waste water treatment and solid waste disposal.

1 Key Policy Insights

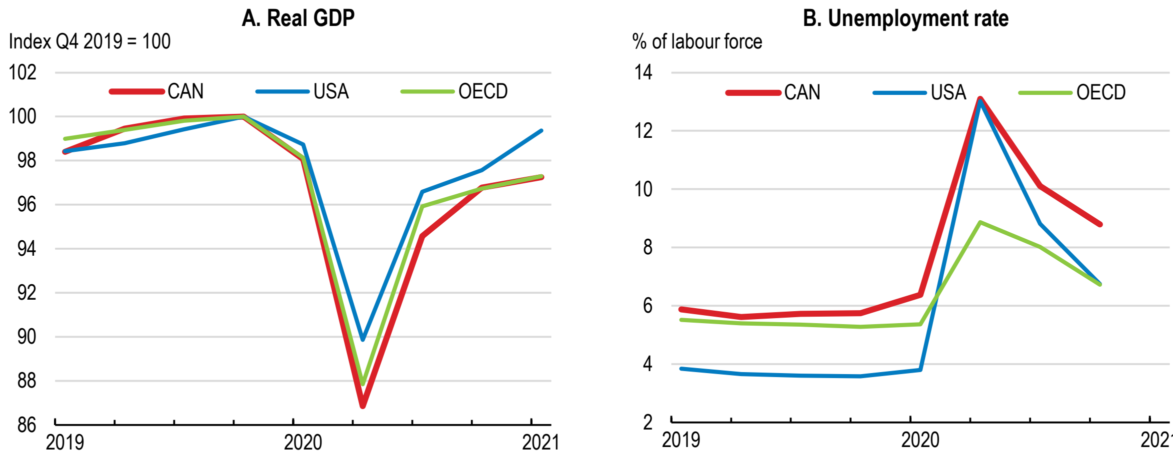
Contagion and fatalities from COVID-19 have been less severe in Canada than in the hardest-hit countries, and vaccine rollout is underway. However, the economy remains heavily affected by the crisis with the latest round of containment measures slowing the recovery in activity and employment (Figure 1.1). The crisis has highlighted economic and social strengths. Canada’s federal system of government proved capable of a rapid and co-ordinated policy response. Low public debt prior to the crisis has helped provide headroom for substantial tax and spending measures. The acceleration in teleworking and use of online services during the crisis has opened the door to new ways of working and living for the future. Reduced noise and air pollution during confinement raised environmental awareness. The prospect of a structural downshift in demand and employment in some sectors is creating potential for more green jobs and investment.

COVID-19 has also highlighted weak points and brought new issues. In health care, the pandemic has shone a light on shortfalls in the quality of some of Canada’s long-term residential care homes, co-ordination difficulties in public health and the absence of common nationwide pharmaceutical coverage. Concerns have emerged about the effects of prolonged restrictions on social interaction and mental health. The concentration of layoffs in low-wage jobs has underscored that this downturn has widened economic inequalities. Also, gaps in income support among those losing jobs and income have been exposed. The crisis has heightened the prominence of other socio-economic challenges, including vulnerabilities among low-skill, low-income households, Indigenous peoples and racialised groups.

The key messages of this *Economic Survey* are:

- Canada’s economy remains vulnerable in the ongoing COVID-19 crisis. There are substantial risks and uncertainties, and potentially deep scars to some sectors. Fiscal policy should continue to prioritise bolstering economic recovery but also prepare the groundwork for containing public debt when the recovery is well under way. With the prospect of prolonged ultra-low interest rates, asset-price inflation and high investor risk-taking add to medium-term concerns.
- Canadian policy makers need to maintain a balanced perspective across income, health, social conditions and the environment if well-being is to improve. Attention to distributional issues, including inequality, inclusiveness and disadvantage are also central to societal well-being. Canadian governments should hardwire the well-being perspective into the policy-making processes.
- Nurturing recovery and transition in the business sector is key to a successful post-pandemic economy and society. Policy needs to continue encouraging transition to a greener economy. Canada’s longstanding structural impediments to business efficiency also need addressing.

Figure 1.1. As elsewhere, recovery in output and employment is taking time



Note: Panel A: The last quarter is an estimate. Panel B: The unemployment rate series are not fully comparable; labour-force surveys in Canada and the United States classify temporary layoffs as being unemployed, elsewhere they are counted as employed. Thus, the United States and Canada saw sharper initial spikes in the rate of unemployment in the wake of the COVID-19 crisis.
Source: OECD Economic Outlook database.

StatLink https://stat.link/quic5f

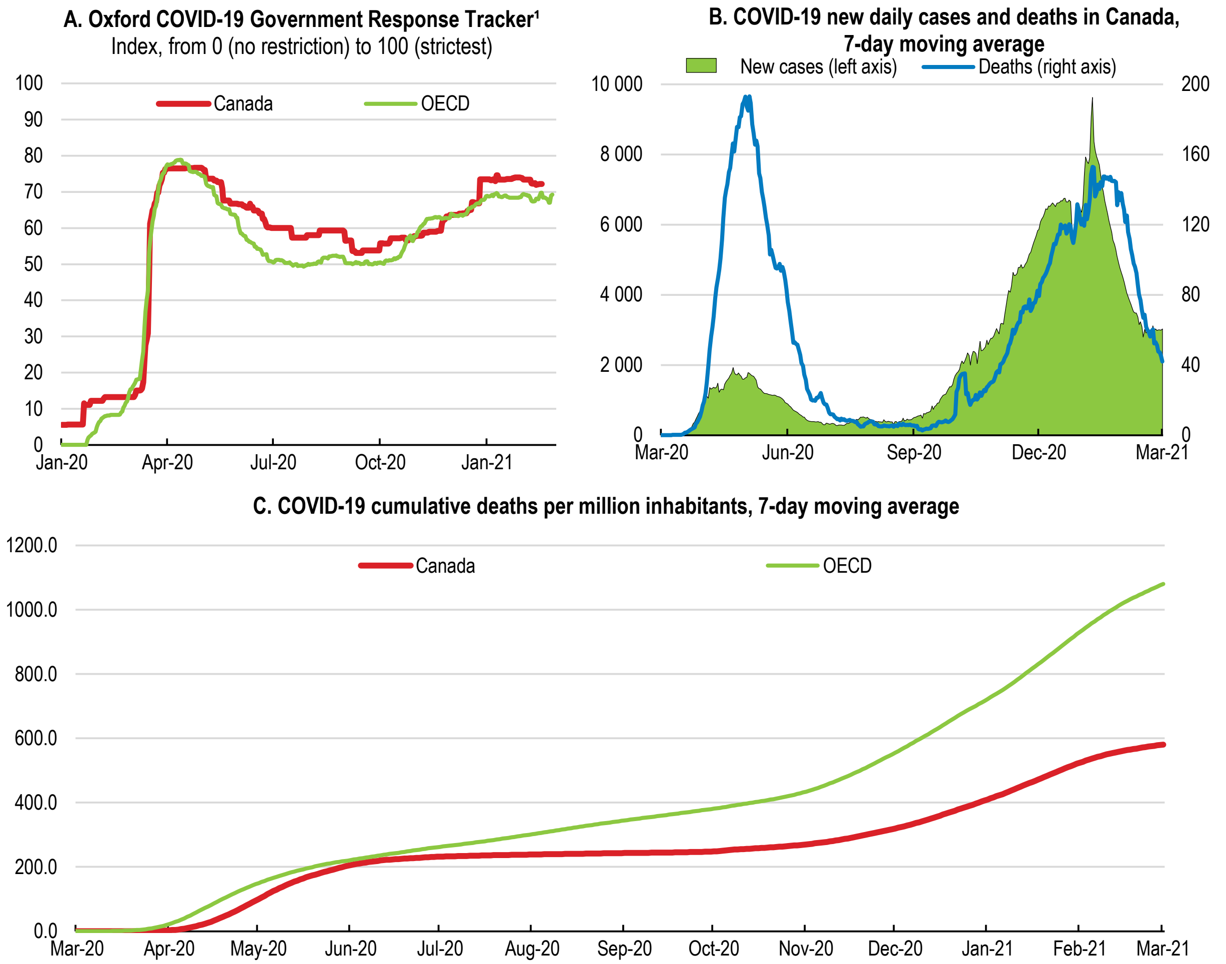
Vaccine rollout is underway

Canada's first cases of COVID-19 appeared in mid-January 2020, with substantial acceleration in cases from early March (Figure 1.2). However, the initial wave of the pandemic in Canada was not as severe as that seen in some other countries. Daily COVID-19 cases in the second wave have exceeded those of the first, while fatalities reached similar levels. The first wave of the pandemic was concentrated in Ontario and, especially, Québec, which had the largest number of fatalities in absolute terms and on a per capital basis. The second wave saw per-capita cases and fatalities surge again in Québec and Ontario, but also in other provinces, notably in Alberta and Manitoba (Government of Canada, 2020).

As elsewhere, older adults, especially those with underlying medical conditions, have been more at risk of contracting COVID-19 and developing severe complications. Around 90% of COVID-19-related deaths have been among those aged over 70 years (Government of Canada, 2020). The spread of the virus in care homes has been a key concern and the crisis has revealed instances of poor quality care and overcrowding. Echoing developments in some other countries, racialised minorities have had higher risk of COVID-19 infection and mortality (racialisation is a term used for when groups come to be socially constructed as races, based on characteristics such as race, ethnicity, language, economics, religion, culture and politics). Explanatory factors include high poverty rates, over-representation in socio-economically disadvantaged neighbourhoods, crowded housing conditions and disproportionate numbers working in occupations at risk of exposure to the virus (Statistics Canada, 2020a). In addition, surveys confirm deteriorating mental health during the lockdowns (Statistics Canada, 2020b), with social isolation, loneliness and increasing substance use playing a role.

The initial phase of containment measures came into force from mid to late March. Provinces and territories played a central role given their responsibilities in health care and public health (Box 1.1). States of emergency and other measures brought school closure, regulation on distancing, operational restrictions on various types of businesses, and public health advice for people to stay at home. These measures started to unwind in May and June under provincial re-opening plans. In the second wave of the pandemic provinces and territories selectively extended and re-imposed limits on activity (often at a localised level), as well as strengthened public-health requirements and testing capacities. As of February 2021 some restrictions were being lifted in the wake of declining caseloads and fatalities.

Figure 1.2. An end in sight for Canada's second wave of COVID-19



1. The Oxford COVID-19 Government Response Tracker index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, and is scaled from 0 (no restrictions) to 100 (highest category of restrictions). The unweighted OECD average covers all OECD countries where data are available for all components. Data for Canada are a weighted average of Canadian provinces data based on population data.

Source: Oxford University; Our World in Data, as of 2 March 2021.

StatLink https://stat.link/blqt69

Roll-out of mass vaccination began in mid-December following approval of a vaccine shortly beforehand. Canada's immunisation plan envisages sufficient supply to vaccinate 3 million people by the end of the first quarter of 2021 (i.e. around 8% of the population) and enough supply for all Canadians who want to be vaccinated by September (Public Health Agency of Canada, 2020).

A clear picture is yet to emerge of what has determined the course of the pandemic in Canada relative to other countries, and the reasons for the substantial differences across provinces and territories. Low population and housing density compared with, for instance, many European countries may be part of the explanation. Differences in containment policies and in the public's response to them are also likely to be a factor explaining how the pandemic has spread. For instance, OECD work points to the efficacy of test-trace-isolate policy, so differences across countries, and within them, on this front are probably affecting outcomes (OECD, 2020a). The strength of sanctions for non-compliance of quarantine measures may also be playing a role. Québec, for instance, introduced very high maximum penalties: CAD 750 000 and up to six months in prison. Also, as exemplified by the long-term care issues mentioned above, capacities and vulnerabilities in the health-care system influence rates of infection and recovery. There is scope for other factors: some research suggests the earlier timing of Québec's March school break compared with Ontario's brought accelerated infection from returning travellers (Godin et al., 2020).

Box 1.1. All levels of government have been heavily involved in responding to COVID-19

Federal elections in October 2019 saw the centre-left *Liberal Party* returned to office, though with a minority government. The *Conservative Party* is the largest opposition party (and the official opposition). Under Canada's fixed terms of office, the next federal election will be in October 2023, unless the government loses the confidence of the House. Meanwhile, three of the four most populous provinces currently have centre-right governments (Ontario, Québec and Alberta) –- British Columbia has a centre-left government. Among the eight other provinces and territories, five are led by centre-right governments and the remainder by centre-left governments.

Emergency response to the COVID-19 crisis has inevitably occupied most policy-making in recent months. The federal government has provided most of the financial support for households and businesses and imposed the restrictions on international travel. Canada's highly decentralised system of government means provincial, territorial and municipal authorities are playing a core role in tackling COVID-19. Health-care services are run by the provinces and territories, which also have jurisdictional powers to impose containment measures, such as restrictions on businesses and social distancing rules.

Nevertheless, policy making has been looking beyond immediate concerns. The federal government's programme, as outlined in the "Speech from the Throne" in September 2020, includes a theme centred on strengthening resiliency, which covers issues such as filling gaps in welfare assistance, enhancing workforce skills and tackling climate-change risks.

Confinement and other public-health measures taken in spring 2020 resulted in a drop in gross domestic product in excess of 15% between February and April. Most sectors experienced substantial output reductions. And, as expected, retail, travel, leisure and entertainment-related activities were especially hard hit from the combination of supply disruptions and weak demand. In addition, construction and many other sectors suffered supply issues from manufacturing stoppages, and some have also struggled to get a significant portion of workforces back to work.

Canada has taken many steps to head off macroeconomic instability, bolster demand and support households and businesses (Table 1.1). The Bank of Canada responded with cuts in its policy rate and measures to bolster liquidity and financial markets. Federal-government actions have accounted for most of the fiscal response. Containment of the public-debt burden through prudent fiscal policy in the years prior to the pandemic has helped provide scope for a large stimulus. Federal outlays on direct support measures are estimated at 12% of GDP, which is among the largest packages announced by OECD governments (Figure 1.3, Table 1.1). Estimates suggest that the fiscal package will have bolstered output by around 5 percentage points of GDP in both 2020 and 2021, implying a considerably smaller increase in unemployment than would have occurred otherwise (Figure 1.4).

Table 1.1. The scale of monetary and fiscal support has been substantial

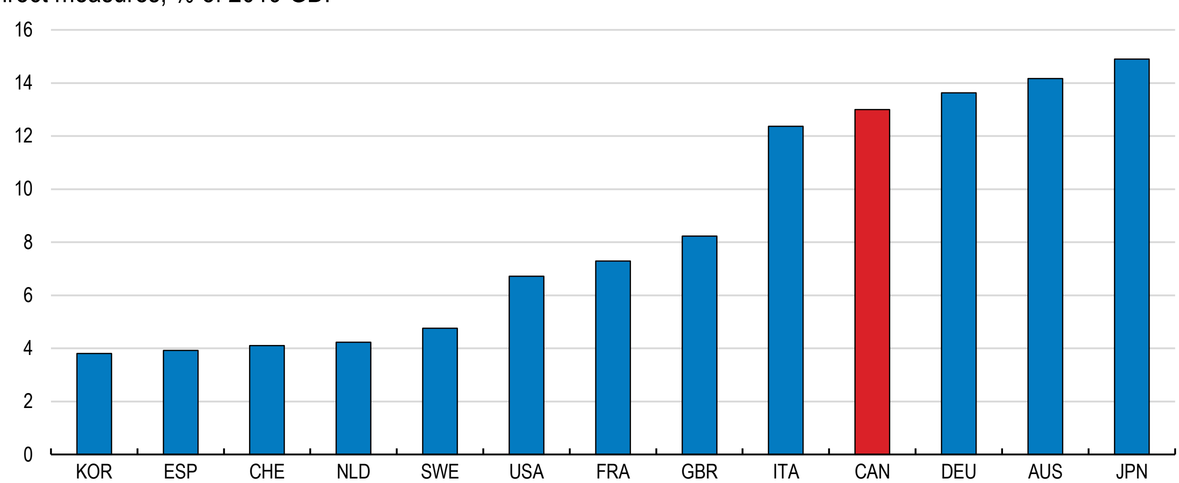
Support estimates as of December 2020, most support is expected in financial year 2020-21.

	Estimated value of measures CAD billion	% of annual GDP (2019 value of GDP)
Direct support:	**294**	13
Federal, notable items	270	12
- Canada Emergency Response Benefit (CERB)	83	
- Canada Recovery Benefits (follow-up to CERB)	23	
- Canada Emergency Wage Subsidy (CEWS)	84	
Direct support, provincial (consolidated, estimate)	24	1
Deferrals on tax, customs duty and fees (generally of short duration)	**88**	4
- Federal	85	
- Provincial and territorial	3	
Government liquidity support (potential value of additional lending)	**87**	4
- Federal, largely the Business Credit Availability Program (BCAP)	84	
- Provincial and territorial	3	
Other liquidity support (largely Bank of Canada, potential value of additional lending, value)	**600**	26
- Liquidity support through Bank of Canada, Canada Mortgage and Housing Corporation, commercial lenders	300	
- Capital relief via reduction in the Domestic Stability Buffer requirement	300	

Note. The estimates are the sum of support from financial year 2019-20 onwards (the Canadian government financial year runs from 1 April to 31 March). Nearly 85% of total support is expected to occur in financial year 2020-21.
Source: Department of Finance*: Canada's COVID-19 Emergency Response: Biweekly Reports*; Department of Finance, *Economic and Fiscal Snapshot* (July 2020) (for Provincial and Territorial estimates); Department of Finance Canada (2020), *Supporting Canadians and Fighting COVID-19: Fall Economic Statement 2020*, November.

Figure 1.3. Canada has committed substantial resources to direct support measures

Direct measures, % of 2019 GDP



Note: The figure shows announced envelopes of emergency packages in selected advanced economies based on available official estimates as of 30 September, which may not be fully comparable among countries. The ultimate costing of these packages is uncertain as it will depend on the duration of the crisis and the take-up of various programmes by the private sector. Not all of these programmes will be reflected in government budget balances and debt according to the national account conventions. Direct measures include tax and social security contribution cuts, income support measures (e.g. short-term wage compensation schemes, and support for self-employed, very small firms and vulnerable households), extra spending on public sector (e.g. transfers to lower-level governments and funding to the health sector), transfers to private firms without equity acquisition, funding of state-owned institutions providing loans or guarantees and early pension withdrawals. Direct measures are not equivalent with an impact on budget balance.
Source: National authorities; and OECD calculations.

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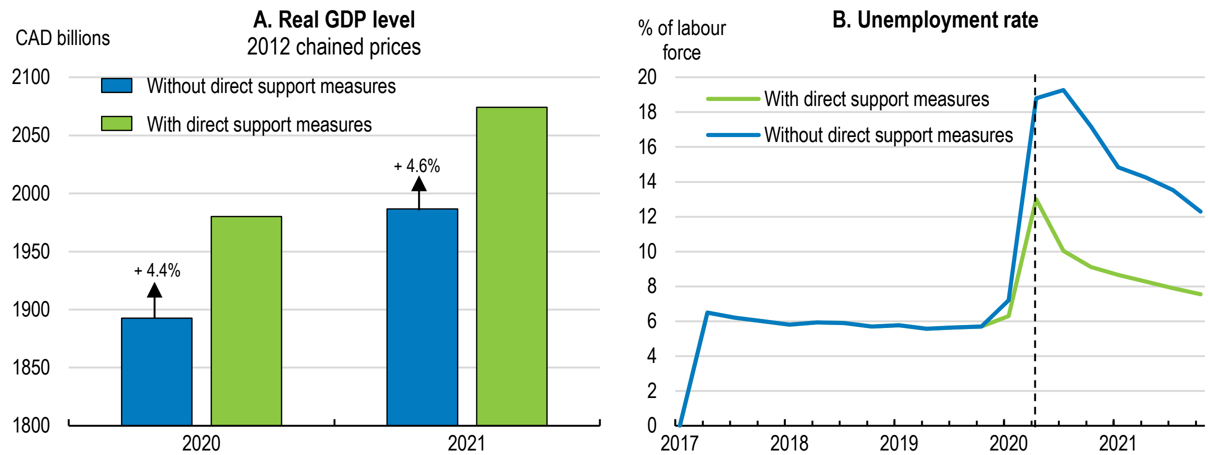
Figure 1.4. The support measures prevented an even deeper downturn



Note: The numbers above the blue columns indicate the percentage difference between the estimated GDP without direct support and that with direct support.
Source: Department of Finance Canada (2020), *Supporting Canadians and Fighting COVID-19: Fall Economic Statement 2020*, November.

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Central to the support measures have been the Canada Emergency Response Benefit (CERB), and its successors (notably the Canada Recovery Benefits, CRB), along with the Canada Emergency Wage Subsidy (CEWS). According to government estimates (Table 1.1), these programmes will cost CAD 190 billion, around 70% of the total spend on direct support measures. CERB provided income support for workers across all sectors losing income and employment due to COVID-19. It expired in September 2020 and was partially replaced by more targeted schemes. The need for CERB's introduction raised questions regarding the adequacy of income support in Canada (discussed further below). A continuing role is anticipated for the CEWS scheme – it has been extended until mid-2021. Other federal measures for businesses include rental subsidies, credit support and loan guarantees (many have also been extended into 2021). Federal government also introduced provisions for banks to offer mortgage deferrals to households.

Provincial and territorial governments have been doing the heavy lifting on the health response, while the federal government has provided most of the economic support. Accordingly, the scale of provincial and territorial government economic-support measures has been comparatively small. Outlays are estimated at around 1% of GDP. Provincial governments have provided supplementary safety nets for households. For instance, Ontario introduced an emergency assistance benefit and Alberta a one-off payment for those isolating. Québec has introduced a temporary aid programme for employees not covered by other schemes. Provinces also introduced eviction moratoria for renters. Assistance for business has included payment deferral of provincially administered taxes (Ontario, Alberta and British Columbia), deferrals of utility bills (British Columbia), and subsidies covering the fixed costs of businesses affected by public-health restrictions (Québec).

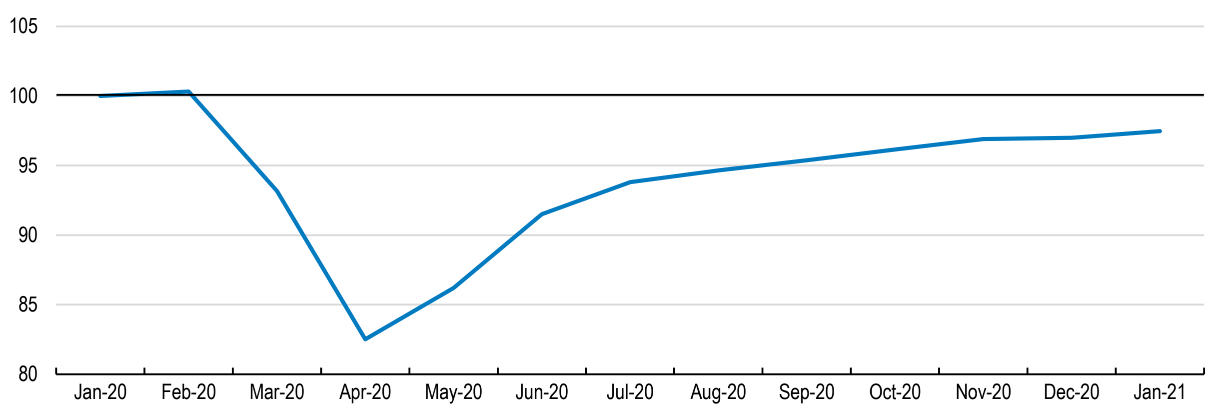
The economy is recovering, but the pace has slowed and risks remain elevated

With the beginning of the lifting of restrictions in May 2020, activity picked up sharply. By August, real GDP was around 5% below the pre-crisis level. The substantial monetary and fiscal support played an important role in bolstering household incomes and enabling businesses to survive lockdown. The household saving ratio soared in the early phase of the crisis, driven by limited consumption opportunities due to lockdowns and increased precautionary saving but also by the policy support to household incomes.

Continued constraints on economic activity and the strengthening of some public-health measures due to the second wave of the pandemic have slowed the pace of economic recovery. The rate of monthly output growth declined substantially by the end of 2020 (Figure 1.5) with a halt to recovery in manufacturing and construction and renewed decline in some service sectors (Figure 1.6). Uncertainty on economic prospects is affecting households and businesses. The end of payment-deferral provisions, notably in taxation and mortgage payments, has not so far prompted critical problems but will nevertheless have impacted household finances.

Figure 1.5. The recovery in output has weakened

Real monthly GDP, index January 2020 = 100



Note. The latest month is a flash estimate.
Source: Statistics Canada.

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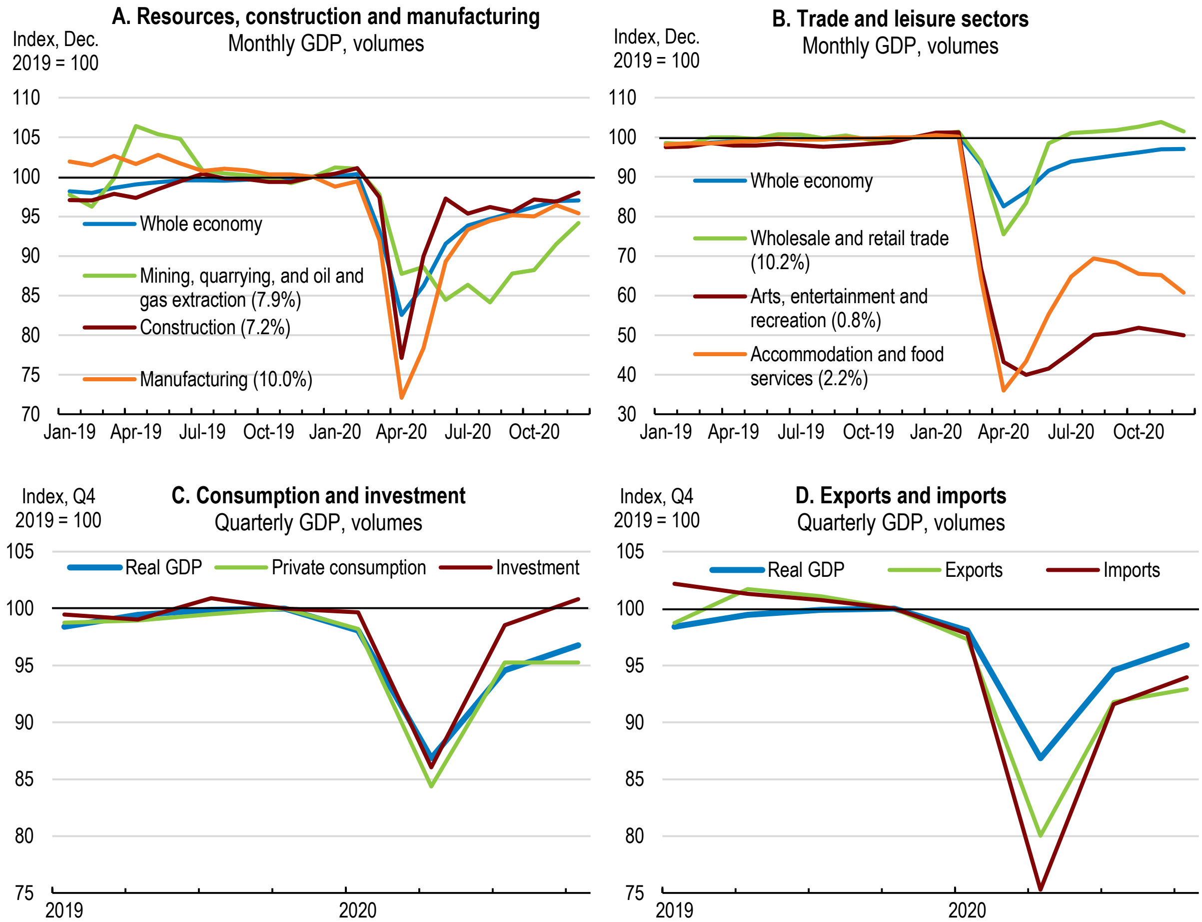
Unemployment is still elevated and has recently been increasing. Canada's rate of unemployment was 8.7% in the fourth quarter of 2020, in the upper half of OECD countries and high compared with the pre-crisis level of just over 5% (Figure 1.7). Echoing the impact of renewed confinement measures, employment has fallen markedly in some service sectors since the end of 2020 impacting employment among young people in particular (Figure 1.8). An OECD survey reveals that young people see employment and disposable-income concerns arising from COVID-19 as the most challenging issues for them, along with mental health (OECD, 2020b).

Figure 1.6. Recovery in output and demand is uneven



Note: In Panels A and B, the percentages in brackets indicate the share of these sectors in 2019.
Source: OECD Economic Outlook database and Statistics Canada.

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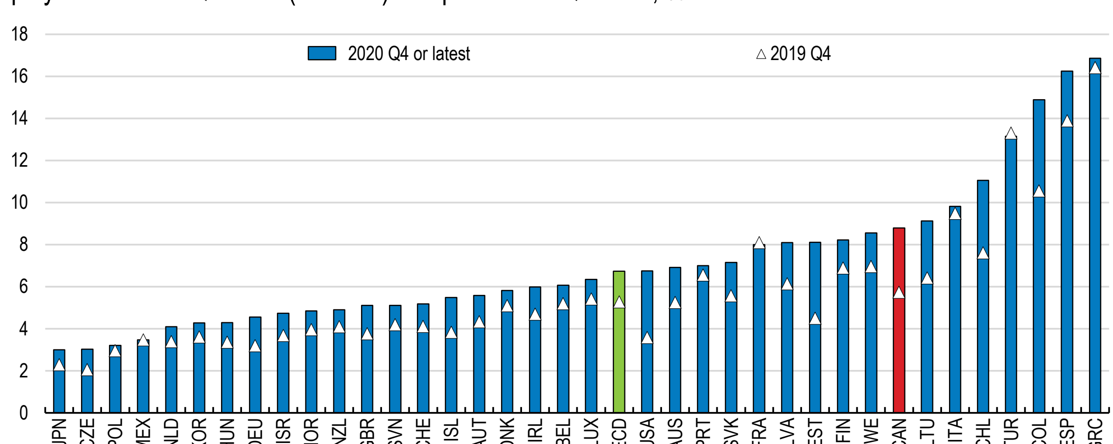
Figure 1.7. The rate of unemployment is above the OECD average

Unemployment rate in Q4 2020 (or latest) compared with Q4 2019, % of labour force



Note: The increases in the unemployment rates over the pandemic are not fully comparable; labour-force surveys in Canada and the United States classify temporary layoffs as being unemployed, elsewhere they are counted as employed. Thus, the United States and Canada saw sharper initial spikes in the rate of unemployment in the wake of the COVID-19 crisis.
Source: OECD Economic Outlook database

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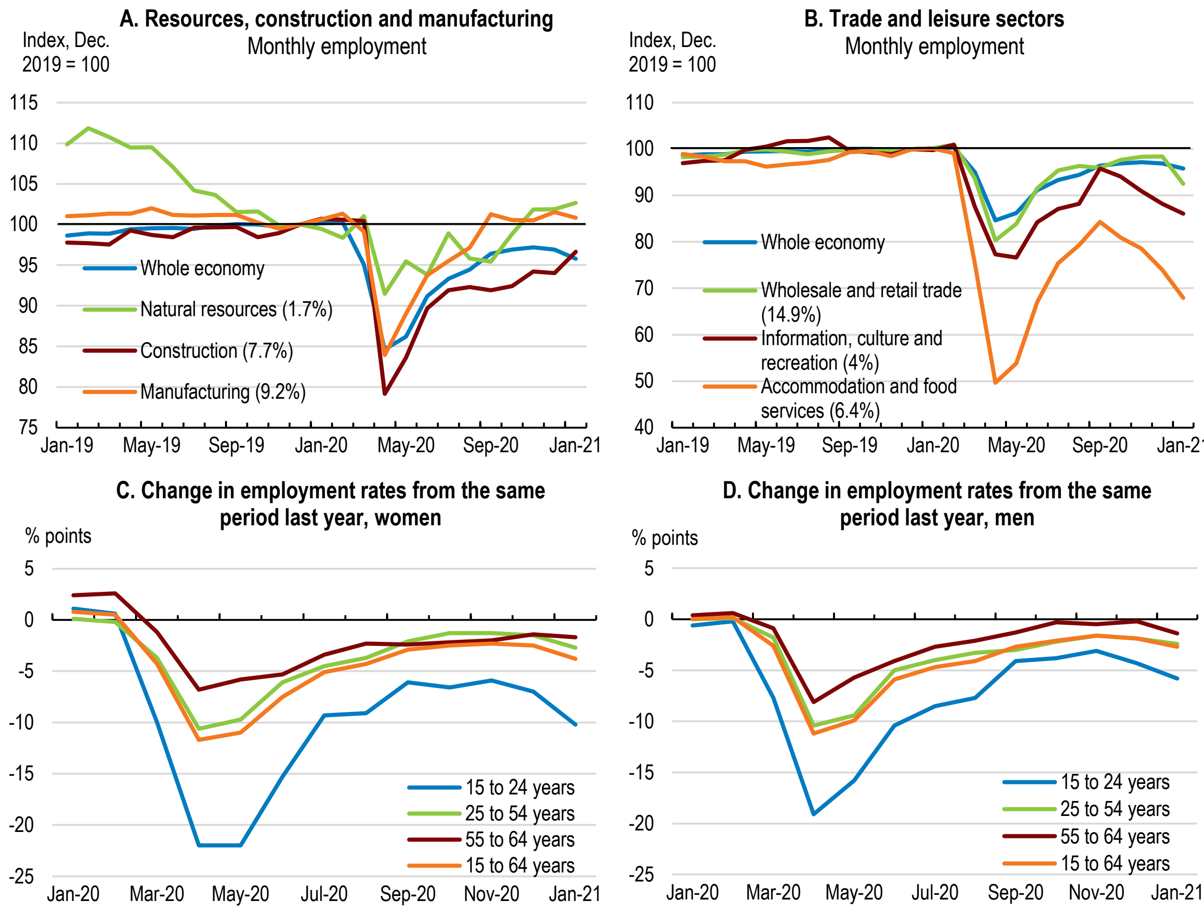
Figure 1.8. Employment rates are still below pre-crisis levels, especially among young people



Note: In Panels A and B, the percentages in brackets indicate the share of these sectors in 2019.
Source: Statistics Canada.

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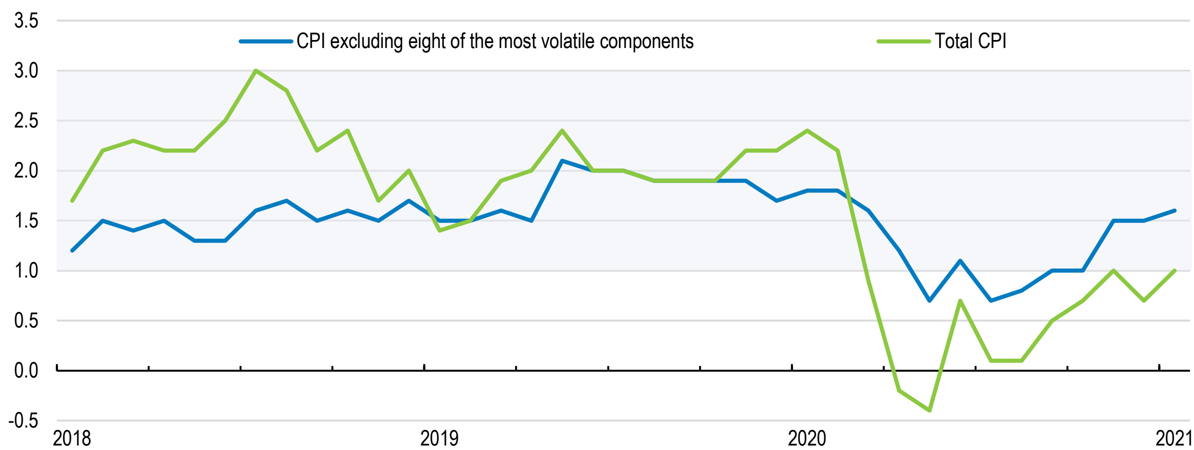
In the initial months of the crisis, consumer-price inflation slowed, but house-price growth picked up after the relaxation of the first round of containment measures. The large fall in oil prices in the early stages of the pandemic had a substantial impact on consumer-price inflation (Figure 1.9), and also the price of accommodation fell substantially (discussed further below). Meanwhile, in the housing market lower interest rates have encouraged demand, and government income support and mortgage-payment deferrals have limited forced sales, contributing to an increase in prices (Figure 1.10). In addition, time spent at home during lockdown and the prospect of a permanent shift to more teleworking may have ramped up demand for first-time purchases and upgrades (Statistics Canada, 2020c). With the end of mortgage-payment deferrals and the emergence of longer-term effects on household finances, it is likely that price growth will soften. A moderate house price correction would be welcome, given the longstanding concern that prices may be over-inflated (Box 1.2) and the affordability challenges that were already evident prior to the pandemic (Chapter 2). Also, moderate correction in the near term would reduce the risk of a large and destabilising price adjustment later on (discussed further below).

Figure 1.9. Consumer-price growth has been picking up

Consumer price inflation, year-on-year % changes



Note: The shaded area indicates the Bank of Canada's inflation-control target range. The Bank aims to keep inflation at the 2 per cent midpoint of the range.
Source: Bank of Canada.

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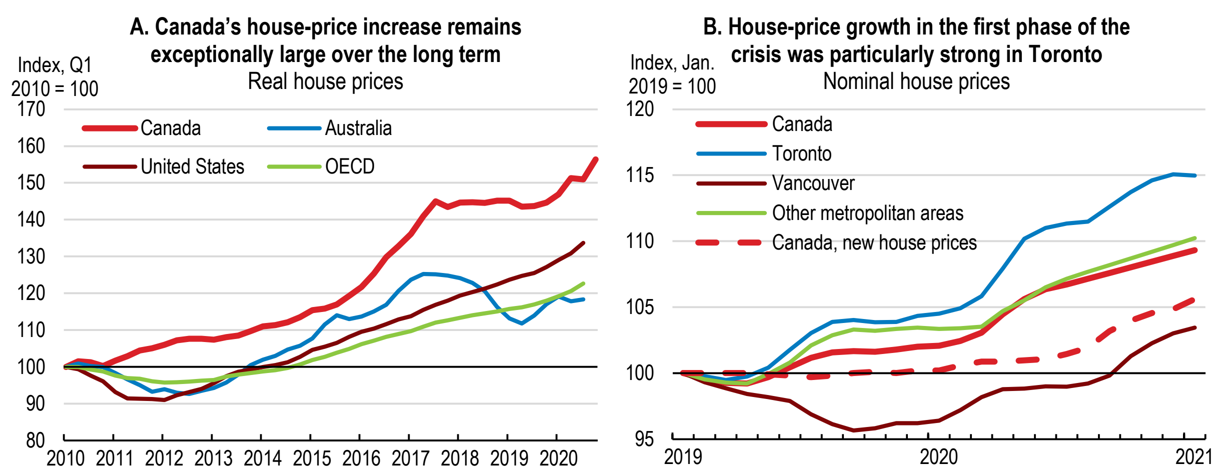
Figure 1.10. House prices have been rising



Source: Panel A: OECD Economic Outlook database; Panel B: Teranet-National Bank of Canada House Price Index (housepriceindex.ca), except "Canada, new house prices" which are Statistics Canada data.

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Annual output growth of 4.7% is projected for the Canadian economy in 2021 and 4% 2022 (Table 1.2). Continued weakness is expected in the near term until the fall in COVID-19 caseloads and progress in vaccination allow most restrictions to be unwound. Reduced constraints on supply and the release of pent-up demand will bring strong growth in the second half of 2021, with a substantial carry over effect to growth in 2022. These developments will be echoed in the labour market. Growth in underlying consumer prices will pick up gradually.

Box 1.2. Evidence on the extent of house-price over-valuation

Overvalued house prices are not a necessary ingredient to risks from the housing market and related borrowing but certainly widen the range of downside scenarios.

- The federal government's Canada Mortgage and Housing Corporation regularly assesses "market vulnerability" for a number of cities using indicators of overheating, price acceleration, over-valuation and over-building. Recent assessments identify price overvaluation specifically as present only in some of the smaller cities. However, the markets are classified overall as moderately vulnerable for some of the bigger cities, including Toronto and Vancouver (Canada Mortgage and Housing Corporation, 2020).
- Calculation of "attainable" house prices by the IMF point to overvaluation in Toronto, Vancouver and Hamilton. For instance, for Toronto households' borrowing capacity suggests an attainable average price of around CAD 550 000 compared with average market price of around CAD 850 000 (IMF, 2019a, 2019b; Andrie and Plašil, 2019).

Table 1.2. Macroeconomic indicators and projections

	2017	2018	2019	2020	2021	2022
	Current prices (CAD billion)	Percentage change, volume (2012 prices)				
Gross domestic product (GDP)	2141	2.4	1.9	-5.4	4.7	4.0
Private consumption	1241	2.5	1.7	-6.1	3.5	3.1
Government consumption	443	2.9	2.0	-1.1	2.8	1.3
Gross fixed capital formation	486	1.8	0.3	-3.6	6.3	4.4
Housing	171	-1.4	-0.3	3.7	12.9	4.7
Final domestic demand	2170	2.5	1.4	-4.5	4.0	3.0
Stockbuilding[1,2]	17	-0.2	0.2	-1.6	0.8	0.0
Total domestic demand	2188	2.3	1.6	-6.1	4.7	3.0
Exports of goods and services	673	3.7	1.3	-9.8	4.7	4.5
Imports of goods and services	720	3.4	0.4	-11.3	6.3	3.2
Net exports[1]		0.0	0.3	0.6	-0.6	0.4
Other indicators (growth rates, unless specified)						
Employment	. .	1.6	2.2	-5.1	3.6	2.7
Unemployment rate (% of labour force)	. .	5.9	5.7	9.5	8.5	7.0
GDP deflator	. .	1.8	1.7	0.8	2.4	0.5
Consumer price index	. .	2.2	2.0	0.7	2.0	1.4
Core consumer prices	. .	1.9	2.1	1.1	1.1	1.3
Terms of trade	. .	0.7	-0.1	-3.4	3.5	0.0
Household saving ratio, net (% of disposable income)	. .	0.8	1.4	14.7	11.2	7.2
Trade balance (% of GDP)	. .	-1.9	-1.6	-2.0	-1.4	-1.1
Current account balance (% of GDP)	. .	-2.3	-2.1	-1.9	-1.1	-0.7
General government fiscal balance (% of GDP)	. .	0.3	0.5	-10.7	-7.0	-1.8
General government gross debt (% of GDP)	. .	92.8	92.7	122.2	127.6	127.8
General government net debt (% of GDP)	. .	21.7	19.4	32.9	37.7	37.9
Three-month money market rate, average	. .	1.8	1.9	0.6	0.2	0.2
Ten-year government bond yield, average	. .	2.3	1.6	0.8	0.7	0.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
Source: OECD Economic Outlook, Interim Report March 2021 and provisional projections.

Risks and uncertainties are elevated

Although vaccine roll-out is underway, there is uncertainty on the speed of deployment, and, related to this, uncertainty on how quickly containment measures can be lifted. This relates to another key uncertainty, the speed with which the household sector will ramp up consumption spending as the pandemic subsides, running down the savings accumulated during the confinements. In addition, fall-out from hard-hit sectors may affect the economy more than expected. The leisure, travel and entertainment sectors comprise only a small share of Canada's GDP. However, in the event of widespread bankruptcies, the rest of the economy may struggle to absorb the layoffs. Furthermore, activities with links to the hard-hit sectors, such as aircraft manufacture, are affected. In addition, there are structural impacts whose scale is uncertain, including the accelerated shift to online retail and the possibility of permanent downshift in commuting and travel. The significant government support still being provided to households and businesses will help offset these risks. Among the upside risks, the expected fiscal stimulus in the United States could bring a substantial a boost to Canadian exports.

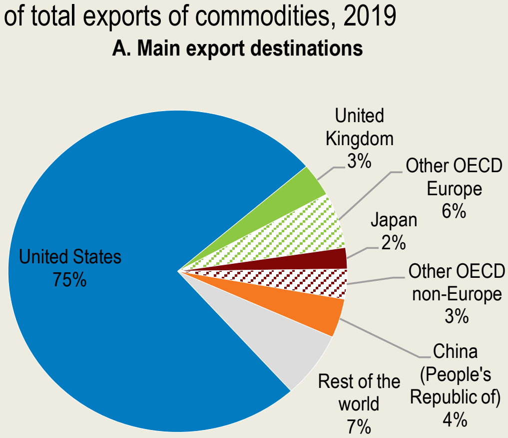
Trade tensions, a risk prior to COVID-19, continue. Canada's economic recovery from the pandemic crisis will depend substantially on developments in the United States, given the close economic ties between the two countries. The conclusion of the United States-Mexico-Canada Agreement (USMCA) has reduced uncertainty for much of Canada's international trade (Box 1.3). However, the Agreement's 16-year sunset implies uncertainty for the long term. Furthermore, global trade tensions and uncertainties are still elevated. Although political changes in the United States and some European trade partners bring the prospect of contributing to improved global trade relations, risks remain (e.g., uncertainty about the trajectory of China's trade policies). For example, Canada's trade relations with China have seen a number of developments since the previous *Survey*, including blocks by China on sales of pork and beef and suspension of the licenses of Canadian canola exporters in 2019.

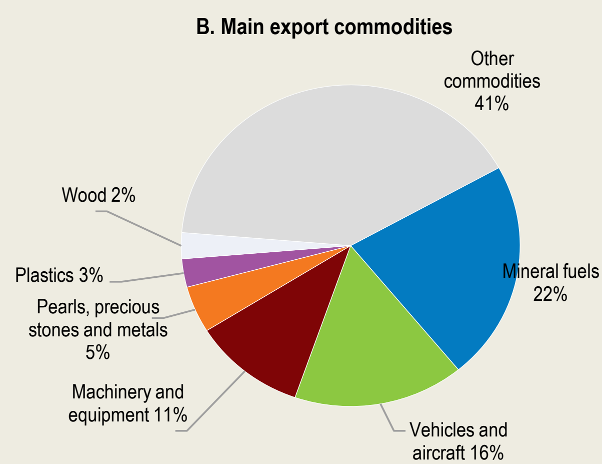
Box 1.3. Recent developments in international trade agreements

Canada's economic activity involves substantial international trade, particularly with the United States. Imports and exports together are typically equivalent to 60-65% of GDP in nominal terms, with exports alone accounting for a little over 30%. Mineral fuels and vehicles and aircraft are the largest export items. In recent years some exports have faced considerable uncertainty due to trade measures imposed by the United States on Canadian goods, for instance softwood lumber, certain dairy products and aluminium.

Figure 1.11. Exports by main destinations and main commodities

Share of total exports of commodities, 2019





Source: OECD, International Trade by Commodity Statistics database.

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There have been important developments in Canada's international trade agreements in recent years:

- Replacement of the North American Free Trade Agreement (NAFTA) with the United States-Mexico-Canada Agreement (USMCA) entered into force in July 2020. The conclusion of the agreement ended uncertainty from the renegotiation process itself. On many topics, the USMCA is essentially the same as NAFTA and is expected to broadly imply the same economic benefits. Rule changes for the auto industry include higher local-content requirements and wage requirements. However, Canada's auto sector is seen as being able to adjust without huge cost (TD Economics, 2018). Higher *de minimis* import thresholds (i.e., increases in import valuation thresholds below which no duty or tax is charged) potentially benefit households while disadvantaging retailers in Canada. Protected agriculture industries, such as dairy, are likely to see greater import competition (the federal government has indicated that some compensation may be made).
- The Canada-EU trade agreement came into force in 2017, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership came into force for Canada in 2018. In November 2020, the Canada-United Kingdom Trade Continuity Agreement was struck. As the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) will no longer apply to the United Kingdom beginning January 1, 2021, this new agreement will provide continued access to the benefits of CETA on a bilateral basis.

Pre-crisis macro-financial risks relating to housing debt and corporate-bond financing are in some respects greater. Government support measures have gone a long way in preventing widespread financial problems among highly indebted households. However, the earnings prospects for many households will remain weakened for some time, raising default risk. Because household debt is large, the impact of any future weakening of income growth implies a significant impact on household consumption. Furthermore, the economic downturn may expose the fragilities of the significant share of low-grade corporate debt. The prospect of an even more prolonged low interest-rate environment gives cause for continued concern about investor risk-taking and asset valuations and their distributional implications (discussed further below).

Table 1.3. Possible further shocks to the economy

Shock	Likely impact	Policy response options
Prolonged and deep lockdown for instance due to problems in vaccine supply, concerns about the spread of new variants of COVID-19.	Prolongation of containment measures could potentially see a substantial fall in economic activity, with deeper scarring in shutdown-vulnerable sectors, and increase the risk of a sluggish recovery and prolonged socio-economic damage.	Renewed central-bank emergency measures to support liquidity and financial markets. Ramping up of government support for households and businesses.
Substantial housing market adjustment	Reduced residential investment and diminished household consumption, inter alia due to wealth effects are the most likely channels. A sufficiently large shock could threaten financial stability. IMF calculations suggest a 30% decline in house prices in Canada could reduce GDP by 3% including an 18% reduction in investment (IMF, 2017). Fiscal costs from Canada's government-backed housing insurance would arise only under very large price falls with widespread defaults, as insurers hold substantial capital reserves.	Central-bank emergency measures to support liquidity and financial markets, especially mortgage markets. Measures to reduce risk of future problems including macro-prudential measures.
Financial asset price correction (for instance in corporate bonds) from the distortions already present pre-crisis due to high levels of risk taking.	Deepened economic downturn from negative wealth effects, reduced business confidence and investment, potentially also destabilised financial markets.	Central-bank emergency measures to support liquidity and financial markets. Additional fiscal measures to counter the negative impact on real side of the economy.

Challenges for monetary policy and financial-sector stability

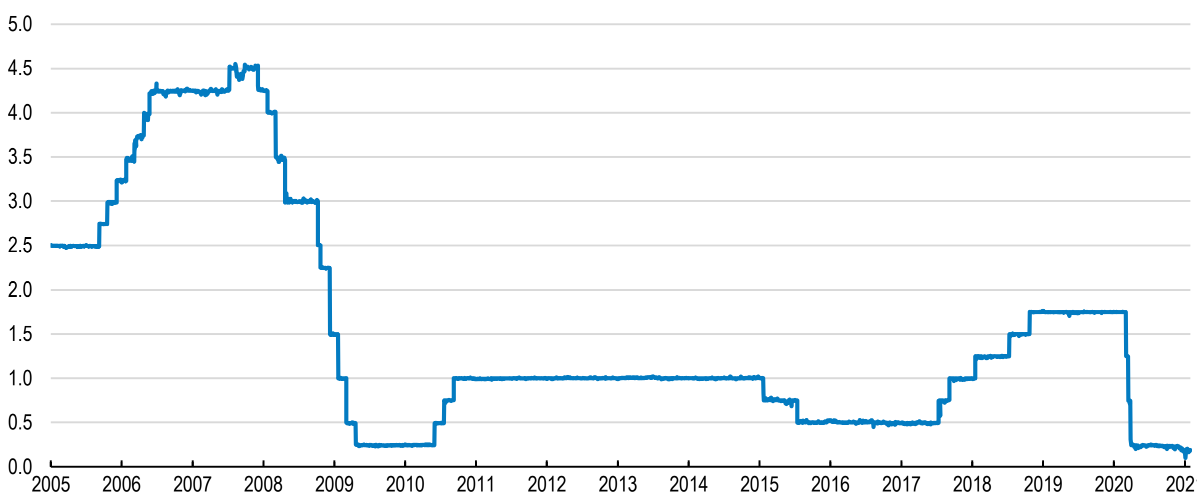
A rapid policy response in the early stages of the crisis, through policy-rate cuts and other measures that bolster liquidity, helped Canada avoid a financial-market meltdown. The Bank of Canada used practically all the scope for rate cuts (while remaining in positive territory), cutting the policy rate to 0.25%, the same as that in the aftermath of the global financial crisis (Figure 1.12). This was accompanied by other measures to provide liquidity and ensure financial markets continued to function (Table 1.4). These were broadly successful. By May 2020, market liquidity for federal-government bonds, provincial debt and corporate paper had returned to pre-crisis levels. In addition, funding pressures on banks have receded (Bank of Canada, 2020a). The Bank's forward guidance on the policy interest rate reinforced by its purchases of government securities has also eased borrowing conditions for households, firms and governments. The purchases of government securities has resulted in a substantial increase in the Bank's balance sheet (Figure 1.13).

Ultra-accommodative monetary policy can, and should, be maintained until the economy is on an even keel

In the initial phase of the crisis, assessing consumer price inflation was complicated by the diverse effects on prices in different segments of the economy. The large fall in crude oil prices early in the crisis pushed down gasoline prices. Also, the price of accommodation fell. Meanwhile, retail food prices rose. Shifts in purchasing patterns were significant, but Bank of Canada research suggests that accounting for these did not generate a substantially different picture of overall price developments (Bank of Canada, 2020b).

Figure 1.12. The policy rate has been cut to 0.25%

Canada overnight money market rate



Source: Refinitiv, Datastream.

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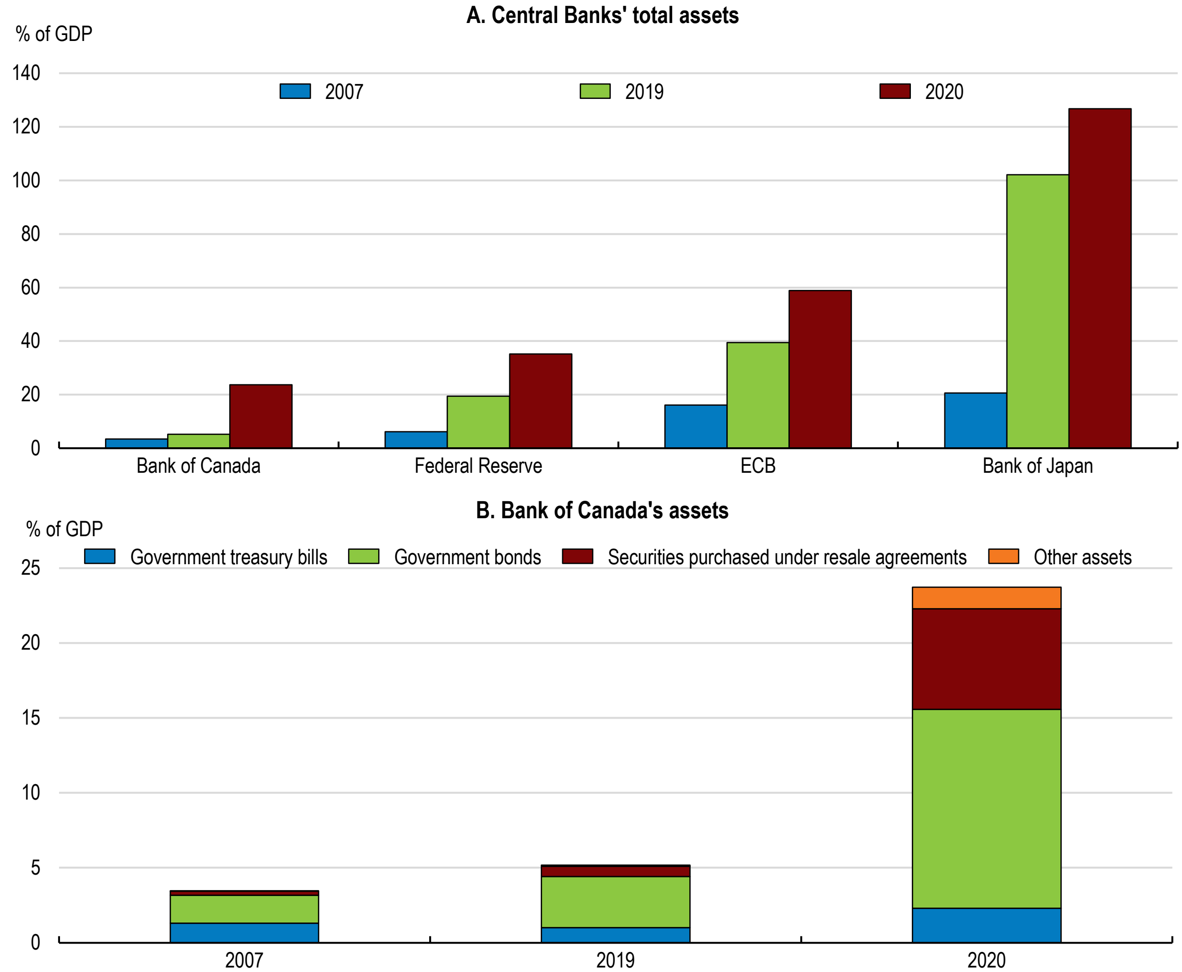
Table 1.4. Emergency support for the financial sector in the wake of the crisis

Measure	Role
Bank of Canada and other support for financial institutions	
More favourable borrowing conditions in the term repo market, including a wider set of allowable collateral.	Widened commercial banks' short-term borrowing capacity with the Bank.
Reduction in the Domestic Stability Buffer Requirement for domestic systemically important banks by 1.25% of risk weighted assets (announced 13 March).	Increased the lending capacity of banks by reducing the amount of capital they must hold (still in place, as of December 2020).
Accelerated launch of the Standing Term Liquidity Facility (announced in November 2019, launched 19 March).	The Facility enables the Bank to provide loans to a wider range of financial institutions.
Suspension of the introduction of a benchmark rate for the minimum qualifying rate for insured mortgages (announced 13 March).	Improved access to mortgage credit by households.
Bank of Canada and other support for financial markets	
Broadened scope of the government bond buyback programme, by adding new Term Repo operations with terms of 6 and 12 months in addition to its regular 1 month and three month Term Repo operations. Government of Canada Bond Purchase Program, purchase of bonds on the secondary market.	Ensures the market for government bonds remains liquid across the spectrum (the purchases matched by sales of widely-traded government bonds).
Purchases of Canadian Mortgage Bonds.	Provides mortgage-bond market liquidity.
Commercial Paper Purchase Program (CPPP).	Support for short-term financing of business and public authorities.
Corporate Bond Purchase Program (CBPP).	Support for longer-term business financing.
A new Bankers Acceptance Purchase Facility (BAPF).	Supports the funding for small- and medium- size business.
Provincial Money Market Purchase (PMMP) programme, Provincial Bond Purchase Program (PBPP).	Support markets for provincial government funding, the PMMP has been wound down.

Notes: Most measures are under the responsibility of the Bank of Canada: exceptions include the Domestic Stability Buffer Requirement (Office of the Superintendent of Financial Institutions), insured mortgage regulation (Minister of Finance) and uninsured mortgage regulation (Office of the Superintendent of Financial Institutions). Most measures were announced in March 2020.

Looking ahead, headline consumer-price inflation will be affected by energy prices in the near term. However, core inflation will pick up only gradually. Accordingly, ultra-accommodative monetary policy can, and should, be maintained to help economic recovery. However, as the recovery matures, a close watch will be required on the distortive effects of low interest rates on asset prices (including house prices) and investor risk-taking. As for other countries, the risk of expansion in the central bank's balance sheet expansion leading to excessive consumer-price inflation in the medium term is not seen as substantial, because demand in the economy is not expected to be strong enough to induce price rises.

Figure 1.13. The Bank of Canada has been expanding its balance sheet



Note: The data in 2020 is expressed as a per cent of GDP in 2019.
Source: OECD Economic Outlook database; and Bank of Canada.

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The upcoming renewal of the inflation-targeting regime (Box 1.4) provides an opportunity to adapt the Bank's monetary policy framework to achieve its 2 percent inflation target, over time, and maintain well-anchored inflation expectations in the context of persistently low global interest rates and downside risks to real-side recovery. Interestingly, the U.S. Federal Reserve has moved to a so-called average-inflation target by announcing that following periods when inflation has been running persistently below target, monetary policy will, for some time, probably aim to achieve inflation moderately above target (Federal Reserve, 2020). Canada's inflation-targeting regime already has some capacity to accommodate such flexibility. Its "Inflation Control Target" aims at keeping consumer-price inflation at 2 per cent, with a control range of 1 to 3 per cent around this target. However, options for a different framing of the target should be considered in the review process that precedes the renewal of the inflation-targeting regime.

Box 1.4. Canada's inflation-target review and renewal process

Canada conducts a regular review and renewal of its inflation-targeting regime (elsewhere reviews and renewals are generally on an ad hoc basis), an approach that a recent OECD paper calls to be adopted more widely (OECD, 2020c). The review and renewal runs on a five-year cycle and originates from the establishment of the inflation-targeting regime in 1991, which was based on a short-term agreement between the government of Canada and the Bank of Canada that specified the inflation target and required a formal review (Amano et al., 2020). The process has proven to be deliberate, in-depth, research-driven and transparent, involving consultation with relevant stakeholders. It has generally been technical, with limited involvement of non-specialists. However, outreach has been increasing; the review for the 2021 renewal has included reaching out to different groups in civil society and to members of parliament. The review and renewal process extends over several years. For instance, groundwork for the 2021 renewal started in 2017, stakeholder outreach commenced in 2019, and roundtables and public consultation were conducted in 2020.

So far the crisis has not triggered household-debt problems, but risks remain

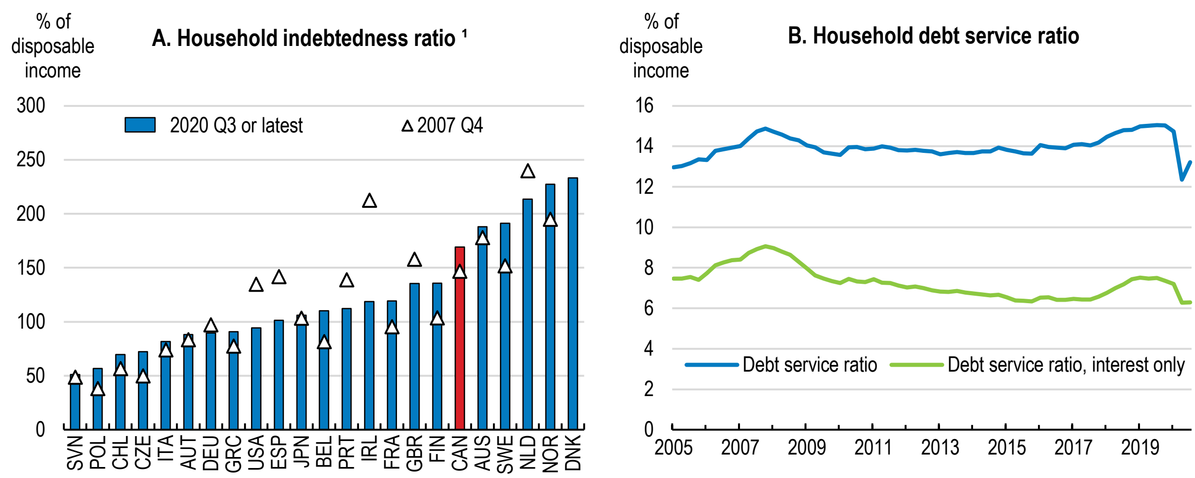
Mortgage default has not so far become a major concern. Canada's still comparatively high level of household debt (Figure 1.14), linked to low borrowing costs and rapid house-price growth, elevates the risks to macro-financial stability and to household consumption risks. Thus far, the increase in mortgage defaults arising from the crisis has been absorbable by lenders. The scale of defaults, and the capacity to absorb them, have been helped by:

- Past policy measures, including the steps to bolster banking-sector resilience since the global financial crisis (such as through increased capitalisation requirements), have reduced the risk of direct hits to financial stability. Macro-prudential measures, such as tighter loan-to-value caps and debt-servicing stress-test requirements, have helped limit the amount of debt at risk in the event of falling house prices or greater financial stress among households.
- A decline in aggregate debt-servicing costs relative to income during the crisis, with interest-rate reductions and support for household incomes playing a role (Figure 1.14).
- Emergency provisions allowing mortgage-payment deferrals of up to six months.

Alternative lenders for households and small enterprises, such as mortgage investment corporations and private lenders, have been affected by the crisis. For instance, in June 2020 mortgage registrations by private lenders in Ontario had fallen by 26% (Teranet, 2020). However, the sector is small and therefore unlikely to spark major financial instability. Private lenders are important only in some markets; for instance, in the Greater Toronto Area they account for about 7% of new residential mortgages.

Continued vigilance on house prices and mortgage lending is needed as the economy recovers under continuing low borrowing costs. Canada's housing-market tendencies of strong price and lending growth already appear to have re-emerged in the wake of the crisis. Thus, past *Survey* recommendations still apply, including stronger oversight and policy co-ordination of the unregulated mortgage market, moves to limit mortgage insurance coverage and measures to facilitate housing supply (such as lighter planning regulation) (Chapter 2).

Figure 1.14. Household debt-servicing burdens have declined



1. Total household outstanding debt as a percentage of household gross disposable income. Q1 2019 for Japan.
Source: OECD, National Accounts - Household Dashboard database.

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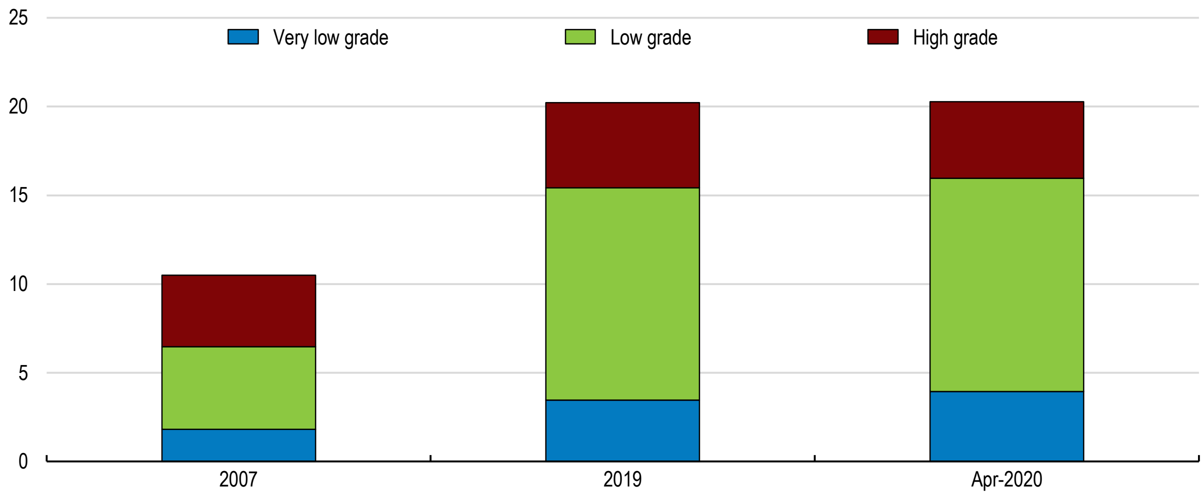
The growth of financing via high-risk corporate bonds remains a concern

In the initial phase of the crisis corporate pre-tax net income more than halved. Also, Statistics Canada data show a big spike in business closures during the spring 2020 confinement that has only been partially offset by subsequent re-openings and start-ups. Many businesses face considerable financial strain, especially in the sectors hit hardest by confinement measures. However, indicators do not so far suggest that this strain is posing a critical risk to the banking sector or financial markets.

Corporate financing through bonds and leveraged loans was on watch prior to the crisis. Following global trends, a combination of stricter regulation on bank lending and greater appetite for risk due to low interest rates, brought substantial growth in these forms of financing, much in the high-yield, high-risk category (Figure 1.15). Credit downgrades can put pressure on businesses cash flow from funding-cost increases, more restrictive covenants on debt contracts and margin calls (Bank of Canada, 2020a). An increasing proportion of high-risk bonds in investors' portfolios points to greater uncertainty in returns. As is the case in many countries, tax deductibility of debt interest payments but not on the return to equity creates a bias towards debt financing. Furthermore, Canada's multiple tax jurisdictions create opportunities to use interest deductions as a vehicle for profit shifting (IMF, 2018). Overall, another look is warranted at limiting the debt-financing bias, for instance through further limits on interest deduction (including through measures that target earnings-stripping) or through an allowance on corporate equity such as exists in Italy (Branzoli and Caiumi, 2018). Tackling the structural issue of debt-bias, however, does not perhaps warrant immediate attention, given the strong priority on encouraging investment in the current crisis and the fact that low interest rates are anyway limiting the importance of interest deductibility.

Figure 1.15. The stock of high-risk bonds has grown substantially

Non-financial investment-grade corporate bonds, % of GDP



Note: High grade: AA AAA, AA, A rated bonds; Low grade: BBB+, BBB, BBB- ; Very low grade: BB, B, CCC-D.
Source: Calculations based on data from Bank of Canada (2020), *Financial System Review 2020*.

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Table 1.5. Past OECD recommendations on the financial sector and housing market

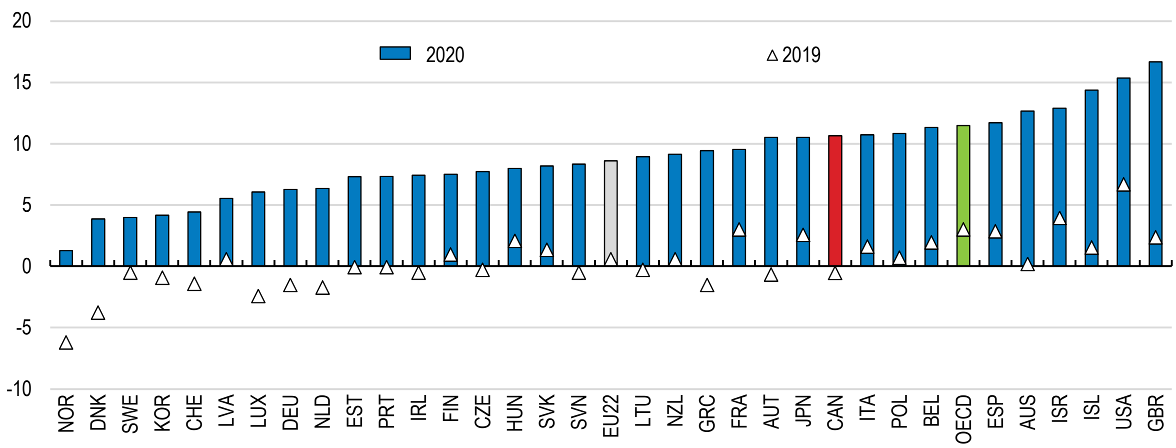
Recommendations in past *Surveys*	**Actions taken since the previous *Survey* (June 2018)**
Co-ordinating financial regulation	
Extend participation in Cooperative Capital Markets Regulatory System.	Nova Scotia joined the network in April 2019. Other governments participating are: British Columbia, New Brunswick, Ontario, Prince Edward Island, Saskatchewan, the Yukon and Canada.
Mortgage-borrowing oversight and regulation	
Monitor the effects of macro-prudential measures and stand ready to act should the balance of risks change.	Canada Mortgage and Housing Corporation (CMHC) tightened mortgage eligibility rules in July 2020. The changes lowered the amount of debt an applicant for an insured mortgage can carry, set a higher credit score to qualify for CMHC insurance, and prevented homebuyers from using borrowed funds for down payments. Other insurers did not follow suit.
Tighten mortgage insurance to cover only part of lenders' losses in case of default. Keep increasing the private-sector share of the market by gradually reducing the cap on the CMHC's insured mortgages.	No action taken regarding mortgage insurance. CMHC's market share has continued to drop.
Monitor the unregulated mortgage-lending sector more closely to improve understanding of risk exposures. Bolster cooperation and information sharing between federal and provincial financial regulators.	The Canadian authorities are continuously monitoring shadow-banking entities, including through their participation in the Financial Stability Board's information-sharing exercises.

Supporting the recovery while preparing the groundwork for reducing the public debt burden

As in many economies, the substantial emergency tax and spending measures plus the effects of the downturn have generated large government deficits. Canada's general government deficit for 2020 (calendar year) was 11% of GDP according to national accounts data (Figure 1.16) and represents among the biggest increases on the previous year compared with other countries. As discussed above, the large package of federal-government measures accounts for much of the budget expansion.

Figure 1.16. The general government deficit has increased substantially

Net general government deficit, % of GDP



Source: OECD Economic Outlook 108 database. For Canada the published figures from national accounts data are shown.

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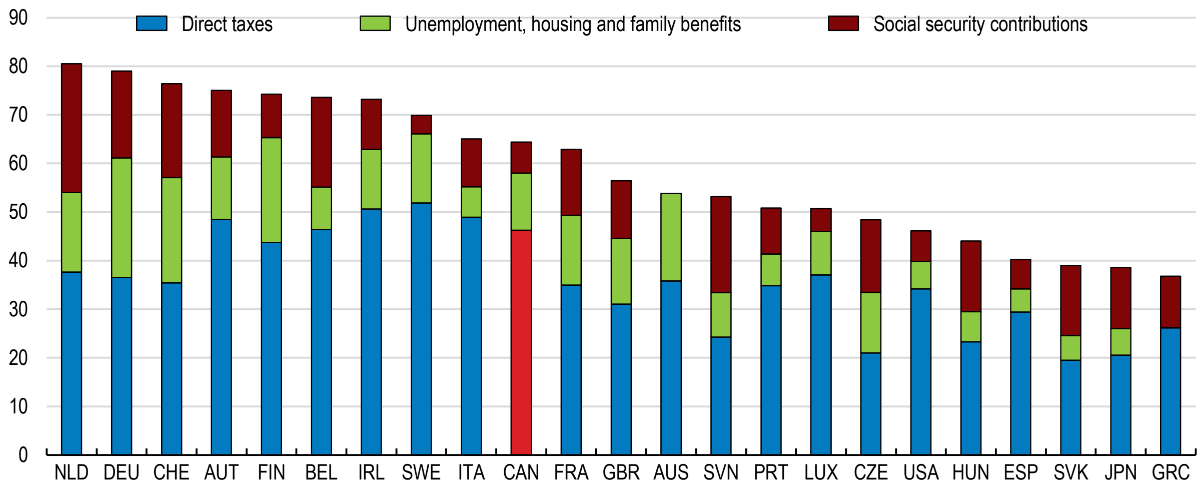
Fiscal support for households, businesses and green investment is needed

For the time being, a focus on active measures is appropriate to help economic recovery with the implications for public debt a secondary consideration. Financial assistance for households should continue focussing on ensuring gaps are covered, as exemplified by the introduction of the Canada Recovery Benefit that has taken over from the CERB in assisting the self-employed (this is discussed further below). For businesses, continued focus is needed on nurturing recovery in businesses but also facilitating the reallocation of resources towards the most promising sectors and firms.

A fully supportive fiscal policy will anyway see deficits decline as recovery progresses. The very large deficit generated in 2020 will unwind in part as the need for financial assistance wanes. Shifting away from blanket support (notably the CERB benefit) suggests smaller outlays, and the recovery process itself (unless reversed by another shock) will bring deficit cuts through revenue increases and diminished spending demands (automatic stabilisation). Indeed, OECD estimates suggest automatic stabilisation via taxation in Canada, for household income at least, is substantial (Figure 1.17).

Figure 1.17. Automatic stabilisers are sizeable

The share of a household disposable income shock offset by automatic stabilisers



Note: Automatic fiscal stabilisers refer to spontaneous changes in government spending and revenues that help stabilise the economy after negative and positive shocks without any discretionary policy intervention.
Source: A. Maravalle and L. Rawdanowicz, "How effective are automatic fiscal stabilisers in the OECD countries?", OECD Economics Department Working Paper (forthcoming).

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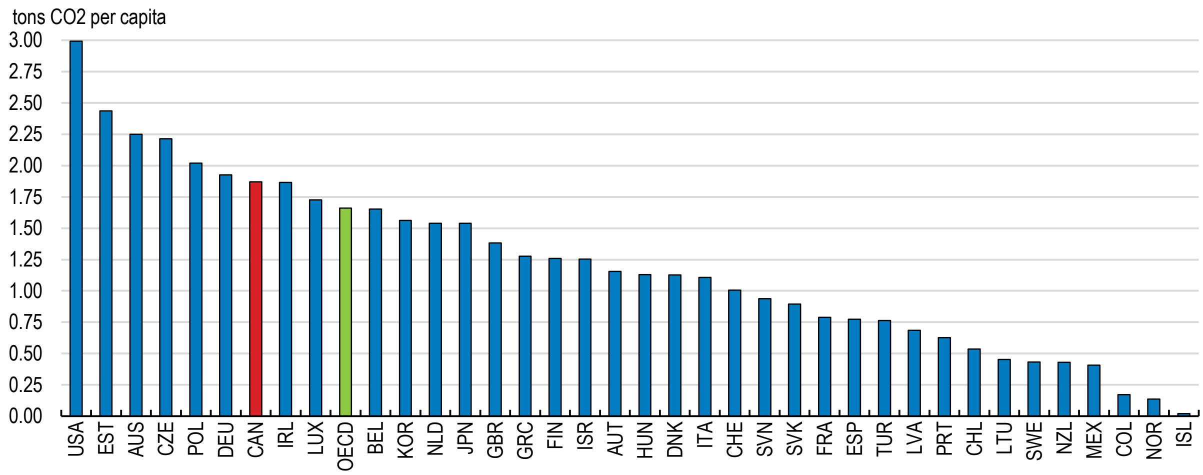
Flexibility in provinces and territories' balanced budget rules should be used as part of the fiscal response. Most provinces and territories operate balanced-budget fiscal rules with inbuilt leeway for deficits under exceptional circumstances, or can be overridden. This flexibility was illustrated during the global financial crisis (Atkinson et al., 2016), with most jurisdictions temporarily running deficits. Deficits will help provinces and territories (also municipalities) cope with the financial strain generated by the crisis. As in other countries with decentralised public expenditure, the fiscal challenges for sub-national governments during the COVID-19 crisis are likely to be bigger than in countries with more centralised expenditure (OECD, 2020d).

Public investment should be accelerated to bolster recovery while also helping achieve long-term goals, especially green transition. Making buildings more energy efficient (including through retrofits) looks among the most promising avenues (Figure 1.18). An expert group (Task Force for a Resilient Recovery, 2020) has suggested a five-year green investment programme costing about 2% of GDP that focuses on making buildings more efficient and climate resistant. The federal government has already taken some steps along these lines. In October 2020 it announced *Investing in COVID-19 Community Resilience*, a facility valued at around CAD 3 billion for reallocating infrastructure budgets to near-term, quick-start projects in certain areas, including building retrofits, transport infrastructure and disaster mitigation and adaptation. Also, in November 2020 the federal government announced a programme worth CAD 2.6 billion providing grants to homeowners for energy-efficient improvements. Further acceleration of public investment should be considered if the economic recovery falters.

Figure 1.18. Per capita carbon dioxide emissions from housing are high

CO_2 emissions from fuel combustion, including electricity and heat, from the residential sector, 2018



Source: IEA (2020), *CO_2 Emissions from Fuel Combustion*, 2020 Edition.

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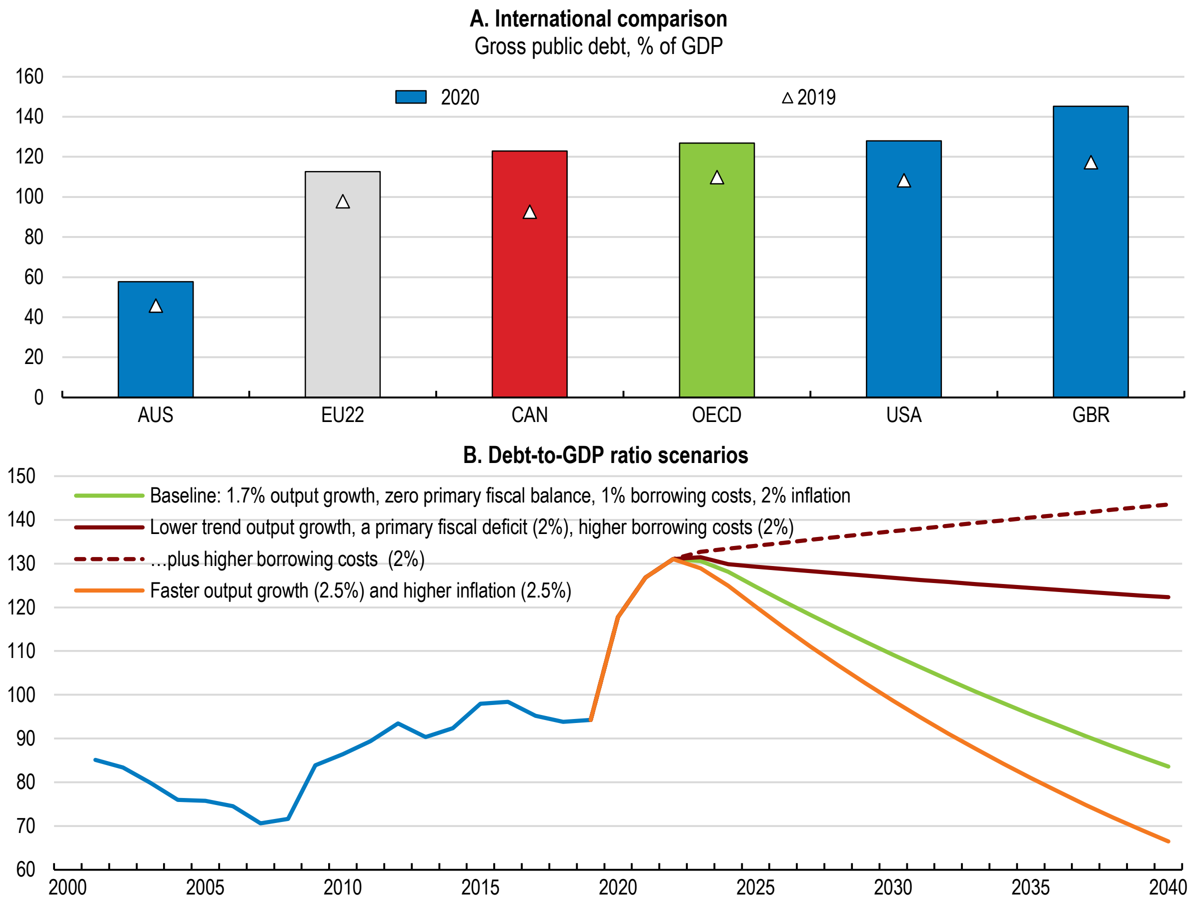
Getting ready to tackle the debt burden in the medium term

Once economic recovery is on a solid path, debt-burden reduction should be prioritised. Before the COVID-19 crisis, Canadian governments had attached considerable importance to the containment of public debt and were broadly successful; the ratio of both gross and public debt to GDP were lower than in many other OECD countries (Figure 1.9). The near-term public-debt expansion due to the pandemic looks set to be large. Looking further ahead, shows scenarios of nationwide gross government debt. Under a central scenario ("baseline" scenario) that comprises a zero primary fiscal balance, output growth at roughly historical average (1.7%), on-target inflation (2%) and borrowing costs of 1%, the debt-to-GDP ratio could return to pre-COVID levels by the mid-2030s. Faster output and inflation growth would accelerate the decline in debt-to-GDP ratio. However, lower trend growth, and a primary fiscal deficit or higher borrowing costs could mean an ever-increasing debt-to-GDP ratio. A policy roadmap for managing the debt is needed to head off risks to fiscal sustainability and to reassure markets. Rating agencies have already signalled disquiet. Fitch downgraded its rating on Canadian Government from triple-AAA to "AA+" in June 2020, citing the deterioration of public finances resulting from the pandemic.

Figure 1.19. Gross public debt has increased substantially



Notes: Gross debt in these figures is aggregate consolidated debt across federal, provincial and territorial governments (as in the national accounts).
The 1% borrowing cost is an estimate of the average 10-year government bond rate for 2020-25 (Parliamentary Budget Officer, 2020a).
Source: OECD Economic Outlook108 database, Statistics Canada and calculations based on OECD Economic Outlook database.

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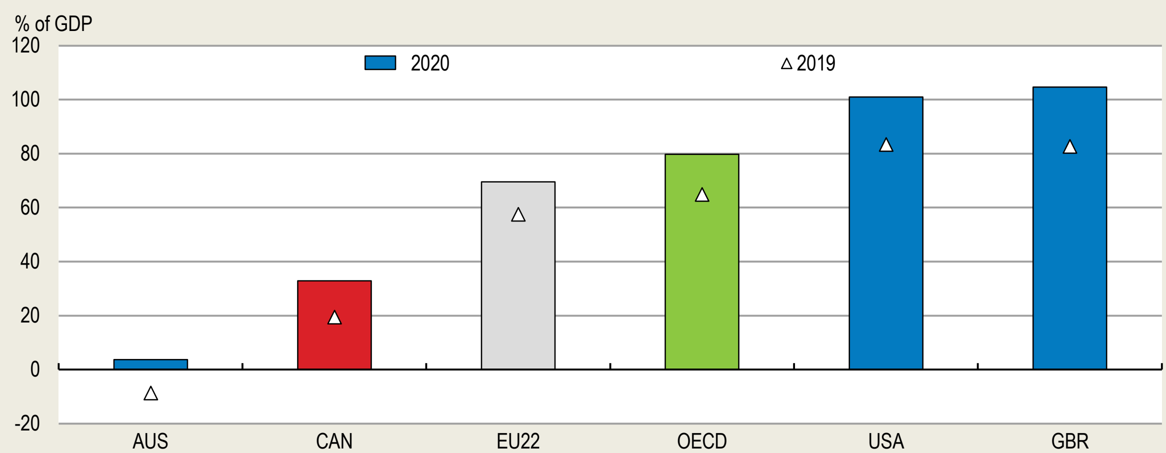
Box 1.5. Measuring Canada's public debt

Reporting and policy debate on public debt within Canada typically centres on federal government net debt. Net debt (Figure 1.20) is particularly important for countries like Canada, that have well-funded social security schemes and significant financial assets. Canada's debt measures (both gross and net) notably include the balance of assets and liabilities relating to public-sector employee pensions, reflecting good accounting practice and efforts to ensure long-term fiscal sustainability. OECD analysis often uses total gross debt in analytical work because of international comparability issues in the valuation of government assets (for instance, practices in valuing assets of state-owned enterprises can vary across countries). To ensure comparability of gross debt, the public-sector pension liabilities that appear in some countries accounts, including Canada's, are stripped out to improve comparability with countries where public-sector pensions are not reflected in the general-government balance sheet.

Figure 1.20. Net public debt



Source: OECD Economic Outlook 108 database; and Statistics Canada.

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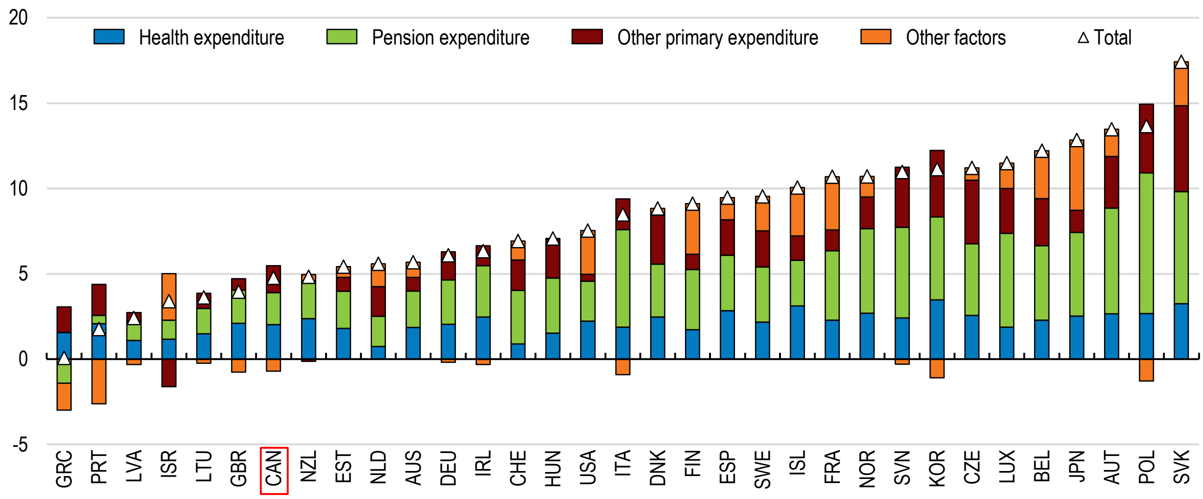
As in many other economies population ageing will increase the challenges for public spending containment and debt stabilisation. OECD estimates of spending pressure over the long run suggest that by 2060, health, pension and other spending pressures will have added costs equivalent to 5% of GDP. This is a sizeable increase but smaller than those estimated for many other economies, partly due to Canada's immigration policy (Figure 1.21). Increasing pressure on health care spending from population ageing most immediately affects provincial and territorial budgets and can also pass through to federal government balances through pressure to increase transfers to the provinces and territories. Though Canada's pension system is more self-funding than many, pressures from population ageing on fiscal balances will arise from spending commitments on first-pillar pensions.

Figure 1.21. Ageing related pressures on public spending are relatively light

Change in structural primary revenue between 2021 and 2060, % pts of potential GDP



Note: The charts show how the ratio of structural primary revenue to GDP must evolve between 2021 and 2060 to keep the gross debt-to-GDP ratio stable near its current value over the projection period (which also implies a stable net debt-to-GDP ratio given the assumption that government financial assets remain stable as a share of GDP). The underlying projected growth rates, interest rates, etc., are from the baseline long-term scenario. Expenditure on temporary support programmes related to the COVID-19 pandemic is assumed to taper off quickly. The necessary change in structural primary revenue is decomposed into specific spending categories and 'other factors'. This latter component captures anything that affects debt dynamics other than the explicit expenditure components (it mostly reflects the correction of any disequilibrium between the initial primary balance and the one that would stabilise the debt ratio).

Source: Guillemette, Y. et al. (2021), "The long game: fiscal outlooks to 2060 underline need for structural reform", OECD *Economic Department Working Papers* (forthcoming).

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Given the potential challenges for debt reduction, the federal government should consider a numerical debt-to-GDP target, as recommended in previous Surveys. Federal budgeting is typically guided by broad qualitative goals declared by governments in the Speech from the Throne or in Budgets and Fiscal Updates. Precise quantitative goals and timelines for achieving them are not used. Canada's past record in federal deficit and debt suggests that, to date, broadly defined rules have worked adequately. However, introduction of a more precise rule may provide a useful anchor for governments in reining in the debt burden generated by the COVID-19 crisis (OECD, 2015). As regards provinces and territories, previous Surveys have included suggestion for more independent oversight of budgets.

Box 1.6. Quantifying the fiscal impact of structural reforms

The following estimates roughly quantify the fiscal impact of ambitious medium-term reforms and are illustrative.

Table 1.6. Illustrative fiscal impact of selected reforms

Policy	Scenario	Additional fiscal cost/revenue, percentage points of GDP
Reforms involving additional spending		
Further subsidy of childcare provision	Increase spending on family benefit (20%) (1)	0.3
More resources for social housing	Increase in spending on social housing (20%) (1)	0.1
Greater support for long-term care	Increase in spending on long-term care (20%) (2)	0.4
Introduction of Pharmacare	An estimated gross cost by 2027, some researchers suggest cost reduction through increased bargaining power would mean net savings (from Chapter 2)	0.4
More resources for mental health and public health	Increase in spending on preventive care (40%) (2)	0.1
Total		**1.3**
Possible avenues for funding the additional spending		
Increased environmental taxation	Increase in environmental taxation as a share of GDP to the level of the OECD median (3). Note however, if the taxation is successful in altering behaviour, the revenue gains could diminish.	1.1
Greater efficiency in government services	Three per cent efficiency gain in general government consumption expenditure (4), for instance through a multi-year programme of efficiency incentives.	0.7
Increase in the federal rate of GST	Two-percentage-point increase in the rate of federal goods and services tax (5)	0.8

1. OECD Social Expenditure (SOCX) database.
2. OECD Health Expenditure and Financing Database.
3. OECD Environmental Policy: Environmental Policy Instruments.
4. OECD National Accounts, 2019.
5. Federal Government GST revenues, 2019.
Source: OECD calculations.

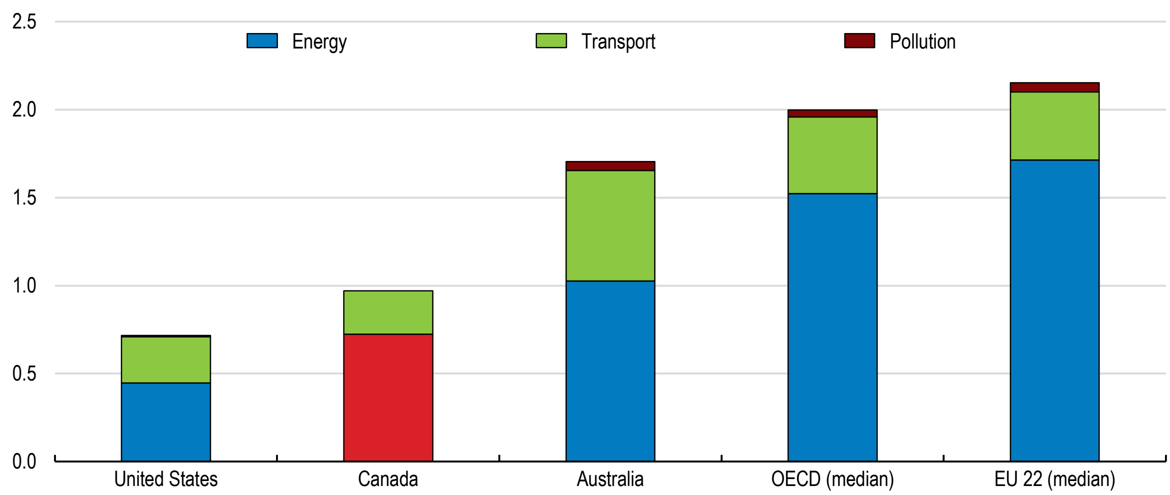
Strengthening carbon pricing and re-orienting the tax system

Canada has scope for taxation to help further in achieving environmental policy goals. Environmental tax revenues are smaller relative to GDP compared with many countries (Figure 1.22). The Pan-Canadian Framework is bolstering carbon taxation and strengthening its consistency, but further hikes in the price floor are needed (discussed further below). The average tax rate on motor fuel is higher than in the United States but much lower than in Europe. Furthermore, diesel is taxed less than gasoline, despite having more negative environmental externalities. There is also scope to expand congestion and road-use pricing. Expanding landfill charges would encourage waste prevention and recycling, as a large share of Canadian waste goes into landfill.

Given the current economic climate, the implementation of substantial hikes in environmental taxation should be delayed until the economy is on a more even keel and households and businesses can more readily absorb the additional tax burdens. However, groundwork can begin as considerable time is often required to bring measures to the point of implementation. An increase in environmental taxation could potentially raise sizeable additional revenues, for instance if environmental taxation as a share of GDP were increased to around the median of the OECD countries (Box 1.6).

Figure 1.22. Environmental taxation is comparatively low

Revenues from environmental taxation as % of GDP, 2019 or latest available year



Source: OECD *Environmental policy: Environmental policy instruments*, *OECD Environment Statistics* (database).

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Some other tax measures could also help strengthen and reprioritise the post-COVID economy. Past *Surveys* have notably recommended pruning tax support for small- and medium-sized enterprises (SMEs). Canada's extensive SME tax concessions includes elements that do not appear to be tackling an obvious externality and that are distorting, notably lower rates of corporate income tax and bigger R&D tax credits compared with large businesses. In other areas of taxation a government review in 2016 brought some welcome pruning of tax credits (see Table 1.7). However, there is scope for more, including cuts in tax breaks relating to health insurance and capital gains on principal residences and on other assets. Past *Surveys* have also advocated greater use of property taxation and municipal user fees. As for environmental taxation, due consideration to the timing of measures is required given the need to hold off on steps that might work against near-term economic recovery.

Exploiting opportunities for public-spending efficiency gains

As the need to address the immediate issues of the pandemic subsides, opportunities for improving public-spending efficiency should receive greater attention as a means of funding increased resource allocations to certain issues. Such opportunity in the context of health care is detailed in the analysis of Chapter 2 (and also summarised below). Increased spending through expansion of the national public health-care basket to include pharmaceuticals ("Pharmacare") and more resources for elderly care and mental health care could be offset by a range of efficiency measures, for instance stronger co-ordination between primary care providers, specialists and hospitals. Comparison across Canada's provincial and territorial health systems should be exploited as a means of identifying potential efficiency gains.

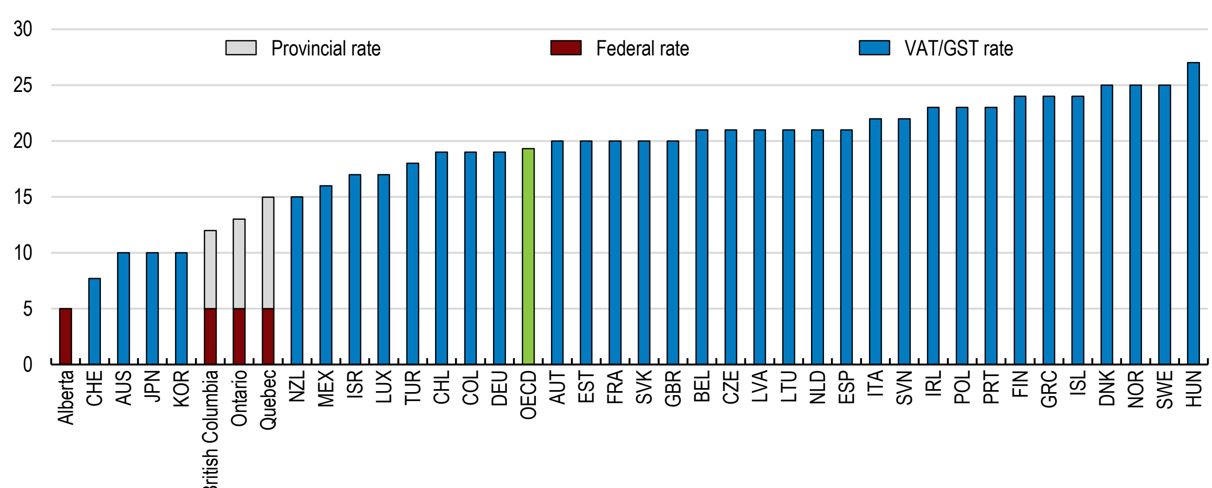
More generally, assessments of public-spending efficiency via spending reviews, budget assessments and costings could be stepped up to identify scope for cost savings. This could be carried out via existing structures, including through the Treasury Board as Canada did successfully in the past. Past *Surveys* have suggested the establishment of provincial budget agencies; these could also help identify scope to improve public spending efficiency at the provincial level. Box 1.5 illustrates that, for example, a 5% efficiency gain in general government spending on services could help considerably in covering the costs of additional spending measures.

Eventually raising revenues, if needed

If, eventually in the context of public-debt management, major revenue bases need to be tapped into for fiscal consolidation, consumption-tax increases are preferable to hikes in income tax. International evidence indicates that raising indirect taxation is less damaging to economic growth compared with greater income tax (Johansson, 2016). Also, there is precedent; a number of countries raised VAT (or the equivalent) to help fiscal consolidation following the global financial crisis. Furthermore, Canada has more headroom for increases compared with other countries, given that the combined rates of federal Goods and Services Tax (GST) and provincial equivalents are low compared with rates in many other OECD countries (Figure 1.23). This is echoed in revenues. According to the OECD Revenue Statistics, revenues from VAT/GST represent 14% of total tax revenues in Canada, compared to an average of 20% in the OECD. Raising the rate of federal GST would be the most practical approach, given the challenges in co-ordinating an increase in provincial rates. Also, as previous *Surveys* have underscored, there is scope to broaden bases through the scaling back of zero-rated items among basic groceries. To help overcome the political hurdles and cost-of-living implications, raising GST could, for instance, be combined with bolstering financial assistance for low-income households. Also, various other considerations have to be borne in mind, including that low consumption taxation in the United States to a degree limits the scope for raising rates in Canada because of cross-border shopping opportunities.

Figure 1.23. GST is lower than the OECD average

Standard rates of value added tax/ goods and services tax, 2020



Note: For further information on country notes please refer to the OECD Tax database. For Canada, the following provinces have harmonised their provincial sales taxes with the federal Goods and Services Tax, by adopting the Harmonized Sales Tax, and therefore Canada levies a rate of GST/HST in those provinces of: New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island: 15%; and Ontario: 13%. In Québec the GST applies at a rate of 5% and Québec imposes a Québec Sales Tax (QST) at a rate of 9.975% (applied on substantially the same tax base as the GST). Other Canadian provinces, with the exception of Alberta, Yukon, Northwest Territories and Nunavut apply a provincial retail sales tax to certain goods and services in addition to the federal GST.
Source: OECD Tax database (https://www.oecd.org/tax/tax-policy/tax-database/), Canada's Government website (www.canada.ca).

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Table 1.7. Past OECD recommendations on fiscal budgeting, tax and spending

Recommendations in past *Surveys*	Actions taken since the previous *Survey*
Fiscal rules and budgeting	
Establish provincial budget agencies, as in Ontario, or, better still, an agency reporting to the Council of the Federation that analyses fiscal forecasts and cost estimates for policy proposals.	No action taken.
Taxation	
Review small business taxation to identify clear market failures and the policy instruments best suited to addressing them.	No major changes.
Reduce personal income tax expenditures not warranted on economic or equity grounds, notably the non-taxation of private health plan benefits, capital gains on principal residences and some small business shares.	No progress on major issues.
Eliminate GST zero rating for basic groceries.	No action taken.
At the provincial level, increase taxes from non-renewable resource development.	No action taken.
Make more use of property taxes and user fees by municipalities, while easing the property tax burden on firms. As their tax base becomes more sustainable, reduce local authorities' reliance on provincial transfers by granting them more revenue-raising powers.	No action taken.

Nurturing recovery in the business sector

As the need for emergency measures diminishes, business policy should focus on encouraging positive shifts in the structure of economic activity in the post COVID-19 economy. Policy-making should also return to structural issues that have long held back the productivity and competitiveness of Canada's business sector. A well-performing, high-productivity business sector is necessary to create high quality jobs, which are a key component of people's well-being.

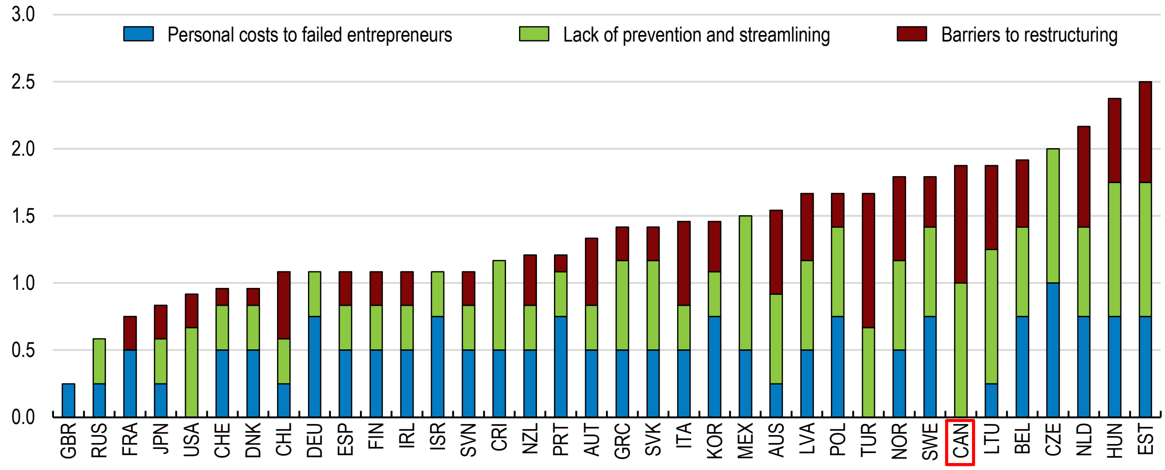
Further help for businesses is needed, including through better insolvency processes

Canada's measures for business have evolved from the early days of the pandemic. The initial phase included the Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Business Account (CEBA) loan/subsidy scheme for SMEs, a rent assistance scheme and tax deferrals (Table 1.8; Table 1.9). CEWS has provided by far the most substantial support, with the total outlays expected to be CAD 84 billion, which is equivalent to around 3.5% of annual GDP. CEWS subsidises the wage bill for active employees and also has provisions for when employees are furloughed. The treatment of furloughed employees under CEWS is intended to provide a level of support comparable to unemployment schemes without having to sever the employer-employee relationship.

Credit provisions and loan guarantee schemes have been extended into 2021. This is broadly welcome. However, some firms may be reluctant to take on more debt. Extending more credit (even on favourable terms) can mean that later on businesses cut back on investment (due to debt overhang), thereby slowing recovery and denting productivity potential. As such, other policies that ease financial strain and reduce insolvency risk may be needed (OECD, 2020e). Canada's insolvency framework allows financially distressed, but viable businesses to restructure under court supervision, which has demonstrated success in preserving jobs and business value, thereby mitigating insolvency risk. That said, OECD indicators suggest that Canada's system could benefit from special restructuring procedures for small firms (Figure 1.24). Businesses in financial difficulty present a restructuring proposal under the *Bankruptcy and Insolvency Act* (BIA) or, if debts exceed CAD 5 million, can present a plan of arrangement under the *Companies' Creditors Arrangements Act* (CCAA). The latter provides more avenues to restructure the business.

Figure 1.24. There is scope to improve Canada's insolvency system

Scores in selected aspects of insolvency schemes: higher scores indicate worse systems, 2016



Source: OECD (2017), Confronting the Zombies: Insolvency and Financial Reform, Corporate Restructuring and Productivity Growth.

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Table 1.8. Key federal-government business support measures during the crisis

Measure	Key details	Scale of support
	Wage subsidies and work sharing programs	
Canada Emergency Wage Subsidy (CEWS) *Applications commenced April 2020, available to June 2021*	Under the current CEWS for supporting active employees, an employer's subsidy rate depends on the extent of its decline in revenues, and the maximum subsidy rate may vary by period. A separate rate structure applies for the CEWS supporting furloughed employees. Maximum subsidy varies by period; currently CAD 847 per employee per week (20 December 2020 to 13 March 2021).	Over 372 000 employers supported, CAD 55.4 billion in subsidies paid (as of 20 December 2020).
Temporary expansion of the Work Sharing program *Now extended to March 2021*	The Work Sharing program provides adjusted Employment Insurance payouts to eligible employees who agree to work a temporarily reduced work week while their employer recovers. In response to the crisis the maximum period was extended, waiting periods waived, application requirements eased and eligibility widened.	Since March 2020, over 3 500 employers had accessed the programme, with over 115 000 employees participating. This has helped avoid an estimated 55 000 layoffs.
	Business Credit Availability Program (BCAP)	
Canada Emergency Business Account (CEBA) *Access is now extended to March 2021*	A hybrid loan-subsidy scheme providing interest- free loans of up to CAD 60 000, with CAD 20 000 forgiven if the loan is fully repaid by end-December 2022. (The maximum loan was increased from CAD 40 000 to CAD 60 000 in December 2020).	CEBA estimated fiscal cost CAD 14 billion in subsidy. Total program size is estimated to be CAD 55 billion.
Financing support for small and medium-sized enterprises (SMEs) and mid-sized companies *Available to June 2021*	Credit schemes and loan guarantee schemes for SMEs and mid-sized companies (four schemes in total).	CAD 40+ billion.
	Other support	
Canada Emergency Rent Subsidy (CERS) *Available to June 2021*	CERS provides payments to help cover rental and mortgage costs directly to qualifying renters and property owners. It replaced the Canada Emergency Commercial Rent Assistance in November 2020), which supported renters through the participation of landlords.	
Large Employer Emergency Financing Facility (LEEFF) *No specified end date*	Bridging financing to businesses with revenues above CAD 300 million.	
Tax deferrals *Terminated end-September 2020*	Deferrals for payments due in March onwards. Corporate income tax payments deferred to end of September 2020. GST remittance and customs duty payments deferred until June 30 2020.	Corporate income-tax deferrals and deferred GST remittance and customs duty payments are estimated at CAD 60 billion in additional liquidity.

Table 1.9. Additional federal support for hard-hit sectors and for environmental clean-up

Hard-hit sectors	
Culture, heritage and sport	Emergency fund for culture, heritage and sport organisations, targeted financial support for museums and arts centres, waiving of private broadcasters' license fees, short-term compensation fund for the audio-visual production industry, targeted financial support for the live events and arts sectors (starting in 2021-22).
Air transportation	Waiving of federal-government ground lease airport rents (terminated December 2020), support for air services to remote communities.
Regional Relief and Recovery Fund	Safety net support for businesses not eligible for the other support programmes, or still experiencing hardship despite support.
Environmental clean-up	
Oil and gas well clean- up	Federal financial support for provinces to clean up orphan and inactive oil and gas wells.
Energy-sector emissions reduction	Establishment of a fund to support the financing of investment in reducing greenhouse gas emissions by oil and gas firms.

Longstanding issues in product-market regulation remain, in particular non-tariff barriers to domestic trade

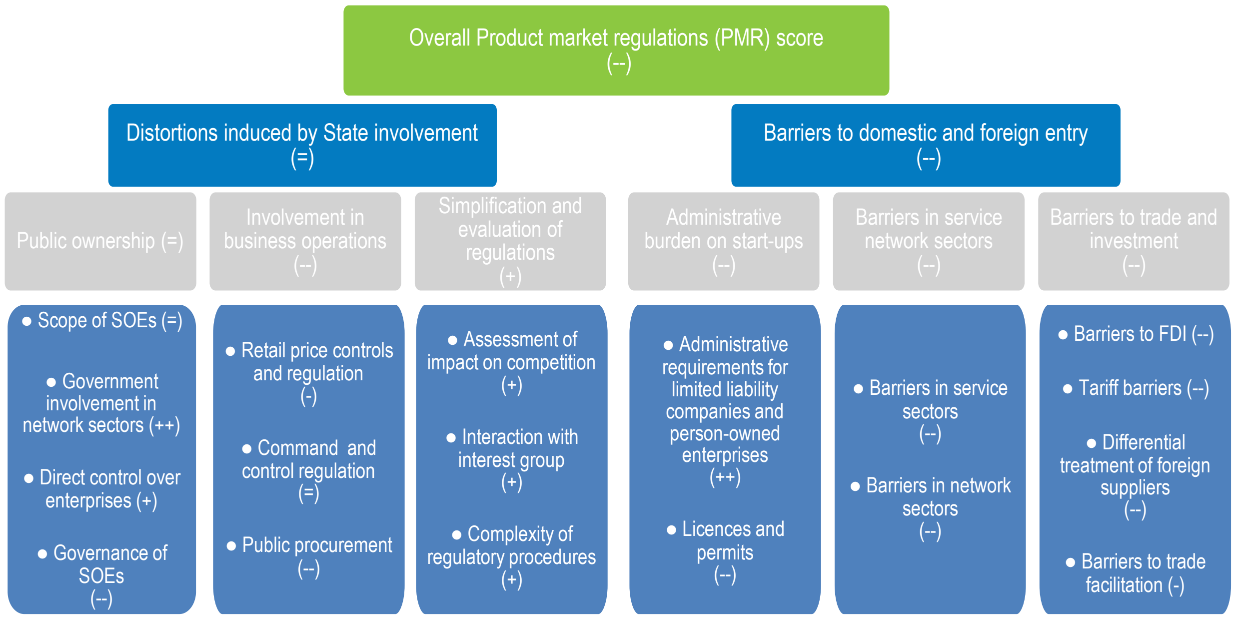
Remedying other structural weaknesses in product-market regulation should be part of the policy mix to strengthen the post-COVID economy. Canada's overall score in the OECD's Product Market Regulation indicator is poor, due to issues that have long been flagged in *Surveys*. Canada is ranked among the bottom five countries as regards governance of state-owned enterprises, public procurement, barriers to service and network sectors and barriers to trade and investment (Figure 1.25).

Non-tariff barriers arising from interprovincial differences in product, service and labour regulation have also long been flagged in *Surveys* as hampering the efficiency and productivity of Canada's business sector. The barriers, usually arising from differing regulations and standards, extend across many products and services, including, for instance in the dairy sector and the legal and accounting professions. A Statistics Canada study estimates that the non-tariff barriers are equivalent to an *ad valorem* tariff of 6.9% (Bemrose et al., 2017). Furthermore, studies suggest that lowering the barriers could have a sizeable positive impact on Canada's economy. A Bank of Canada estimate suggests that lowering all such barriers could generate a 0.2 percentage-point increase in potential GDP growth (Box 1.7). An IMF report (Alvarez et al., 2019) estimates that complete liberalisation of internal trade in goods could increase GDP per capita by about 4%.

Efforts to lower the non-tariff barriers include the Canadian Free Trade Agreement (CFTA) plus some additional agreements between subsets of provinces and territories. The CFTA builds on a previous agreement (the Agreement on Internal Trade) and includes a mechanism for reconciling regulations across provinces and territories (the Regulatory and Cooperation Table). The list of reconciliation processes currently underway, includes, for instance, truck driver certification, organic food standards, corporate registration, worker compensation, building codes and appliance efficiency standards (Government of Canada, Briefing Book-Internal Trade). There remains considerable unfinished business and a major effort accelerating the resolution of non-tariff barriers should be undertaken. The previous *Survey* (OECD, 2018a) recommended taking the CFTA further by prohibiting agricultural supply management regimes, reconciling remaining regulatory differences (possibly via mutual recognition) and expediting dispute resolution and raising penalties for non-compliance.

Figure 1.25. Key components of product market regulations

Ranging from: Poor (--), Below Average (-), Around Average (=), Above Average (+) to Good (++)



Note: (++)/ (--): Good /Poor performance: indicator score ranks among top (bottom) 5 OECD performers;
(+)/(-): Above / Below average performance; score at least 15% better (worse) than OECD average;
(=): Around average performance; score is within 15% of the OECD average score.
Source: OECD 2018 Product Market Regulation database.

Ensuring low-cost, high-quality telecommunications services

Attention to telecommunication services and related issues, including digital rights, should be intensified, especially given the prospect of a permanent shift to more teleworking (Box 1.8), greater use of the internet for meetings and conferences, and for business and personal use in general. Digital divides, including those arising from poor access to broadband in remote communities, have become more relevant. An OECD assessment of internet-service demand during the spring 2020 lockdowns pointed to Canada's paucity of direct interconnection domestically between big communication operators, which means approximately two-thirds of internet traffic is routed via the United States, resulting in higher costs and compromised service stability for Canadian users (OECD, 2020f). Past *Surveys* have underscored that more intense competition in telecoms and broadcasting could lower prices and increase access to fast, high-quality networks (OECD, 2016).

Box 1.7. Potential impact of structural reforms on GDP

The following estimates roughly quantify the fiscal impact of ambitious medium-term reforms scenarios and are illustrative.

Table 1.10. Illustrative GDP impact of selected recommendations

Policy	Scenario	Impact
Expediting the removal of non-tariff barriers	Impact of a 10 percent reduction in interprovincial trade barriers (Bank of Canada, 2016), percentage points. Note that IMF (2019) estimates a total boost to GDP per capita of 4% from the removal of barriers.	0.2 percentage-point increase in potential GDP growth
Less restrictive product-market regulation on other fronts, including telecommunications	GDP boost to arising from a reduction in Canada's score on the OECD Product Market Indicator from 1.76 to 1 over a five-year period (1 is the average score of the best performing countries). Simulation using the OECD Economics Department's long-term model.	0.5 percentage point increase, on average, in annual GDP to 2030

Source: OECD calculations.

The federal government aims at reducing the average cost of cellular phone bills by 25%. One avenue being pursued is to widen market access for mobile virtual network operators (i.e. operators that lease wireless capacity from incumbents and resell it on retail markets) (Prime Minister of Canada, 2019). In August 2019, the regulator (the Canadian Radio and Telecommunications Commission, CRTC) reduced the rates that the major telecoms companies are able to charge third-party operators. Federal government mandates also pledge new regulations for large digital companies regarding personal data and competition in the digital marketplace.

Canada's foreign-ownership restrictions in telecommunications (and broadcasting) continue to be a potential barrier to competition and lower prices. In telecommunications, foreign interests with market share exceeding 10% are generally allowed to hold no more than 46.7% of voting equity in any facilities-based telecommunications carrier or a broadcast distribution undertaking (OECD, 2016). International evidence (for instance Rouzet and Spinelli, 2016) confirms a connection in the telecoms sector between ownership restrictions and companies' price-cost margins, suggesting derestriction in Canada could bring consumer benefits. The OECD's 2017 review of Mexico's telecommunications and broadcasting noted positive impacts from a reform in 2013 that eliminated restrictions on foreign direct investment in telecommunications and satellite communications services (OECD, 2017).

Ensuring broadband access in rural and remote communities generally requires additional government support, and a welcome policy push is underway on this front. In November 2020, the federal government announced the Universal Broadband Fund. This will provide CAD 1.75 billion for broadband projects, with CAD 50 million earmarked for mobile projects that primarily benefit Indigenous communities. The Canada Infrastructure Bank intends to invest CAD 2 billion in broadband infrastructure over the next two to three years. Other initiatives includes support worth CAD 600 million towards for broadband via low-earth orbit satellites and a CAD 750 million fund to improve internet services in underserved areas.

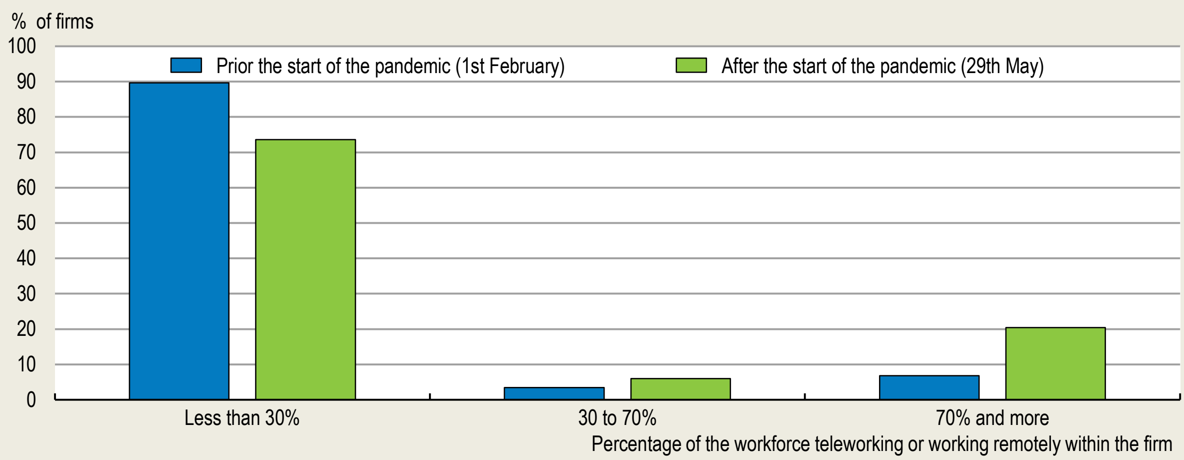
Topics in digitalisation, including online rights, are receiving welcome attention. As elsewhere, individuals' rights as regards online data, including data portability, are of considerable importance, not only as a question of rights, but also because well-developed data rights can strengthen competition in Internet-service provision. In Canada a digital charter has been in place since 2019. Ministerial mandates following the 2019 federal election included objectives to improve data portability and the ability to remove personal data from platforms and to advance further on regulation of the ethical use of data and digital tools such as artificial intelligence. In this vein, the federal government has recently tabled new private-sector privacy legislation, the Consumer Privacy Protection Act, which includes provisions related to data portability, rights over personal data and artificial intelligence.

Box 1.8. Canada's shift to teleworking during the pandemic

A Statistics Canada study shows that prior to lockdown less than 10% of businesses had at least 70% of employees teleworking (though not necessarily full time). During lockdown that figure had risen to 20% (Figure 1.26). However, these data may underestimate the shift to teleworking as they do not capture that the crisis will have prompted a shift from part-time (or occasional) to full-time teleworking. An estimated 40% of Canada's workforce could plausibly telework full time according to Deng et al. (2020), a similar figure to OECD estimates for other countries (OECD, 2020g).

Figure 1.26. Teleworking before and during the spring 2020 COVID-19 confinement

Distribution of firms according to incidence of teleworking or working remotely within the firm



Note: For instance, the first column of the chart indicates that before the start of the pandemic the incidence of teleworking was less than 30% in 90% of Canadian firms.
Source: Statistics Canada (DOI: https://doi.org/10.25318/3310024701-eng).

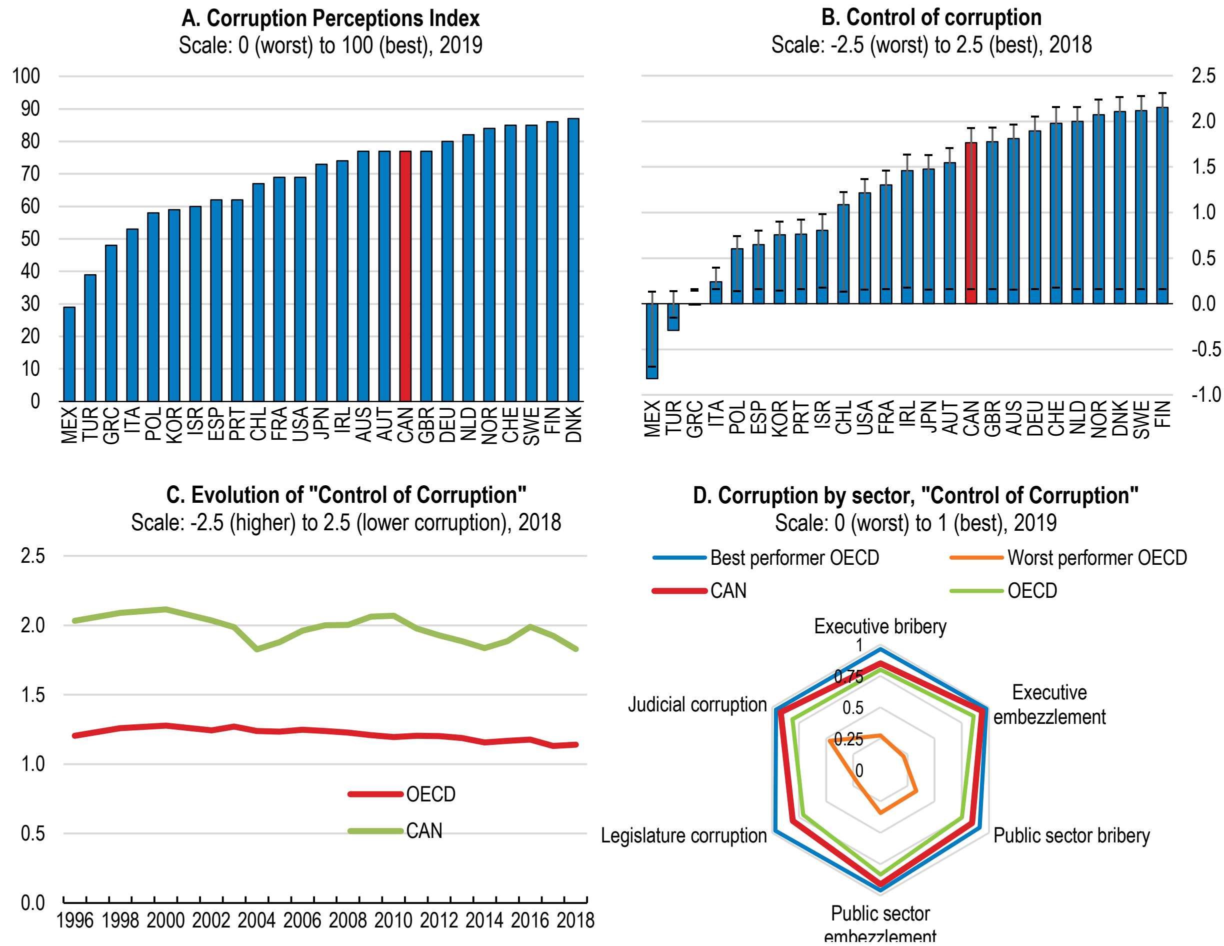
StatLink https://stat.link/g840kb

Combatting corruption and money laundering

Canada scores well in international indicators of domestic corruption. It ranks favourably in indicators of the public perception of corruption and the control of corruption (Figure 1.27). However, good ranking in such scores does not mean an absence of corruption. Within Canada, corrupt practices have been alleged with regard to governments, municipalities, corporations and senators (Rotberg and Carment, 2018). For instance, the Charbonneau commission exposed corruption in Québec's public construction contracts (Charbonneau and LaChance, 2015).

Canada has an export-oriented economy, with companies operating in jurisdictions and sectors where corruption can be present, such as mining, oil and gas operations. Thus, Canadian businesses are able to play a role in international efforts combatting transnational corruption and bribery. The OECD Working Group on Bribery's Phase 3 report on Canada (OECD, 2011) flagged a number of shortfalls in Canada's legislation and expressed concern that inadequate resources had been committed to coping with bribery cases. As a signatory to the Anti-Bribery Convention, Canada came under OECD scrutiny in 2019 in relation to alleged interference in the prosecution of a bribery case involving an engineering and construction group. Canada will undergo a Phase 4 peer review in 2023.

Figure 1.27. Perceived levels of corruption are low



Note: Panel A shows the Corruption Perception Index (CPI) which originally scores from 0 (worst) to 100 (best) on an inverted scale (i.e. 100 - CPI); Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Institute; University of Gothenburg; and University of Notre Dame.

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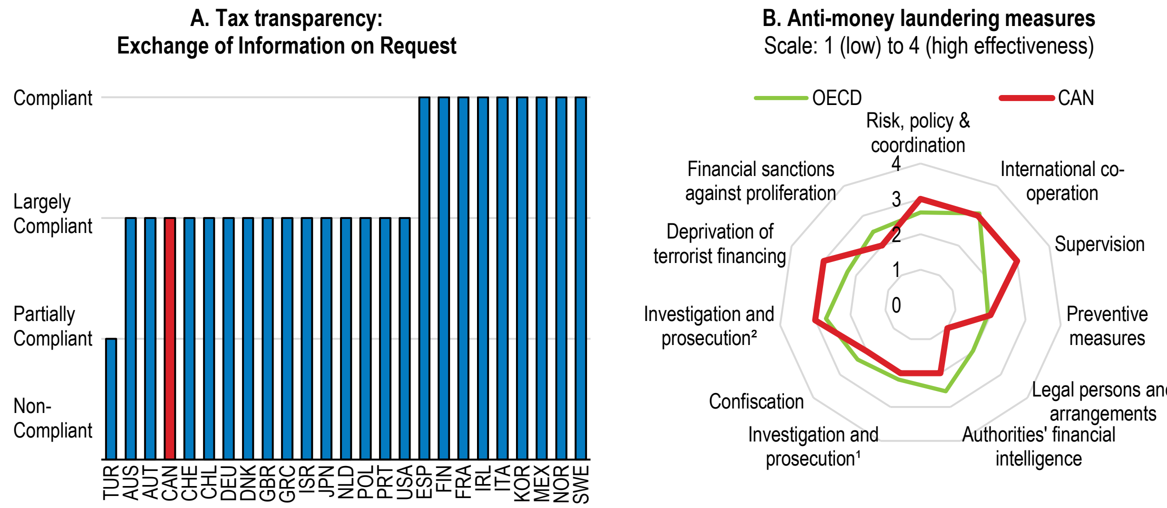
Canada's framework for anti-money laundering and countering terrorist financing (AML/CFT) is adequate according to an IMF assessment (IMF, 2019b), and there have been ongoing improvements. In 2019, preventative measures were strengthened, for instance regarding the reporting of suspicious transactions. Money laundering is among the outstanding issues (Figure 1.28), in particular that involving real-estate transactions. Transparency International (2019) concludes that it is too easy to create opaque ownership structures in Canada's property register systems and that requirements for checks on the buyers of real estate are too light and that prosecutions are too few in number. A tightening of property registration regulation, which is set at the provincial and territorial level, would help. Limits on cash transactions should also be considered.

Figure 1.28. There is still scope to improve the framework to fight economic crimes



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution[1]" refers to money laundering. "Investigation and prosecution[2]" refers to terrorist financing.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

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Table 1.11. Selected past key recommendations on business policy

Recommendations in past *Surveys*	Actions taken since the previous *Survey*
A. Competition	
Internal trade. The Canada Free Trade Agreement should be taken further by prohibiting agricultural supply management regimes, accelerating the reconciliation of remaining regulatory differences and raising penalties for non-compliance.	The ongoing work of the Regulatory Reconciliation and Cooperation Table is eroding regulatory differences (see main text).
Reduce foreign ownership restrictions in air transportation on a reciprocal basis and in telecoms and broadcasting, where cultural objectives could be achieved by other means.	Amendment of the Canada Transportation Act in 2018 increased the maximum percentage of foreign voting interests in Canadian air carriers, subject to restrictions.
Grant the Competition Bureau the power to require provision of relevant information in the context of conducting market studies and advocacy activities. Require federal government agencies to "comply or explain" in response to the Bureau's recommendations.	No action taken.
B. Innovation	
Shift away from tax-subsidies by lowering the small firm tax-credit rate toward the large firm rate in the Scientific Research and Experimental Development (SR&ED) Program. Use the savings from this move to reinstate capital costs in the base for the credit and to scale up direct grants.	The tax credit structure still favours smaller enterprise.
C. Specific sectors	
Media. Consider subsidising Canadian content through general taxation rather than targeted levies on specific content providers.	No action taken.
Rail. Eliminate revenue caps on western grain shipments. Evaluate economic benefits of the expanded inter-switching zone for Prairie provinces' commodity shipments.	No action taken.
Energy. Develop more east-west electricity interconnections. Liberalise the generation and distribution segments in jurisdictions that have not done so yet.	No action taken.

Giving greater profile to well-being in future policy-making

Policy-makers should consider how policy development and implementation can be improved to help Canada achieve a resilient and healthy post-COVID economy and society. Chapter 2 of this *Survey* underscores the potential gains from a more structured policy approach to well-being: specifically, an approach that more explicitly incorporates aspects such as work-life balance, job quality, social capital and trust, and resources for future well-being as well as for distributional considerations. Most OECD countries are now using dashboards of well-being indicators as a guide to identifying and prioritising economic and social policy, and for gauging progress. A handful, notably New Zealand, have gone as far as hard-wiring indicator dashboards into their budget processes, thereby in principle committing all government ministries to basing economic and social policy reforms on the same objective and quantifiable criteria. In such hard-wiring, a key issue is how widely to apply the dashboard; only for policy proposals, or more widely, for instance to all elements in the tax and spending baseline.

In Canada, there is indeed further scope to integrate well-being concerns formally into policymaking. Some issues are already covered in the federal government's Gender Based Analysis Plus (GBA+), a framework for ex-ante assessment of policy impact on gender equality and some other well-being issues. GBA+ assessment is mandatory for many policy documents and in 2018 the federal government introduced the Gender Results Framework as means of ex-post assessment. However, GBA+ is not a fully-fledged well-being framework along the lines developed, for instance, in New Zealand.

Moves are already underway to more fully integrate well-being issues. The federal government has recently been developing a dashboard of quality-of-life indicators with a view to their use in budgeting and other policy development. Other countries have chosen frameworks of widely differing scope and complexity. For instance, the number of indicators ranges from fewer than 10 to well over 100, and the OECD well-being framework has 84 indicators covering 11 dimensions. As Chapter 2 points out, Canada generally has a broad range of statistics for most dimensions of well-being, so there is little practical constraint from this perspective to establishing a dashboard. In addition, Canada's experience with GBA+ and other mechanisms, such as its Poverty Reduction Dashboard, stands it in good stead for the further integration of well-being issues into policymaking.

Reforming health care and welfare support

Health care: COVID-19 has underscored problems in long-term care homes

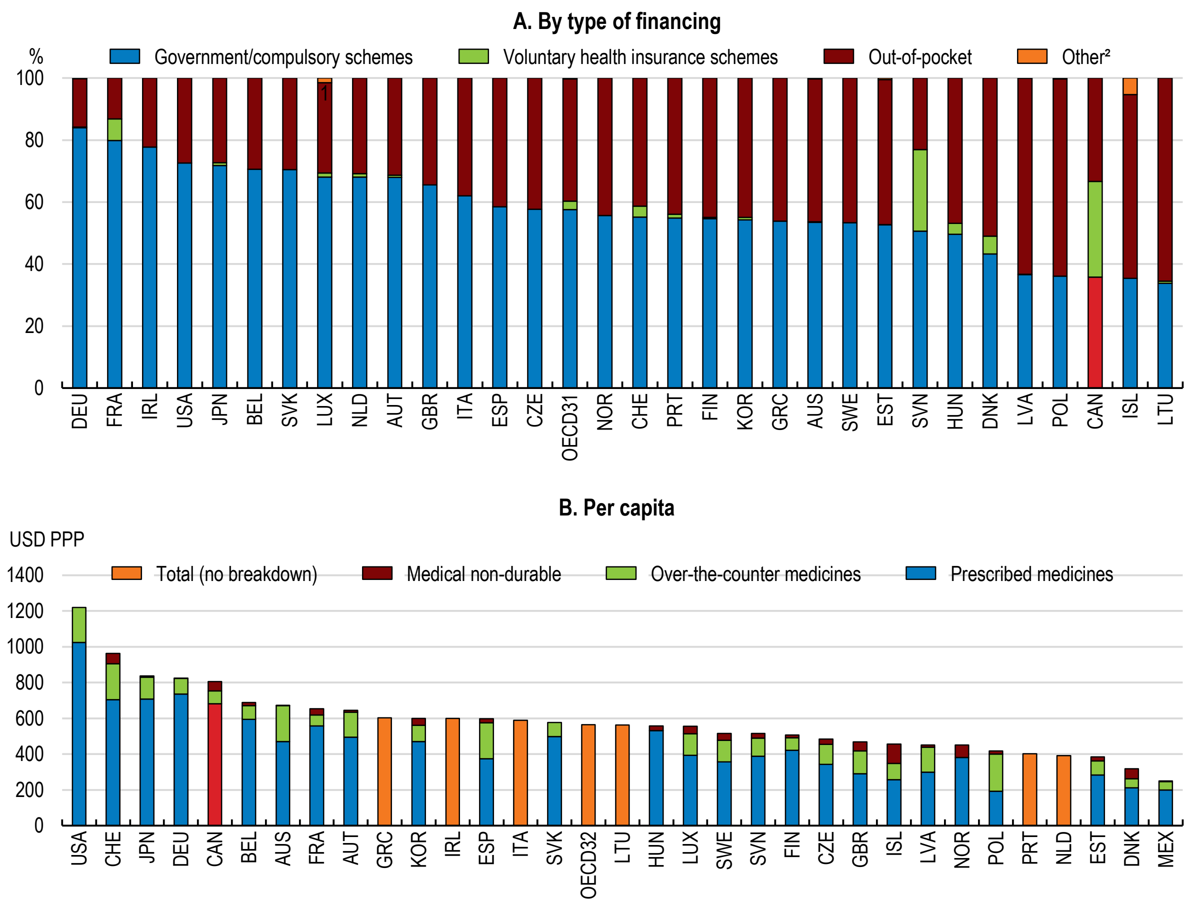
The initial wave of the pandemic saw around 80% of fatalities in long-term care facilities and retirement homes. This drew attention to Canada's heavy reliance on communal long-term care, shortfalls in facilities' pandemic preparedness and instances of low-quality care. More public funding for care at home, better training for care-home employees, tighter quality control of facilities and better data on service quality in the accreditation process should be part of the policy solution (Chapter 2).

The pandemic has also revealed scope to improve public health policy. In Canada, shortfalls in information sharing emerged in particular. The Public Health Agency of Canada does not have strong powers to compel data submissions from provincial, territorial, and private sector partners, limiting its capacity to produce timely national surveillance (Wolfson, 2020).

There is room to improve the scope, efficiency and quality of health-care services. Widening the core package of national public health insurance (Medicare) to include prescription drugs ("Pharmacare") should be a priority (Chapter 2). Canada remains an outlier in having a national public universal health-care scheme that excludes drug coverage. (Figure 1.29). Provinces and territories provide some coverage for drugs, mainly for seniors. Nevertheless, some 20% of the population is estimated not to be covered. The patchwork system also means collective buying power is not fully exploited, though the introduction in 2021 of a regulatory process comparing Canadian patented medicine prices internationally aims to tackle this. Other measures that would improve health-care efficiency and quality (including waiting times) include: more comparison across Canada's multiple health-care systems to identify successful approaches and practices, better patient prioritisation, improved co-ordination between primary-care providers and specialists, greater use of telemedicine and the reallocation of some tasks from physicians to nurses.

Figure 1.29. Public support to pay for medicines is low

Expenditure on retail pharmaceuticals[1], 2017 or nearest year



1. Includes medical non-durables.

2. "Other" includes financing from non-profit-schemes, enterprises and the rest of the world.

Source: *OECD Health at a Glance 2019*, https://doi.org/10.1787/4dd50c09-en.

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Mental health also merits greater attention, given its importance for well-being and more efforts are needed to address substance-related harms. Across OECD countries around 20% of adults are affected by mental illness at any one time and the direct economic cost for Canada has been estimated at close to 3% of GDP (Chapter 2). Furthermore, surveys indicate that mental health is an important driver of life satisfaction. Substance-related harms are a growing problem; in 2017 an estimated 76 000 people died from its effects, and Canada is facing a worsening opioid overdose crisis. Additional funding and policy options could be explored to address the increase in opioid-related harms and deaths, including wider availability of harm reduction and safe supply, improving access to treatment options, reducing reliance on the criminal-justice system and enhancing data and surveillance capacity. Finding ways to include pain management practices, including alternatives to opioids, and ways to support people with substance use disorders as part of physician training plus improved co-ordination between health-care, social and criminal-justice systems would also help.

Addressing wage gaps and improving support for disadvantaged groups

The COVID-19 crisis has brought some shortfalls in income support to the fore. In the initial months of the COVID-19 crisis, support for those losing income was chiefly provided by the Canada Emergency Response Benefit (CERB), a flat rate payment of CAD 500 per week. Introduction of the scheme was in part to address gaps in the coverage of federal Employment Insurance; for instance, as is typically the case for such insurance, the self-employed do not have access. Also, the crisis highlighted a general problem of modest safety-net provisions in many provinces and territories. The expiry of the CERB in October 2020 was accompanied by the introduction of more targeted measures. For instance, new schemes were introduced to cover the self-employed and those not working due to sickness or isolation and the eligibility of Employment Insurance was expanded (Table 1.12). In addition, a welcome commitment has been made to introduce automatic tax filing for simple returns, partly with a view to raising the number of low-income households filing returns and consequently receiving refundable tax credit entitlements.

A key follow-up scheme to CERB, the Canada Recovery Benefit, could benefit from a less steep clawback to avoid damaging work incentives. The Benefit provides a flat rate payment for those who not qualify for Employment Insurance, notably the self-employed (Table 1.12). Unlike CERB, which was fully withdrawn if biweekly earnings exceeded CAD 1 000, the Canada Recovery Benefit allows earnings up to CAD 38 000 annually without loss of benefit. A 50% clawback applies to earnings above this amount. This may be too high. When personal-income tax is taken into consideration the marginal effective tax rates are estimated to reach 75-80% depending on family characteristics (Boadway et al., 2020), which could have a substantial marginal effect on labour force participation.

Permanent change to income support may be required to make social safety nets more reliable and effective for the longer term. One route would be for provinces and territories to upgrade safety net welfare provisions, possibly with financial assistance from federal government. In principle, a guaranteed income scheme offers another solution. However, Chapter 2 concludes that such a scheme is likely to be expensive and may entail significant adverse labour supply effects.

Canada's gender wage gap is still substantial, and shortfalls in access to affordable childcare continue to be a key reason for this. The wage gap in median weekly earnings for full-time workers is almost 5 percentage points above the OECD average. The gap is especially wide for women with school-age children. Access to childcare remains quite expensive, despite government subsidies. Chapter 2 recommends that more provinces should follow Québec in providing greater subsidies, while also toughening quality standards. Policy should focus on support for child care that facilitates and encourages employment by parents. A more gender-equal use of parental leave would also facilitate a shrinkage in gender gaps (in terms of numbers, hours and career perspectives) in the labour market.

Growth in house prices during the pandemic has further added to Canada's problems in housing affordability. Past *Surveys* (Table 1.13) have called for measures to facilitate the supply of affordable housing, and this is echoed in Chapter 2, such as ensuring a competitive construction sector, reduced rent controls, relaxing strict zoning and land use regulations and urban containment measures. The Chapter also draws attention to the issue of homelessness, underscoring that implementation of the National Homelessness Strategy needs to be expedited. Measures detailed in the Fall Economic Statement, including the Rapid Housing Initiative (a programme supporting the construction of low-cost housing), are a welcome sign of policy commitment (Table 1.13).

Canada's Indigenous peoples continue to suffer deep disadvantages, despite substantial policy attention and many programmes providing targeted public support. Indigenous communities are worse off than the rest of Canada's population in many dimensions including: income, employment, security, housing, life expectancy and physical and mental health. Some progress has been made in empowering their governments, for instance by the resolution of more land claims cases and by offering ten-year funding. Also, in recent years federal government policy has pursued a "distinctions based" approach that makes greater efforts to tailor policy to each of the three Indigenous groups, First Nations, Métis and Inuit. Chapter 2 underscores the importance of maintaining a focus on self-determination, improving labour-market outcomes through better education and support for indigenous entrepreneurship, ensuring adequate housing, providing more infrastructure and boosting access to high-speed broadband in remote communities. The Fall Economic Statement indicates a welcome desire to make progress, including commitments for additional support for infrastructure and health and well-being in Indigenous communities.

There is also substantial socio-economic disadvantage among Canada's racialised minorities, which as estimated to account for around 20% of the population. As Chapter 2 points out, some are at a disadvantage from their immigrant status and those that are non-White have an extra source of disadvantage. For example, the poverty rate among non-White Canadians has been estimated to be more than double that of White Canadians.

Table 1.12. Federal-government support for households during the crisis: selected measures

Measure	Selected detail	Scale of support (1)
Canada Emergency Response Benefit (CERB) *April-October 2020*	Flat-rate payment of CAD 500 per week for those who lost income due to COVID-19. Initially the benefit was made available for 16 weeks, subsequent extensions raised it to 28 weeks.	CAD 82 billion paid between April and October Payouts were made to approximately 8.9 million individuals
Canada Recovery Benefit (CRB) *Commenced October 2020 (12 months)*	Available to the self-employed or those otherwise not eligible for Employment Insurance (EI) who are unable to return to work or had their income reduced by at least 50% due to COVID-19. CAD 500 per week payout for up to 26 weeks, a 50% clawback commences after annual earnings exceed CAD 38 000.	CAD 9.8 billion, for 2020-21 and 2021-22
Other benefits for specific employee groups *Announced August 2020*	Canada Recovery Sickness Benefit (those not working through illness or self-isolation). Canada Recovery Caregiving Benefit (those unable to work due to caring responsibilities).	CAD 5.0 billion for the Sickness Benefit CAD 9.4 billion for the Caregiving Benefits
Additional funding for skills training and employment supports *Announced September 2020*	Additional funding for training for in-demand skills and support for reintegration into employment via the Workforce Development Agreements (WDAs) with provinces and territories. New flexibilities were also introduced in the WDAs and Labour Market Development Agreements so that workers can have access to additional services, such as mental health support.	CAD 1.5 billion in 2020-21
Temporary expansion of Employment Insurance (EI)	Steps included lowering of eligibility criteria, a minimum weekly benefit amount and a minimum coverage of 26 weeks benefit in instance of job loss.	CAD 9.5 billion
Other program expansions	Enhanced GST Credit, one-off additional credit payment targeting low-income families (April 2020). A one-time increase in Canada Child Benefit (announced May 2020).	CAD 5.5 billion CAD 1.9 billion
Additional support for Indigenous peoples	A range of additional supports have been provided, including supplementary funding to the On-Reserve Income Assistance Program and an additional support via the Indigenous Community Support Funds delivered by Indigenous Services Canada to support Indigenous community-based solutions to prevent, prepare and respond to the spread of COVID-19.	CAD 0.27 billion via the On-Reserve Income Assistance Program CAD 0.69 billion via the Indigenous Community Support Funds.
Tax deferrals *Announced March 2020, ended September 30*	Deferral of individual income tax; for individual return filing due date deferred to 1 June (normally 30 April), income tax payments deferred to 1 October.	CAD 25 billion in liquidity

1 Cost estimates are principally from the federal government's *Fall Economic Statement*, 2020.

Table 1.13. Selected past key recommendations on social, labour and welfare policy

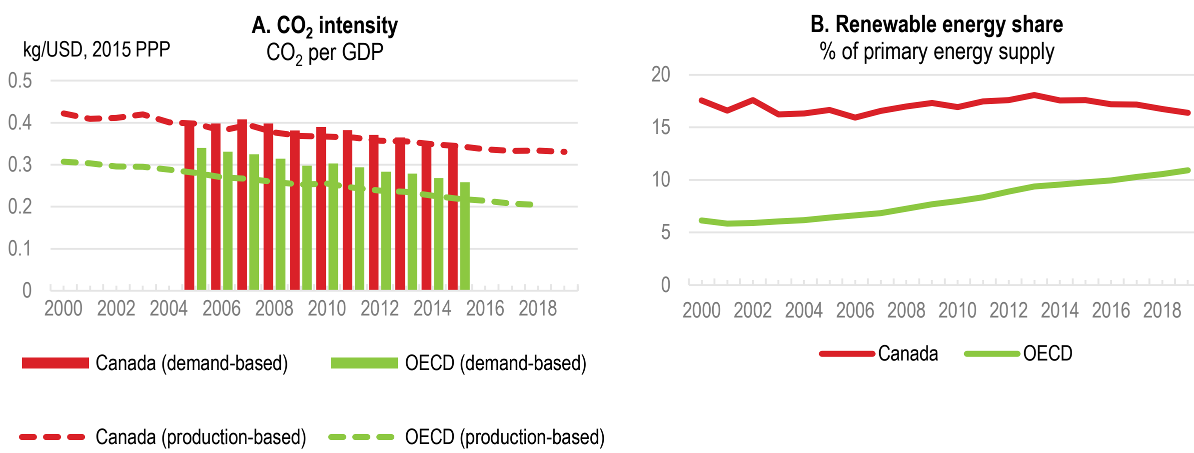
Recommendations in past *Surveys*	Actions taken since the previous *Survey*
A. Child care and early education	
Increase childcare funding with a goal of making affordable childcare available to all children aged three and under. Extend kindergarten so that all four year-old children have access to affordable pre-school education.	The federal government has been working with each jurisdiction on bilateral agreements providing CAD 400 million in 2020–21 for early learning and child care. Federal government is also making CAD 625 million available for childcare as part of investment to help provinces and territories restart their economies. This year, the federal government will invest approximately CAD 1.2 billion in total in early learning and child care and has committed to future investments.
Support take-up of parental leave by fathers through information provision and, if necessary, higher payment rates.	No major initiative.
B. Tertiary education and innovation	
Increase differentiation between institutions that engage in research and those that focus primarily on teaching.	No action taken.
Make higher education more flexible by strengthening credit transfer arrangements between tertiary education institutions and provinces.	No action taken.
C. Employment	
Consolidate career guidance and education information into a single national portal to provide a comprehensive one-stop shop.	No major initiative.
Index the eligibility age for public pensions to life expectancy, supported by encouraging flexibility in working hours and skill development.	No action taken. Workers can access Canada Pension Plan retirement benefits at any time between the ages of 60 and 70, with corresponding actuarial adjustments, however the age range is not indexed to life expectancy.
D. Immigrant integration	
Immigrant selection: -Give greater priority to those with skilled Canadian work experience. - Channel more Provincial Nominee Program candidates through the federal government's Express Entry system, which selects candidates with high levels of human capital. - Improve provinces' foreign qualifications recognition.	No major initiative. The Fall Economic Statement 2020 announced increased funding for the Foreign Credential Recognition Program.
Settlement facilitation: - Evaluate the utilisation of settlement services. - Expand bridge programmes to help bring credentials up to the required level. - Cut back on wait times for proven language programmes, such as occupation-specific training.	No major initiative.
E. Affordable housing	
Expand affordable municipal rental housing supply and encourage densification by adjusting zoning regulations.	Recent initiatives include: - the Rapid Housing Initiative (announced September 2020), a federal-government scheme that will provide CAD 1 billion for funding the construction of modular housing, land acquisition and the conversion of existing buildings into affordable housing. - More funds for the Rental Construction Financing Initiative and expansion of the First-Time Home Buyer Incentive.
Continue efforts to legalise and encourage secondary suites and laneway housing in single-family residential zones. Remove property-tax-rate differentials that disadvantage multi-unit rental properties relative to owner-occupied housing.	No major initiative known. This is under municipal jurisdictions, of which there are many.
In areas of rapid house price appreciation, strengthen incentives for private-sector development of rental housing through tools such as development charge waivers, reduced parking requirements and expedited permit processing.	Edmonton became the first major Canadian city to remove minimum parking requirements (operational as of July 2020).

Building environmental sustainability

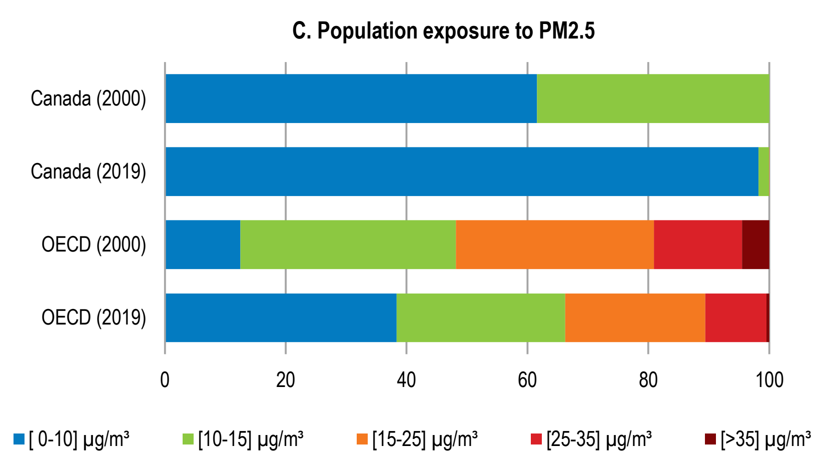
Canada's score on environmental indicators generally ranks above many countries', but there is room for improvement. Local air pollution is relatively low (Figure 1.30), for instance, but climate change is a central issue. Also, there are challenges in wastewater treatment, and Canada's expansive and diverse geography means there are many concerns in biodiversity.

Reduced economic activity during the spring 2020 confinement raised awareness of urban air pollution and congestion. Indeed, as underscored in Chapter 2, some aspects of the environment are important for immediate well-being. Those living in urban areas report lower well-being due to water, air and noise pollution, according to some research. However, immediate subjective well-being is not the only issue in the context of the environment. Environmental indicators are also included in well-being dashboards on the basis of sustainability, notably climate change. Industrial pollution may also not factor immediately into subjective well-being. In Canada, for instance, the clean-up of waste produced by the oil and gas sector is a major challenge.

Figure 1.30. Selected green growth indicators



Note: Included are CO_2 emissions from combustion of coal, oil, natural gas and other fuels. Gross Domestic Product (GDP) is expressed at constant 2010 USD using PPP.



Source: OECD Environment Statistics (database), OECD National Accounts (database); and IEA (2020), IEA World Energy Statistics and Balances (database).

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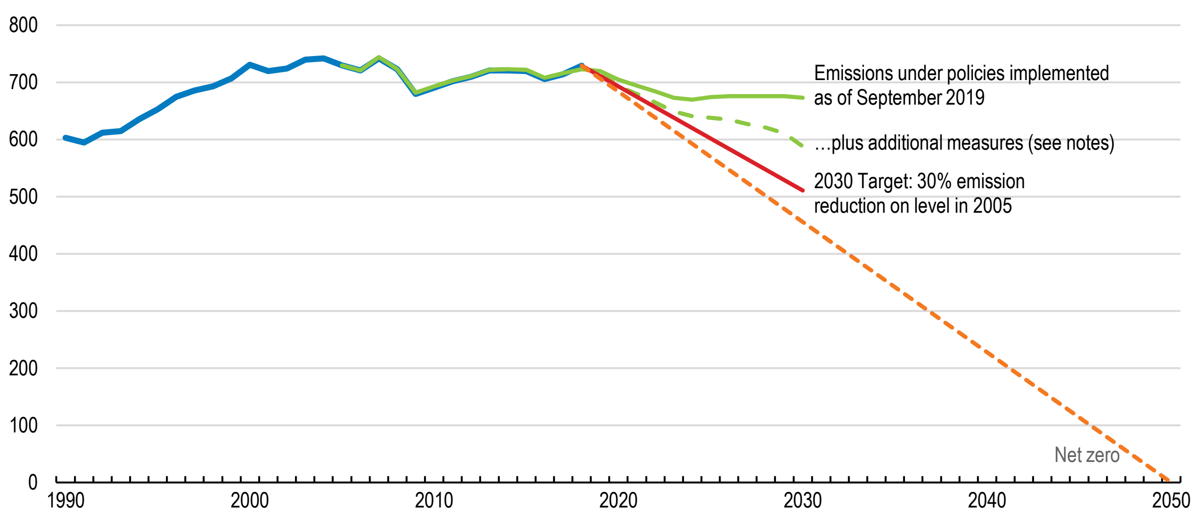
Ensuring greenhouse-gas emissions reduction is on track

As in many countries, greenhouse-gas (GHG) emissions reduction needs to accelerate if targets are to be achieved. Canada's per capita greenhouse gas emissions are large, and decarbonisation of the economy is needed to achieve official climate-change goals. GHG emissions relative to economic activity has been declining (Figure 1.30), and substantial hydroelectric and nuclear electricity generation means Canada has a greater share of renewable energy production than many countries. However, a substantive trend reduction in the absolute tonnage of emissions is yet to get underway (Figure 1.31). Estimates from the federal government's Biennial Reports on Climate Change show that even with the full implementation of measures under development to date, emissions will exceed the 2030 target by a sizeable margin. The pace of emissions reduction required to achieve the government's 2050 net zero target is even greater. A strengthened climate plan, *A Healthy Environment and a Healthy Economy*, announced by the federal government in December 2020, aims to expedite emission reduction.

Figure 1.31. Greenhouse emissions have yet to begin a substantive downward path

Total greenhouse gas emissions, megatons of carbon dioxide equivalent



Note: The projections of emissions under policies are from the Fourth Biennial Report on GHG Emissions (Environment and Climate Change Canada, 2020). "Additional measures" comprises: *i*) policies and measures that are under development but have not yet been fully implemented; *ii*) credits through the Western Climate Initiative, and *iii*) the contribution from the land use, land use change and forestry (LULUCF) sector.
Source: Environment and Climate Change Canada.

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Arrangements to contain GHG emissions have varied across provinces and over time but may not be ambitious enough to reach the 2030 federal target. In particular Ontario, which generates nearly one quarter of emission, has moved away from a cap-and-trade approach (Table 1.14). A change in government in 2018 was followed by termination of the province's cap-and-trade system and withdrawal from the combined market under the Western Climate Initiative (leaving Québec and California as the only full members). An alternative approach is being introduced, modelled on an Australian policy (see OECD, 2018b for discussion), in which the Ontario government sponsors emissions-reduction projects by business via an auction process. This type of mechanism can, in principle, achieve the same emissions-reduction outcomes as a carbon tax or a cap-and-trade system. However, there are drawbacks. Aside from the fiscal expense, the focus on specific emissions-reduction projects, rather than total emissions, means the approach does not guarantee the achievement of emissions-reduction targets.

Table 1.14. State of play in greenhouse-gas reduction policy (as of December 2020)

Federal backstop and situation in the five largest emitting provinces (covering around 90% of total emissions).

Jurisdiction	Key elements
Federal backstop: Pan-Canadian Framework on Clean Growth and Climate Change (PCF) (launched 2016)	- Federal government policy centres on a federal fuel charge and backstop carbon pricing system. The backstop applies, in whole or in part, in six provinces and two territories (as of December 2020). The remaining jurisdictions operate alternative carbon pricing systems. Under the PCF these must be deemed as equivalent to the benchmark system by the federal authorities (who have the right to impose the backstop system if equivalency is not met). - The minimum price of carbon per tonne in the benchmark system is being increased by CAD 10 each year until 2022 when it will reach CAD 50. - The PCF also includes targeted federal measures that *inter alia* aim to: accelerate the phase-out of coal-fired electricity; reduce methane emissions from the oil and gas sector; support community climate-change adaptation; and support clean technology solutions.
Alberta 38% of total emissions	- The federal backstop system applies in part under Alberta's Climate Leadership Plan. The federal fuel charge applies but is accompanied by a provincial emissions-trading system (Technology Innovation and Emissions Reduction, approved by the federal authorities in December 2019). Under the scheme, businesses can reduce emissions, or purchase emission allocations or offsets from others. - The Plan commits to limit oil-sands emissions to 100 million tonnes through adjustment of the free-allocations benchmarks for the oil-sands sector under Alberta's carbon-pricing mechanism.
Ontario 23% emissions	Currently the federal backstop system applies in full following the unwinding of Ontario's cap-and-trade mechanism in 2018. However, as described in the main text, the Ontario government intends to bring in an equivalent system in which government sponsors emission-reduction projects by business via an auction process.
Québec 11% emissions	Operates a cap-and-trade system, which since 2014 has been fully integrated with California's (offsets and allowances can be freely traded).
Saskatchewan 10% emissions	The federal backstop applies in part in this province. The federal fuel charge applies to fossil fuels and the federal output-based pricing system applies to electricity generation and natural gas transmission. A provincial output-based performance standards system (introduced in January 2019) also applies to large emitters.
British Columbia 9% emissions	A carbon-tax system has been in place since 2008. Recent steps include a move to greater transparency in the *Climate Change Accountability Act*.

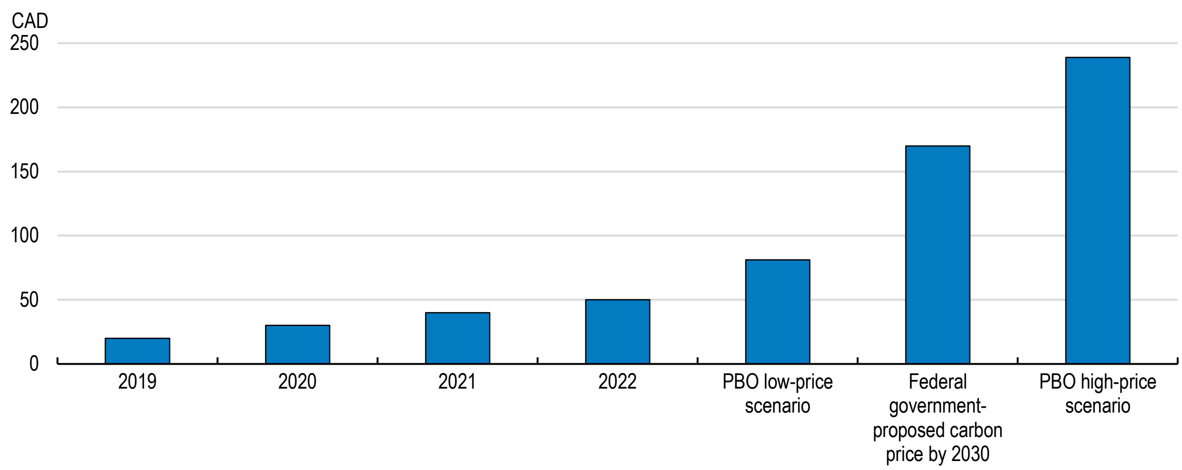
Note: Emissions data are calculated from Government of Canada emissions data for 2018.
Source: OECD Secretariat

Increases in the Pan-Canadian Framework's carbon price beyond 2022 should be legislated. The carbon pricing system provides a concrete means for raising the bar on emissions reduction through an economically efficient mechanism (i.e. with the least overall cost to households and businesses). At present, legislated annual increases in the price are due to end in 2022 when it reaches CAD 50 per tonne. Further price hikes are needed if the mechanism is to do the necessary heavy lifting towards climate-change goals. The strengthened climate plan, *A Healthy Environment and a Healthy Economy*, announced in 2020, proposes further annual increases of CAD 15 per tonne from 2023 until 2030, bringing the price per tonne to CAD 170 in 2030. This is roughly at the mid-point of the range of prices (CAD 81 to CAD 239) recently estimated by the Parliamentary Budget Office (PBO) to be required to meet Canada's Paris commitments (Parliamentary Budget Officer, 2020b) (Figure 1.32). The difference between the low and high estimates by the PBO reflects different scenarios on the extent to which energy-intensive and trade-exposed industrial emitters are exposed to the additional carbon levy under the output-based carbon-pricing mechanism. Whether the government's proposal for price increases is successful in reducing emissions will similarly depend on the provisions for industrial emitters and other critical details.

Maintaining a central role for the Pan-Canadian Framework allows for the phasing out of inefficient emissions-reduction mechanisms, such as the mandatory biofuel content for vehicle fuels, which previous *Surveys* have criticised (see Table 1.15). The Pan-Canadian Framework also helps bolster Canada's comparatively low environmental taxation.

There is welcome progress on measures that complement the central carbon-pricing mechanism. As outlined in the discussion on fiscal policy there are new initiatives for retrofitting buildings. The Fall Economic Statement outlines plans to accelerate investment in recharging and refuelling infrastructure for zero-emissions vehicles and nature-based climate solutions (including tree planting). It also signals government intent to develop border carbon adjustments with other economies.

Figure 1.32. The federal government has proposed increasing the carbon price to CAD 170 by 2030



Note: The PBO values are calculations by the Parliamentary Budget Officer (2020) of the carbon levy needed to reach the Paris target with energy-intensive and trade-exposed industrial emitters ("large emitters") being subject to the output-based pricing system.

- The low value assumes large emitters face evolving emission caps over time and the same carbon price as that applied to the rest of the economy
- The high value assumes large emitters face fixed emission caps and pay CAD 50 per tonne (the carbon price's scheduled value for 2022), i.e. they are shielded from additional carbon pricing.

The federal government proposal increases the carbon price from the price of CAD 50 in 2022 by CAD 15 per year to 2030 (thereby reaching CAD 170). It was proposed as part of a package of environmental measures in December 2020, A Healthy Environment and a Healthy Economy (press release, 11, December 2020).
Source: OECD and Parliamentary Budget Officer (2020b).

StatLink https://stat.link/hq83xi

Canada's substantial greenhouse gas emissions from the oil and gas extraction industry need to be more forcefully addressed. This sector account for about one quarter of total emissions, with extraction from oil-sands being a significant component. Alberta set an emissions cap for the oil-sands sector in 2016 (Table 1.14), but this is untested as production has not yet come close to the limit. Nevertheless, the cap is probably spurring producers' efforts to reduce the emissions generated by processing, not least because upcoming projects imply emissions significantly above it without further reduction in emissions intensity (for estimates, see Israel, 2020). Ensuring no loopholes and good enforcement of the cap will help make the mechanism effective. In a welcome move, the federal government's COVID-19 response plan includes the establishment of CAD 750 million fund, which will promote the reduction of oil and gas emissions.

The federal government's green investment commitment in the wake of COVID-19 crisis has included a welcome programme to tackle the backlog of waste-clean up in the oil and gas sector. Cleaning up the waste produced is estimated to cost between CAD 58-260 billion (2.5-11% of national GDP) in Alberta alone (Alberta Liability Disclosure Project, 2020). In April 2020 the federal government announced a financing package comprising CAD 1.7 billion in grants to subsidise the costs for rehabilitating inactive and abandoned ("orphan") wells. A large backlog of waste clean-up projects has accumulated, as Alberta's regulator in particular has been slow in enforcing regulations that require the producers to pay for damages and/or undertake clean up (Dachis et al., 2017). Indeed, in many cases there is no possibility of compensation because the producer is no longer in business.

Table 1.15. Selected past key recommendations on energy and environment policy

Recommendations in past *Surveys*	Actions taken since the previous *Survey*
Make greater use of road-use charging and parking fees to encourage switch to public transit.	Road-use charging remains rare.
Review the efficiency of promoting biofuels. Rather than imposing regulatory mandates, offer increased research subsidies or prizes for technological breakthroughs if a carbon tax or permit trading is infeasible in agriculture.	No action taken.
Provide clear guidelines for resource companies on how to engage with affected Indigenous groups so that projects bring long-term benefits to these communities.	The 2019 Mandate letters to federal ministers directs the development of a new national benefits-sharing framework for major resource projects on Indigenous peoples' territory.

Main findings and recommendations

MAIN FINDINGS	RECOMMENDATIONS (key recommendations in bold)
Ensuring a solid recovery in output and jobs	
Economic recovery from the pandemic looks set to pick up again following the second wave of the pandemic, but the outlook remains surrounded by considerable risks.	**- Continue fiscal support until the economic recovery is well underway. Adjust crisis-related support as the recovery progresses to ensure assistance focuses on viable jobs and companies.** - Make retrofitting of houses and buildings a central feature of the green investment strategy given the potential for rapid roll-out and job creation.
Underlying consumer-price inflation outcomes will probably pick up only slowly.	**- Accommodative monetary policy should be maintained to help economic recovery.**
Longstanding concerns about high household and corporate debt risk are becoming more acute under the crisis due to the prolonged low-inflation environment.	**- Maintain a close watch on housing and corporate debt and if needs be tighten macro-prudential rules.**
It is important to ensure that large fiscal deficits and public debt accumulation do not persist once the economy is on a solid path to recovery. Although the pension system is mostly funded, ageing will put pressure on public finance over the long term.	**- Ensure a credible medium-term plan for controlling and stabilising federal government debt.** **- After the pandemic subsides, debt stabilisation and the accommodation of additional spending commitments should be achieved through efficiency gains in public spending, where feasible. Should substantial additional revenues be required, consider an increase in the rate of the federal goods and services tax.** - When the economy is on a solid path to recovery, review and reform tax expenditures, including the tax support for small and medium sized enterprises. Step up public spending reviews that assess resource allocation and cost efficiency.
The business sector remains fragile in the wake of the crisis. Government schemes offering credit on favourable terms are welcome but need complementing with measures that help businesses in financial difficulties. Advancing on some of the longstanding structural issues in Canada's business environment would help recovery.	**- Augment the insolvency system with an early-warning mechanism and a pre-insolvency regime for businesses in difficulty.** **- Expedite the removal of non-tariff barriers to internal trade.** - More broadly, address the structural weaknesses in product-market regulation including in the areas of state-owned enterprise governance, public procurement, licence and permit requirements and barriers to trade and investment. **- Reduce the cost and improve the quality of telecommunications services, including broadband to rural and remote communities.** - Continue to widen market access for mobile virtual network operators. **- Tackle money laundering via the property market by tightening property registration rules to prevent the creation of opaque business structures.** - Consider limits on cash transactions to shut down money laundering.
Building a more sustainable environment	
Without stronger incentive for economically efficient greenhouse gas emissions cuts, Canada will miss its official climate change goals.	**- Follow through with the recent plan to accelerate the increases in carbon pricing and taxation through 2030 while protecting the poorest from the impact on their living standards.** **- Make greater use of taxation and charges to tackle environmental externalities, including from vehicle fuels, waste water treatment and solid waste disposal.** - Reduce the tax gap between diesel and gasoline and expand road-use pricing. - Continue tackling the backlog of waste clean-up projects in the oil and gas sector.

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2 Improving the well-being of Canadians

For many years now, a growing number of economists, policy makers, and civil society groups have pointed to the limits of using only GDP as the primary measure of national economic progress. Accordingly, a progressively greater focus has been placed on the concept of well-being and its optimal measurement, as well as its appropriate use in budgeting and other aspects of policymaking. Canada has had a long history of measuring subjective well-being and a good pre-COVID 19 record on many of its determinants but has not yet decided on an official government-wide framework. This chapter delves into the topic and then looks at some of its crucial aspects, in particular: inequality and poverty including food insecurity; housing affordability and homelessness; physical and mental health and long-term care, with a special focus on Pharmacare; and environmental conditions. It includes a special section on the problems facing Indigenous peoples and those belonging to racialised populations.

The concept of well-being has become one of increasing interest, as public awareness has spread of the limits of relying on GDP as the only measure of progress. The current federal government has named an Associate Minister of Finance as Minister of Middle Class Prosperity with a mandate to better incorporate quality-of-life measurements into government decision-making and budgeting (beyond the existing Gender Based Analysis Plus), drawing on the experience of other countries. Work is underway in that regard. In the literature on well-being those quality-of-life measurements may be based on either a dashboard of indicators or a single measure of subjective well-being or its variants, life satisfaction and happiness. This chapter will first run through the concept of well-being, its existing proxies and determinants, and then discuss its potential use in the policymaking process. It will then discuss from a well-being perspective various crucial topics in the current Canadian policymaking landscape, which have been brought into sharper focus by the COVID-19 pandemic. That will comprise: inequality and poverty including food insecurity; housing affordability and homelessness; health and long-term care with a special focus on Pharmacare; and environmental conditions. It will finish with a special section on the problems facing Indigenous peoples and racialised populations (the generally accepted term for visible minorities in Canada). Pensions are not considered, because the system is judged to work satisfactorily.

Statistics Canada has a comparatively long history of gathering national subjective well-being data, though, unlike Australia, Germany and the United Kingdom, it lacks a widely used panel data set over time. It also gathers relevant dashboard-type well-being data by province and territory, but infrequently and with long lags, as in other countries. Subjective well-being data are also available from the Canadian Index of Well-Being at the University of Waterloo and the Gallup Organisation. Information on Canada is also covered in the dashboard approach taken by the OECD in its *How's Life?* report and the associated Better Life Index, the Social Progress Imperative's index, and the United Nations in its Human Development Index and Sustainable Development Goals.

Canada ranked relatively highly in all these measures in their latest manifestations, all of which date from prior to the COVID-19 pandemic (Table 2.1). But its rankings have been harmed by deterioration in the work-life balance/leisure time component of the dashboard approaches as well as some environmental outcomes. The OECD's *How's Life?* measure (Figure 2.1) shows strong well-being scores on many fronts but some weaknesses in current well-being, resources for the future and persistently inferior First Nations outcomes as well as consistent trend deterioration for household debt and housing affordability (in part because of the Great Recession), threatened species, students' science skills and aggregate social connections. In addition, Canadian poll respondents are less frequently self-identifying over time as middle class and more as working class or poor as well as fearing that their offspring will be poorer than they are. Finally, evidence suggests that the COVID-19 pandemic is exacerbating a number of existing well-being problems. For example, the latest data shows that the lives of Canada's racialised populations have been harmed to a greater extent than those of the white majority (see below), that neighbourhoods where there are greater numbers of racialised people have suffered COVID-19 mortality rates about double those in other localities (Subedi et al., 2020) and that Indigenous peoples have had less of a recovery in employment outcomes since the spring plunge than others' (Bleakney et al., 2020). These outcomes link to the social determinants of health, which shape the conditions in which Canadians live, work and age.

Table 2.1. How Canada fares in some country well-being rankings

Ranking name and edition	Overall rank	Number of dimensions/indicators	Weaknesses	Ranking
Social Progress Index 2020	9/163[1]	12/50	GHG emissions per capita	180[1]
			Mobile phone subscriptions	136
			Biome protection	110
			Homicides	62
Human Development Index 2019	13/189	4	Expected years of schooling	32
World Happiness Report 2020	11/153	6	Negative affect (emotional distress)	54
Environmental Performance Index 2020	20/180	11/32	GHGs per capita	168
			Ecosystem services	110
			Species habitat	101
			Nitrous oxide growth rate	92
			Protected areas	91
			Fisheries	89
OECD How's Life? 2020[2]	NA/37	11+4/84	Greenhouse gases per capita	36
			Gender wage gap	32
			Material footprint per capita	29
			Housing affordability	26
			Gender gap in feeling safe	21
			Time off	18
			Trend in Red List Index of Threatened Species	13

1. There were 163 countries for which data for the overall Index were available, but more than that for individual indicators.
2. The OECD measure has no official ranking, since any set of weights on the individual indicators would be arbitrary.
Source: OECD.

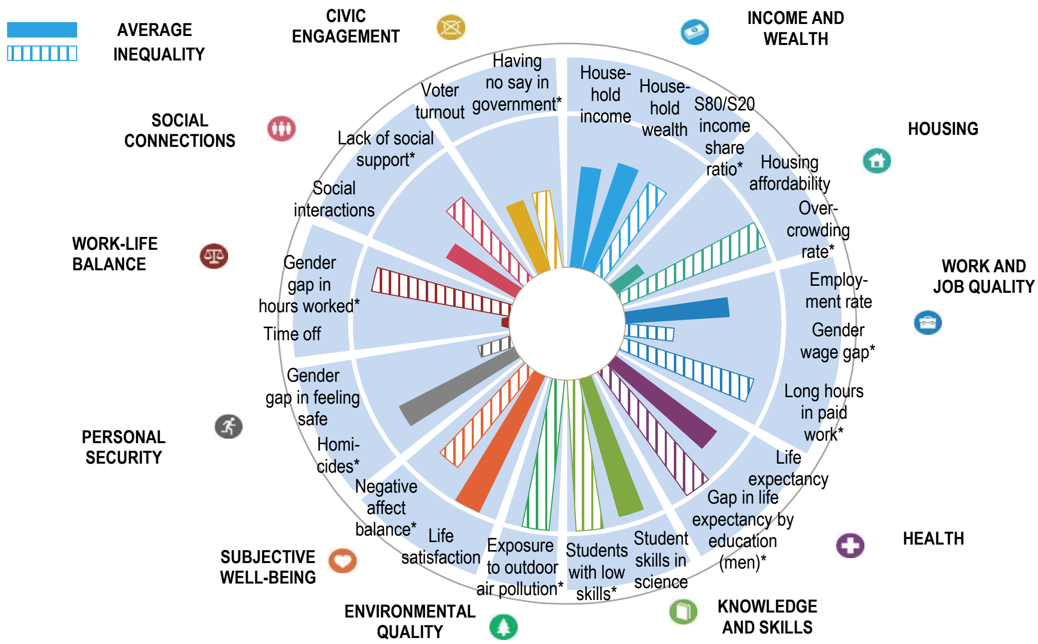
How do we measure well-being, and what do we know about it?

The concept of well-being

Well-being has been the subject of philosophical discourse since Aristotle, Bentham and Mill. Its interest to modern-day economists increased following the observation that developed countries were growing steadily richer, but their citizens were not becoming any happier -- the so-called Easterlin (1974) paradox. Researchers then focused on what factors other than income drive individual well-being. It is now widely accepted that well-being can be measured by a dashboard of objective indicators or through subjective measures derived from responses to surveys using one of several kinds of questions (see below), but most commonly the Cantril ladder with responses from 0 to 10.

Figure 2.1. Strong well-being scores on many fronts going into the crisis

2018 or latest available



Note: This chart shows Canada's relative strengths and weaknesses in well-being when compared with other OECD countries. For both positive and negative indicators (such as homicides, marked with an "*"), longer bars always indicate better outcomes, whereas shorter bars always indicate worse outcomes. Maximum well-being among countries is achieved when the bar reaches the inner circle. Inequalities (gaps between top and bottom, differences between groups, people falling under a deprivation threshold) are shaded with stripes.
Source: OECD (2020), *How's Life? 2020: Measuring Well-being (database),* September.

The known drivers of individual-level subjective well-being

The drivers of individual subjective well-being have not been thoroughly investigated using Canadian data, even if some Canadian researchers are at the forefront of research in the field of well-being. However, in the United Kingdom (which could be fairly similar), a recent effort points to the following factors with their shares of variance of life satisfaction explained: mental health 46%, physical health 15%, partnered 15% (but thought especially likely to be reverse causality, as happier people are more likely to partner), the logarithm of income 10%, not being unemployed 8%, an absence of criminality 5% and educational attainment 1% (Frijters et al., 2020), though much of the education effect is no doubt mediated by the other factors, notably income. Once included, job satisfaction takes about a 25% share of explained variation, mainly at the expense of mental health (Allas et al., 2020). Other research has shown the importance of social relationships and social capital (e.g. trust in others; see below), U-shaped age effects, ethnicity/discrimination effects, as well as roles for homeownership, disability status and immigration.

Research has also looked at well-being for different demographic groups, such as children. While the OECD maintains a Child Well-Being Data Portal, the Canadian country fact sheet (OECD, 2017) has not been updated since 2017. The Public Health Agency of Canada is now developing a Positive Mental Health Surveillance Indicator Framework for children. Currently available information paints a somewhat worrying picture of child well-being in Canada, particularly for Indigenous children who suffer from a greater burden of ill health (Greenwood and de Leeuw, 2012), a poverty rate more than five times as great as among non-Indigenous children (according to the 2011 National Household Survey), twice as much infant mortality (UNICEF, 2019) and various other disadvantages, such as suicidal thoughts and completions and much higher rates of being in foster care.

UNICEF Canada has joined forces with the Canadian Index of Wellbeing to produce 125 indicators of Canadian child well-being across nine dimensions. They also review 38 indicators for the Sustainable Development Goals that pertain to children and youth and measure the distance to target. The median shortfall for Canada is around 15%, but the largest gaps (over 50%) are for breastfeeding and experience of discrimination. Overall, considering children's mental well-being, physical health and academic and social skills, UNICEF Innocenti (2020) ranks Canada 30th out of 38 advanced countries, although, separately, grade 6-10 students reported mean life satisfaction of 7.3 out of 10 in 2019, a reputable outcome. As regards child inequality Canada places 17th out of 29. Homicide rates and overall mortality rates are comparatively elevated (UNICEF, 2019; Social Progress Imperative, 2020), as is the prevalence of mental disorders for the under-20s. Some of the most worrisome mostly subjective indicators (which may not be comparable internationally because of different starting points and expectations) is given in Table 2.2. In addition to the immediate harm to children's well-being, the concern is also that poor well-being in childhood could be replicated in similar outcomes in adulthood (Clark et al., 2018).

Table 2.2. Selected indicators of childhood and youth well-being, %

Share of 11-15 year-olds rating their life satisfaction as high	55
Share who feel sad or hopeless for long periods of time	27
Share of girls who feel sad or hopeless for long periods of time	35
Share who go to bed or school hungry at least sometimes	23
Share of 11-15 year-olds who go to school tired	60
Share of 5-11 year-olds who get less than 1.5 hours daily to play	79
Share who feel positive about school	47
Share who get good support from teachers	43
Share who have experienced violence at home before age 15	25
Share of 11-15 year-olds who have feelings of mental distress weekly	34
Share of 12-17 year-olds who have mood or anxiety disorders	11
Share who have experienced discrimination or unfair treatment at home, in school or in the community	35
Share of 5-17 year-olds who are obese	11

Source: UNICEF Canada (2019), *Where Does Canada Stand? The Canadian Index of Child and Youth Well-being: 2019 Baseline Report.*

The determinants of country and neighbourhood well-being

Using data from the Gallup World Poll, the literature on the determinants of subjective wellbeing shows that about three-quarters of its variation across countries and over time can be explained by per capita GDP, healthy life expectancy, having someone to count on in times of trouble, freedom to make life choices, generosity and a trusting and supportive environment (proxied by an absence of business and government corruption) (Helliwell, 2019). Other factors most often found to play a significant role in cross-country regressions are: low unemployment, environmental factors (especially climate, access to green space and low exposure to air and noise pollution – see below) and income inequality (see below). Less frequently, governance factors are also studied (Helliwell et al., 2018), such as public-service delivery quality, participation in public life, social safety net completeness and tax progressivity.

Helliwell et al. (2019) have analysed youth and adult well-being at the neighbourhood level in Canada. They found that people in rural areas are generally happier thanks to a greater sense of community belonging, lower housing costs, a longer time since they moved into their current residence, greater safety, less inequality and shorter commuting times, offset in part by lower average incomes. Of course, this does not deny the fact that those in the most remote/Northern communities face a number of important technological, health and cultural challenges. Neighbourhoods in Québec were found to be especially happy, continuing a remarkable uptrend since 1985 first pointed out by Barrington-Leigh (2013).

The crucial role of social factors

The strong association of well-being with social factors has been emphasised by Helliwell (2019). These factors include: generosity, altruism and volunteering (which have a robust relationship with good health); personal social connections and friends (Helliwell and Huang, 2013) and knowing one's neighbours (Happiness Research Institute and Leaps by Bayer, 2020) and social trust (Helliwell et al., 2020b). Such research results lie behind the recommendation for governments to provide emotional skills teaching and relationship coaching for high-risk groups, as, for example, the UK Healthy Minds curriculum (Frijters, 2020). The OECD's Better Life Index includes a component for the quality of one's support network for which Canada scores above the OECD average but below the leading countries. Declining social interaction and support in Canada since 2010 has been noted by OECD (2020f).

Interestingly, contrary to other dimensions of well-being, trust in institutions increased sharply in a variety of countries at the outset of the COVID-19 pandemic, but especially in Canada, led by a surge in trust in government as well as in other institutions (Edelman Trust Barometer, 2020). Helliwell et al. (2020a) posit that trust is a conditioning factor in terms of how readily people will follow government pandemic advice and restrictions. High social trust is one reason why the Nordic countries perform well on well-being rankings (Helliwell et al., 2020b, Chapter 7). (Unfortunately, the OECD's Trustlab initiative, which is looking at the determinants of trust and the levels of trust by institution across six countries, excludes data for Canada.) Besides direct benefits, a better social environment lowers the cost of adversity and enhances resilience (op.cit., Chapter 2). Other social factors influencing well-being include access to arts, culture and sports (Lemyre et al., 2018).

The impact of social justice and inclusiveness considerations on average subjective well-being and on optimal policy has also been demonstrated. Inequality of well-being seems to be more powerful than income inequality in various contexts, because it captures and people care about inequality in other dimensions, such as legal rights, education, health, housing and economic opportunities (Goff et al., 2018). Indeed, the effect of inequality of subjective well-being on its average level is large enough to fully offset the 35% difference in per capita income between, say, the United States and New Zealand in well-being terms. In the Canadian context this points to the importance of various factors such as local governance, access to social programmes and availability of modern infrastructure in determining average subjective well-being in areas with depressed incomes such as the Maritime Provinces.

Using well-being in the policymaking process

Typically OECD countries have adopted well-being frameworks initially primarily with a monitoring function. Only later have some of them moved on to integrate them in budget policymaking, for example. What difference does the adoption of a well-being focus make to policymaking? According to country summaries made by Stiglitz et al. (2018) and Durand and Exton (2019), it could:

- give a more complete picture of people's lives and highlight the diversity of their experiences using more granular data;
- foster a more holistic and integrated inter-ministerial approach through a more structured organising framework that recognises explicit trade-offs;
- provide needed incentives to improve the measurement of and allow an explicit role for aspects of well-being heretofore downplayed, such as work-life balance, job quality and ability to work remotely, and social capital and trust, as well as resources for future well-being;
- bring in distributional considerations for many well-being dimensions other than income; and ensure more comprehensive regulatory impact and cost-benefit analyses of specific policies.

It could also more easily allow inclusion of externality considerations, which are rife in areas like the environment and public health, and support government decision-making, priority-setting, funding, programme design and policy development based on common goals.

Adopting a well-being framework entails a choice as to a dashboard of subjective and objective indicators, with or without any weighting to form an index, or effectively a single measure of subjective well-being (current life satisfaction) (Box 2.1). Even though work is ongoing and no single framework has been endorsed by OECD countries, nearly two-thirds of them have by now developed official well-being measures, almost all of which are multi-dimensional dashboards, consistent with the OECD Well-Being Framework described in Box 2.2 (OECD, 2011; Exton and Fleischer, 2020) (Table 2.3). Only three have combined their indicators into an illustrative aggregate index, and none rely solely on any subjective well-being measure, though many include such a measure in their dashboard, including the OECD. Only four have followed the OECD in making an explicit distinction between indicators for current well-being and those for resources for future well-being. Dashboard sizes vary enormously: the number of dimensions ranges from 3 to 26, while the number of indicators stretches from 8 to 147, still less than the Sustainable Development Goals' 231 in its 2020 revision. Despite this diversity, there are areas of commonality across many countries' approaches at both the dimension and indicator level (Exton and Fleischer, 2020). The revised 2020 OECD framework retains its 11 dimensions but now has 84 indicators, up from the former 57, reflecting the progress made in international measurement, but also to provide better alignment with the aspects of well-being most consistently captured across Member country approaches.

Box 2.1. Establishing a well-being framework: dashboards or an index of subjective well-being

A first option is to use a direct measure of subjective well-being (e.g. life satisfaction). Key supporters of this approach are the Global Happiness and Wellbeing Policy Report 2019 (2019), Barrington-Leigh (2020), Birkjaer et al. (2020) and Richard Layard and John Helliwell (including their contributions to OECD (2019a)). This solution has three crucial limitations, and indeed no country has yet adopted it. First, the variance of such measures is only partially ascribable to the dimensions typically included in any dashboard, with much explained by a multitude of other factors that are not normally considered to be the proper domain of policymakers, such as personality, religiosity and culture. Second, shifting "frames of reference" will influence the way respondents answer survey questions; similarly, individuals are known to adapt to some types of adversity as well as positive life events (the so-called "hedonic treadmill" or hedonic adaptation in psychology). Together these effects restrict the information content of survey information (OECD, 2013, Chapter 4). Finally, subjective well-being proxies only current well-being and thus largely fails to address the other pillars of the "beyond-GDP" critique, namely distributional and sustainability considerations. Even if individuals' life satisfaction scores reflect their personal preferences as to inequality and an accurate assessment of their likely future well-being, the majority of people are poorly informed as to the level of inequality in their home countries (Balestra and Cohen, forthcoming), bad at predicting future systemic risks and tend to have a clear bias for the present, even if time preference varies considerably across individuals and cultures (Sircova et al., 2014) (see below for a discussion of relating subjective well-being to the Sustainable Development Goals relating to the environment). While it is technically possible to handle these weaknesses by deriving an aggregate index of current and future well-being by estimating a monetary value for these missing considerations, they are not really substitutable, because more income will not suffice beyond a certain point in offsetting more inequality or non-sustainability (for instance, in the case of extreme civil unrest or human extinction).

The result is that countries have unanimously chosen dashboard approaches, which get around these three problems. The main disadvantage of a dashboard approach is the lack of a single aggregate figure that would allow calculations of the impact of any particular policy on aggregate well-being, inclusiveness and sustainability, would automatically allow trade-offs to be taken into account and thereby facilitate policymakers' decision-making and their communication with the public. Choosing the indicators and then possibly aggregating them into a single index raises the question of the design of the selection process and of the appropriate weights (top-down or bottom-up), and missing data can also be a problem (see, for example, Boarini et al., 2016). To understand why any change in the index has occurred, one has to look at the underlying components in any case. The weights need to be clearly evident to all groups in society so they can be openly debated.

So the best way forward is to tailor the dashboard to the particular situation and time, recognising that there is no single ideal framework but to move forward and place well-being at the heart of policymaking.

Table 2.3. National well-being frameworks across the OECD, selected countries

	Lead body	Launch year	Public consultation	Number of dimensions	Number of indicators
OECD Well-being Framework	OECD	2020		15	84
Measures of Australia's Progress	Australian Bureau of Statistics	2002	✓	26	147
Australia's Welfare	Australian Institute of Health and Welfare	2015		19	61
How's Austria?	Statistics Austria	2012		3	81
Belgium Complementary Indicators to GDP	National Accounts Institute + Federal Planning Bureau	2016		13	67
Belgium Sustainable Development Indicators	Federal Planning Bureau	2019		17	70
Finland Findicators	Statistics Finland	2009		12	97
Well-being in Germany	Federal Chancellery	2016	✓	11	48
Italy Measures of Equitable and Sustainable Well-being (full set)	National Institute of Statistics + National Council for the Economy and Labour	2013	✓	12	130
Israel Well-being, Sustainability and National Resilience Indicators	Central Bureau of Statistics	2015	✓	11	88
Korea Quality of Life Indicators	Statistics Korea	2014		11	71
Luxembourg Index of Well-being	Statec, Economic and Social Council + the Higher Council for Sustainable Development	2017	✓	11	63
Regional Well-being Indicators	Instituto Nacional de Estadistica y Geografia (INEGI) Mexico	2014/15	✓	9	16
Indicadores de bienestar	Instituto Nacional de Estadistica y Geografia (INEGI) Mexico and National Consultation Council	2014/15		12	36
Indicators Aotearoa New Zealand	Stats NZ	2019	✓	24	110
Norway - How We Are Doing	Statistics Norway	2017		10	41
Well-being Index	Statistics Portugal	2017		10	79
Indicators of Well-being in Slovenia	Institute of Macroeconomic Analysis and Development, Statistics Slovenia, Slovenian Environment Agency + National Institute of Public Health	2015	✓	20	90
Quality of Life Indicators	Instituto Nacional de Estadistica Spain	2019		9	59
MONET 2030 Indicator System	Federal Statistical Office Switzerland	2018		17	106
United Kingdom Measures of National Well-being	The UK Office for National Statistics	2011	✓	10	43
Australian Treasury's Well-being Framework	Treasury	2004		5	N/A

Finland Strategic Government Programme Indicators	Prime Minister’s Office	2015		5	29
France New Indicators of Wealth	Prime Minister’s Office	2015	✓	3	10
Iceland Indicators of Well-being	Statistics Iceland (commissioned by Prime Minister’s Office)	2021	✓	12	39
Italy Measures of Equitable and Sustainable Well-being (short set)	Ministry of Economics and Finance	2016	✓	8	12
Latvia 2030	Cross-Sectoral Coordination Centre, under the authority of the Prime Minister	2010	✓	7	55
Netherlands Monitor of Well-being	Netherlands Cabinet + Statistics Netherlands	2017		15	47
New Zealand Living Standards Framework Dashboard	Treasury	2011/18	✓	16	55
Northern Ireland Outcomes Delivery Plan	Northern Ireland Executive Office	2018		12	54
Poland Responsible Development Index	Polish Economic Institute	2019		3	8
Scotland National Performance Framework	Scottish Government	2007	✓	11	81
Slovenia National Development Strategy 2030	Slovenian Government	2017	✓	12	30
Sweden New Measures of Well-being	Ministry of Finance	2017		15	15
United Kingdom Personal and Economic Well-being bulletin	Office for National Statistics	2019		2	12
Well-being of Wales	National Assembly for Wales + Welsh Government Chief Statistician	2015	✓	7	46

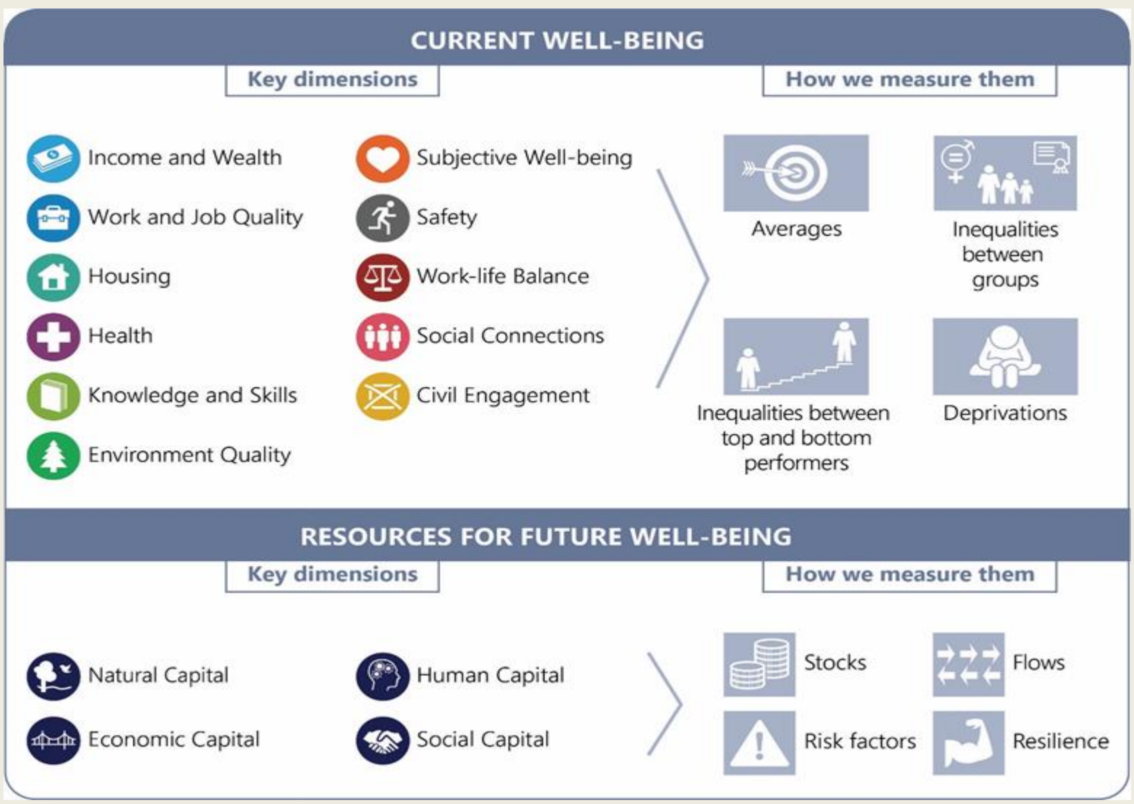
Note: Launch time refers to the actual release of a framework, rather than the commissioning of its development. Number of indicators refers to the dashboards as of Q3 2019 unless specified otherwise. Measures of Australia’s Progress was discontinued in 2013, and the Australian Treasury’s Well-being Framework in 2016. Australia’s Welfare reports have been published since 1993. The Scottish Government’s National Performance Framework was first launched in 2007; the number of dimensions and indicators refers to the refreshed 2018 edition.
Source: C. Exton and L. Fleischer (2020), “The Future of the OECD Well-being Dashboard: Discussion Paper”, draft paper.

In principle, well-being can be used at all the stages of policy-making: agenda and priority setting, ex ante policy formulation, implementation, monitoring and ex post evaluation (Stiglitz et al., 2018). The majority of countries’ dashboards are currently intended merely to measure, monitor and report on progress. However, some use well-being in policy applications, in particular their budget process (notably New Zealand; Box 2.3) or in devising development strategies with a well-being focus. And some do both with separate dashboards (Finland, Italy, New Zealand and the United Kingdom). A few -- most prominently Italy, New Zealand and the United Kingdom -- assess specific policy measures through a well-being lens by using modified cost-benefit analysis to examine their effects on any or all of: material conditions, subjective well-being, relational well-being, inequalities and the environment. The United Kingdom has created ministerial positions to address Loneliness and Suicide Prevention, strengthened civil service training and capabilities in this field using principles and procedures given in the “Green Book” (HM Treasury, 2018) and established in 2014 the What Works Centre for Wellbeing to do research and give advice on how government should integrate wellbeing analysis into its policymaking (see, for example, Hardoon, 2020). However, there is as yet no empirical evidence as to the extent that these efforts to place a stronger emphasis on well-being has changed policy priorities and ultimately improved well-being.

Box 2.2. The OECD's well-being framework

Following the "beyond-GDP" critique initiated by Stiglitz et al. (2009), the OECD's Wellbeing Framework was first outlined in 2011 and then revised in 2020 (OECD, 2020e; Exton and Fleischer, 2020) (Figure 2.2). It includes a diagnostic dashboard along 11 dimensions of current well-being (measured by population averages, dispersion and deprivations), plus resources for future well-being in the form of four kinds of capital (natural, human, economic and social, measured by stocks, flows, risk factors and resilience proxies). In total there are now 84 indicators and three mini-dashboards containing 12 indicators each selected for communications purposes: they cover current well-being levels, current well-being inequalities and resources for future well-being.

Figure 2.2. The OECD Well-Being Framework



Source: OECD (2020), *How's Life? 2020, Measuring Well-Being*, OECD Publishing, Paris.

Box 2.3. New Zealand's well-being approach to policy-making

The *OECD Economic Survey of New Zealand* (2019) included an in-depth description and assessment of its well-being approach to policy-making, which "aims to inform policy and support better decision-making through taking on board a broad range of impacts, including distributional effects (by gender, age, ethnicity and household structure), examining trade-offs and improving transparency" (p. 44). The well-being framework uses 12 domains plus 4 capital stocks (which are identical to the OECD's, except it adds cultural identity as a separate domain) in its Living Standards Framework dashboard, which comprises 55 indicators. However, greenhouse gas emissions, the soil nutrient balance and R&D

investment are not among them. This will be updated in 2021. But some government agencies have their own well-being approaches and dashboards providing greater depth, and without a common core and better articulation of the links among them, this risks creating confusion. The Treasury uses available well-being evidence to set Budget priorities, encourage collaboration across ministries and assess spending proposals (but only the marginal spend, which amounts to about 4% of Core Crown expenditure, and not the baseline as yet). The framework is not used for regulatory impact assessment at this stage. Assessment on progress achieved is to be reported by the Treasury at least every four years, less frequently than the current three-year electoral cycle, but recent amendments to the Public Finance Act balance this by requiring the government of the day to report on progress against its well-being objectives annually in the Budget.

Canada's planned use of well-being in the policymaking process

The federal government should follow through on its plan to adopt a quality-of-life (well-being) framework with an economic lens to help guide the policy agenda to enhance long-term inclusive and environmentally sustainable growth. As stated above, Canada is one of a minority of OECD countries without an official framework. Although Environment and Climate Change Canada has had a Sustainable Development Strategy with 13 dimensions and 25 indicators since 2008 and Gender Based Analysis+ was adopted more broadly already in 1995, there is no overarching, whole-of-government framework. Statistics Canada does not have its own framework, though it hosts a Dimensions of Poverty hub and is currently working on a Canadian Indicator Framework with Employment and Social Development Canada. In July 2019 that department released its *Towards Canada's 2030 Agenda National Strategy* to establish the structures, processes and activities that have to be implemented to achieve the Sustainable Development Goals. The Canadian Indicator Framework is intended to track and report on progress toward the 17 Goals.

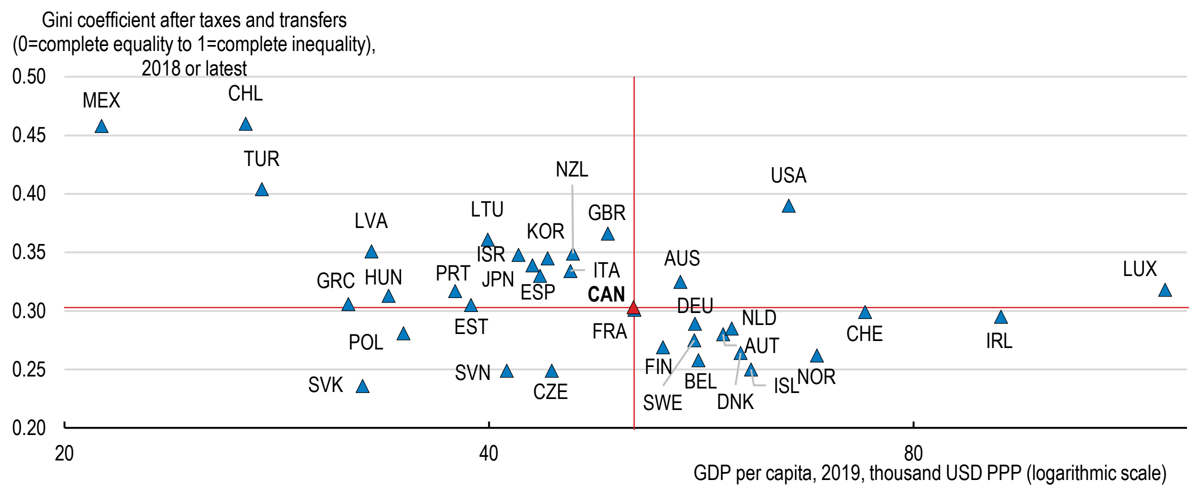
The framework should include the federal government tasking Statistics Canada to ensure the key measures of subjective well-being and a dashboard of relevant indicators are produced through surveys with timely frequency and adequate sample size both at the national and provincial/territorial levels so that Indigenous peoples (distinguishing between First Nations – including, if possible, those on reserve -- Métis and Inuit) and those from racialised populations can be separately identified. The survey instruments and other administrative data sources involved would need to cover all required subjective and objective indicators integrated across the different domains so that how they fit together in the larger picture can be assessed. Having data availability at the regional level would allow jurisdictions to compare their outcomes. The case for such an initiative has recently been made by Hicks (2020), who argues that such information will enable assessment of the combined effects of income-replacement and public-service programmes by all levels of government on the lives of Canadians. Some consideration could be given to the establishment of a well-being Commission that would write an annual report to Parliament, timed to feed into the federal budget process.

Engaging in a process of public consultations before finalising the list of indicators has been common practice among other OECD countries when developing well-being dashboards (Exton and Shinwell, 2018). It would form a good starting point for a Canadian framework. The COVID-19 pandemic galvanises the urgent need for such measures – given its wide-ranging impacts on people's well-being and the deepening of existing inequalities. The process now underway should therefore aim to quickly finalise a new framework with discussion in each budget. Indeed, it might help the government to defend whatever strategy it uses to "build back better" and balance its promises to ensure a green recovery that is also inclusive and supports the broad social, economic and health needs of Canadians. Once the framework is well established the authorities could choose to extend the use of well-being measures to budget policy formulation and cost-benefit analysis, as the United Kingdom and New Zealand have done.

Inequality and poverty as negative well-being markers

Policymaking on income inequality needs to recognise that there is no sharp over-arching trade-off with average income. There is no evidence that only by sacrificing income can distributional outcomes be rendered less unequal. Eleven OECD countries have both higher per capita GDP and less income inequality than Canada, demonstrating that improvement along both dimensions is eminently possible (Figure 2.3).

Figure 2.3. Many OECD nations have higher GDP per capita and less inequality than Canada



Source: *OECD Economic Outlook database*; OECD (2020), Income inequality (indicator). doi: 10.1787/459aa7f1-en.

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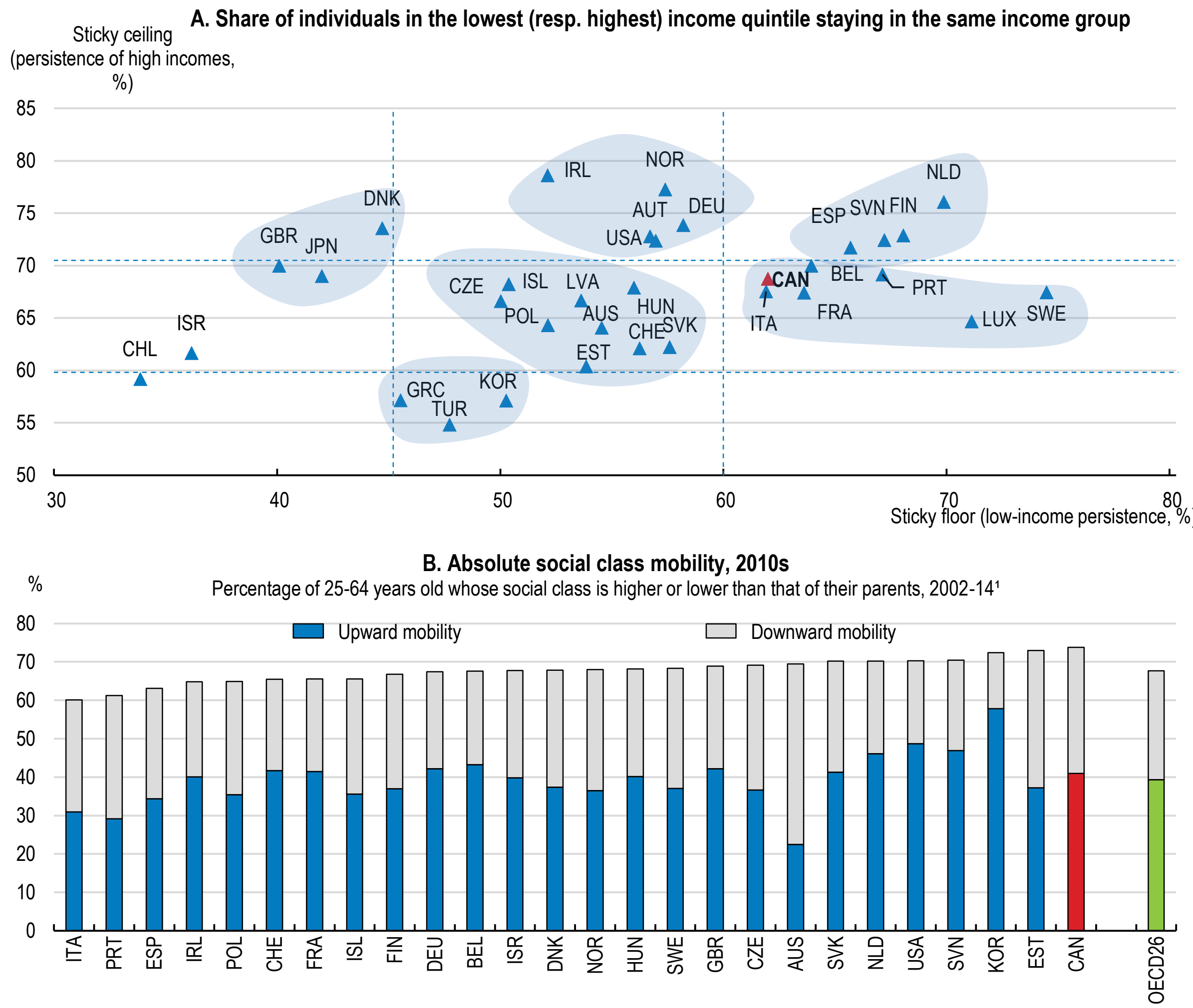
Canada ranks quite well in terms of equality of opportunity

Distributional considerations matter for individuals' sense of dignity, self-worth, trust in others and social development. Income differences are relevant not just for well-being differences, but for various aspects of health and longevity (see below). The case for inequality to be a public policy concern is strengthened because of the inter-relationship between the well-being of the poor and the rich (Goff et al., 2018); indeed, the well-being of the poor is a more powerful driver than their income in determining average individual subjective well-being and social trust. So long as inequality is due to differences in initial opportunity, economic rents and market failures, rather than greater effort by the fortunate, then the resulting social exclusion is worthy of policy attention.

Perhaps the best justification for government action on inequality is that income differences align quite well with equality of opportunity as measured by inter-generational earnings mobility (Corak, 2013) in what has become known in its cross-national version as the "Great Gatsby Curve". According to this relationship Canada is seen to have fairly low income inequality and high mobility across generations compared, say, to the United States and the United Kingdom, but less so than several Nordic countries. It takes only 4 generations for those born in low-income families to reach the mean income (the OECD average is 4.8). This is consistent with the very small impact of parental background on children's achievement in secondary education in Canada according to PISA results (OECD, 2010, Figure 5.3), though access to tertiary education does appear importantly determined by parental income and, especially, education, besides the extra barriers faced by Indigenous youth. However, Canada has a quite sticky within-generations mobility floor (proxied by a high share of people who remained in the bottom income quintile over the years 2005-10) (Figure 2.4, Panel A). Yet, when within-generations social mobility is measured by occupation rather than income, Canada is seen to have the OECD's highest mobility, above average both upward and downward (Panel B). Canada's good standing for social mobility is confirmed by the World Economic Forum (2020), which ranked it 14th out of 82 countries. However, mobility has been falling at both the national and provincial levels while parental income inequality has been rising (Connolly et al., 2019). The largest decline in mobility is for children from the bottom income quintile; hence, opportunities for the disadvantaged have worsened the most. Combined with the evidence on child well-being presented above, this is a warning sign for future levels of well-being and social mobility.

Figure 2.4. Social mobility in Canada



1. Social class is based on the nine European Socio-Economic Classification (ESEC) categories constructed based on occupation.
Source: OECD (2018b), *A Broken Social Elevator? How to Promote Social Mobility*, http://dx.doi.org/10.1787/9789264301085-en.

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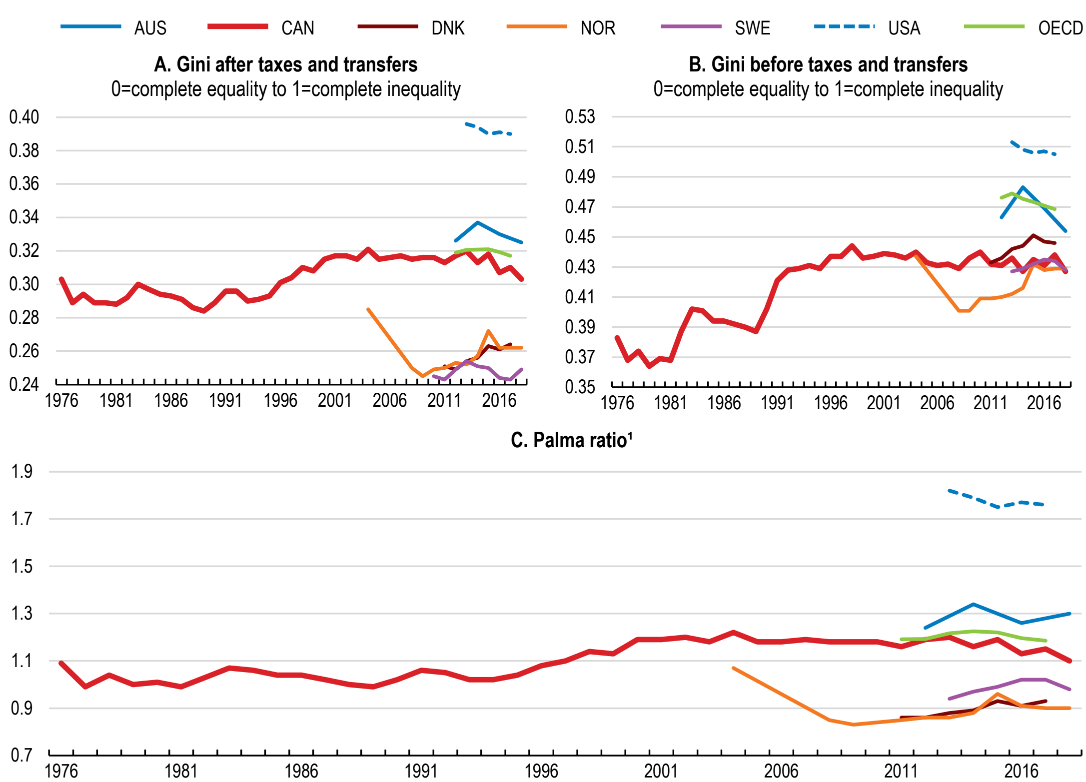
Income inequality is close to the OECD average

Canadian market-income inequality increased during the 1980s and 1990s and has been stable since 2000, but the share of the top 1% continued to rise until around 2008. At first, the tax-transfer system offset all of that, but when the levels of social assistance and Employment Insurance fell in the mid-1990s, that was no longer the case, and disposable-income inequality rose as well. The Great Recession saw disposable income inequality recede as it did again from 2015 in the latest data, bringing it back to much-earlier levels. Overall, disposable income inequality has been at near-OECD-average levels (around 0.30 for the Gini) over the last decade (Figure 2.5, Panel A), despite Canada's modest market-income inequality (Panel B), as its tax-transfer system offsets only 28% of it, compared to an OECD average of 36% (the United States manages only 23%). The OECD (2019c) has also recently focused on the size of the middle class, i.e. those earning 75-200% of median income. By this definition Canada is a middle-ranked country but with a large middle-income-group shrinkage since the mid-1980s (other than for the elderly) (Figure 2.6). Among family types shrinkage has been especially pronounced among couples with children and single parents (op.cit.,Table 2.3). Developments in commodity prices have had an impact on income inequality both across individuals and across regions. Income shares have varied with the magnitude of resource rents, which accrue mainly to the wealthiest. With oil and gas resources mostly located in Alberta, income inequality across regions has particularly reflected energy price developments. Specifically, Alberta and Newfoundland and Labrador residents have no doubt suffered a drop in well-being thanks to lower energy prices both post-2014 and during the COVID-19 crisis. Inequality has also been influenced by the growing importance of computer skills, automation and globalisation, as well as changing corporate governance, as is the case throughout the OECD (Corak, 2016). This too has had a differential impact on well-being in Canadian communities, as displaced workers from single-industry areas have faced especially difficult prospects in the labour market.

Figure 2.5. Disposable income inequality has been broadly stable at near OECD-average levels



1. The Palma ratio is the share of all income received by the 10% of households with highest disposable income divided by the share of all income received by the 40% with the lowest disposable income.
Source: OECD (2020), *Income and Inequality Distribution database*.

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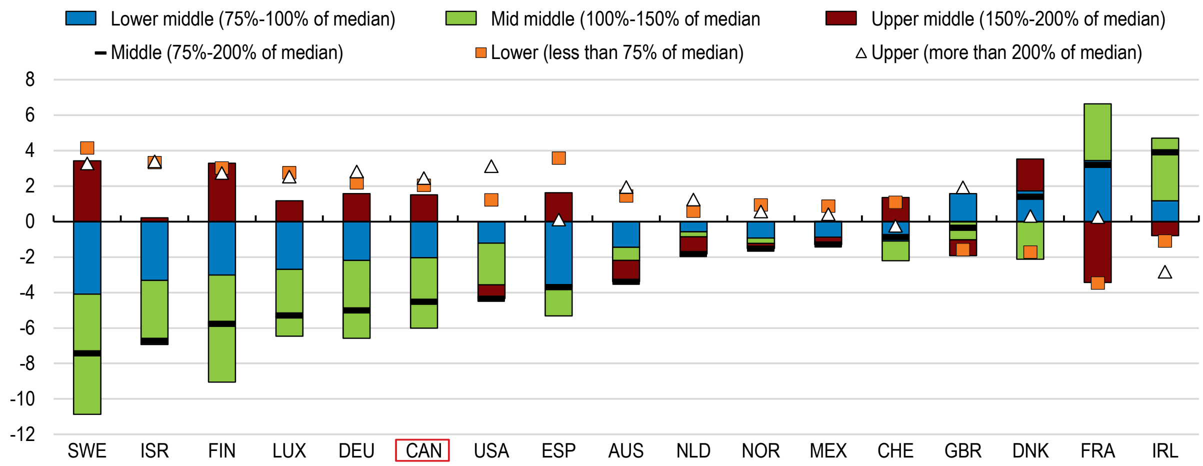
Figure 2.6. Canada's middle-income group has shrunk more than most others since the mid-1980s

Percentage point changes in the shares of population in the middle-income class, mid-1980s to mid-2010s



Note: "Middle income" households are defined as those with income between 75% and 200% of the national median.
Source: OECD (2019), *Under Pressure: The Squeezed Middle Class*, https://doi.org/10.1787/689afed1-en.

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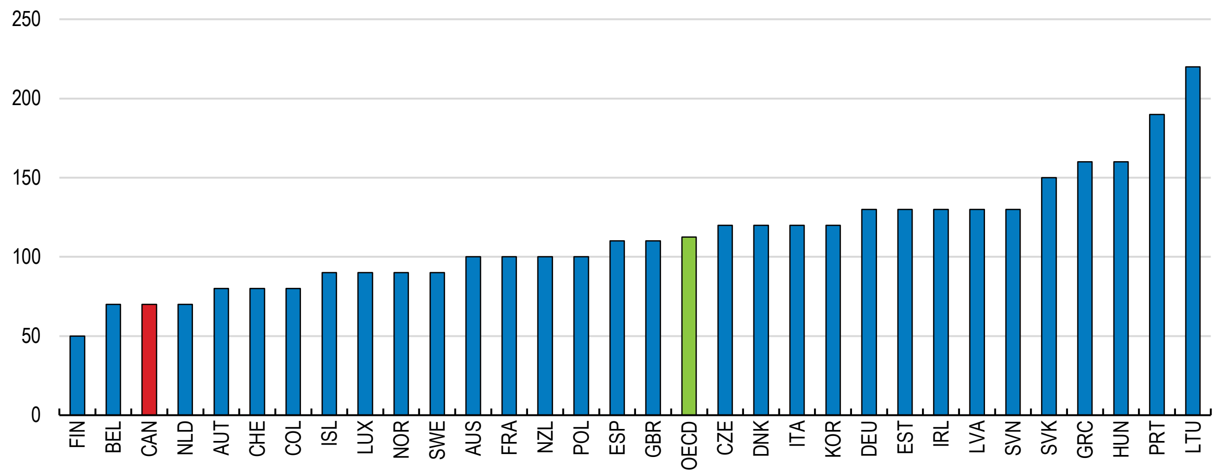
The effectiveness of the redistribution system is hampered to some extent by the prevalence of eligible people who fail to claim social benefits to which they are entitled. For some programmes this occurs when individuals delay the filing of tax returns or do not file at all. Some 10-12% of adults do not file tax returns and thus fail to receive refundable credits such as the Canada Child Benefit Tax Credit and the Goods and Services Tax Credit. The total amount left on the table may be as much as CAD 2 billion per year (Hosek, 2020). In September 2020 the government promised to introduce a free, automatic tax-filing system for simple returns to overcome this barrier, as 36 other countries have already done (Tax Policy Center, 2020). Another example of under-utilisation is the Registered Disability Savings Plan: for a variety of reasons, a large share of people with disabilities eligible for the programme do not participate in it, thereby missing out on as much as CAD 90 000 in bonds and matching grants over their lifetimes. Yet another measure with a poor take-up is the Canada Learning Bond. It provides low-income families with support for their children's future education without requiring any personal contributions, yet in 2018 only about 38% of the 3.3 million eligible children took advantage of it.

Other dimensions of inequality: life satisfaction, wealth, gender and childcare

Almost all other measures of inequality are less severe in Canada than elsewhere in the OECD (OECD, 2020f). For example, the top quintile has 70% greater life satisfaction than the bottom quintile, compared to an average OECD premium of 110% and bettered only by Finland (Figure 2.7). Wealth inequality is also slightly less pronounced than the OECD average (Balestra and Tonkin, 2018). In that regard Canada stands out for the close alignment of its income and wealth distributions (op. cit., Figure 2.11), as well as the latter's stability since 2005 (op. cit., Table 3.2). In any case, rising wealth inequality is not a problem to the extent that it is attributable to population aging combined with saving for retirement.

Figure 2.7. The dispersion of life satisfaction is relatively low

Premium in life satisfaction scores of the top 20% relative to the bottom 20%, 2018



Source: Calculations based on data from OECD (2020), *How's Life in Canada 2020*, https://www.oecd.org/canada/Better-Life-Initiative-country-note-Canada.pdf.

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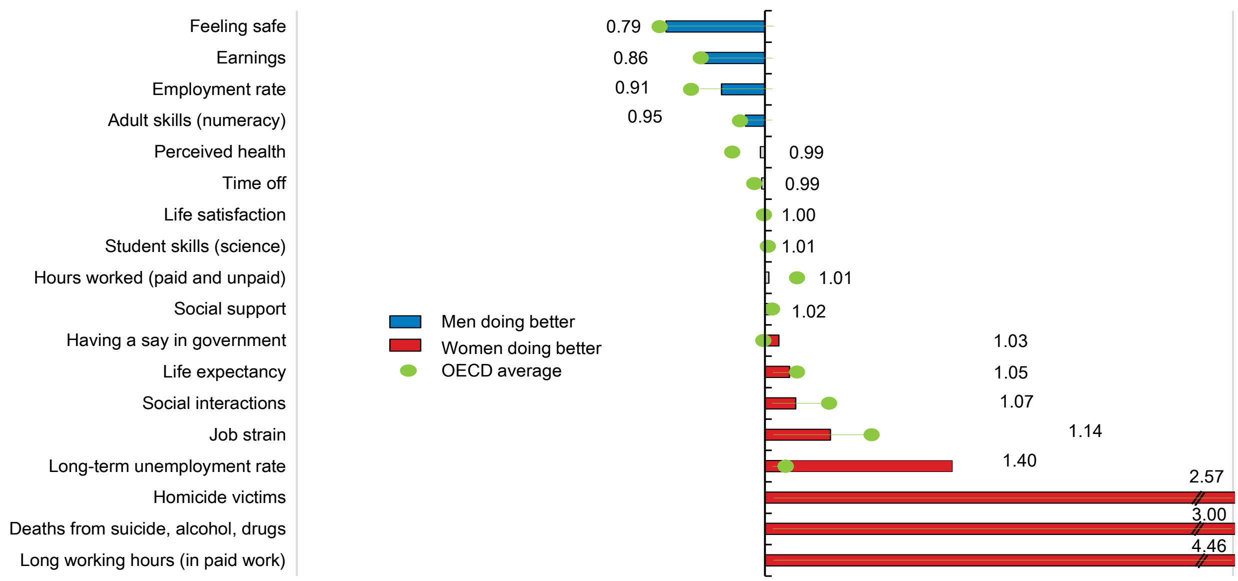
Gender inequality facing Canadian women is comparatively low, despite a large gender pay gap for full-time workers. Women's life satisfaction is identical with that of men, as it is on average in the OECD (Figure 2.8). Yet, one of the largest differences between the sexes in Canada as elsewhere is in "feeling safe", which points to the problem of gender-based violence, which is most commonly domestic violence that victimises women about four times as much as men (Burczycka, 2019). And women have lower average self-rated mental health than men. Nevertheless, in several other ways (notably in terms of long-term unemployment), it seems that Canadian women are relatively better off than their counterparts abroad. Canadian men suffer from comparatively large gender disparity in long-term unemployment and large absolute gaps in deaths from homicide, suicide, alcohol and drugs, as well as long working hours. However, while the gender median hourly wage gap has shrunk gradually since 2001 from about 21% to some 15% in recent years, Canadian women seem to be in the middle of the pack of 14 countries for which employment income comparisons are possible, but are among those with the largest gaps for full-time, full-year workers, implying comparatively small gaps for part-time workers. Work by Finance Canada shows that 20-25% of the hourly wage gap is attributable to the occupational structure of female employment, with the majority due to differences in hourly pay within occupations, as women are more often found in low-wage jobs than men. One explanation for this outcome is that women and men place different values on particular job characteristics and sort themselves across different occupations and employers according to the relevant trade-offs. Given women's greater share of unpaid work responsibilities within households, women may be choosing jobs that offer lower wages in return for more working-time flexibility. This aligns with the Finance Canada finding that the gender wage gap is especially pronounced during childbearing and childrearing ages and is almost twice as large for those with children aged under 12, pointing to the importance of flexible work arrangements and access to and affordability of childcare for women's economic well-being. With a view to continuing to shrink women's economic inequality the federal government recently committed to creating a task force to guide an Action Plan on Women in the Economy.

Figure 2.8. Inequalities in well-being indicators between men and women in Canada

Gender ratios (distance from parity) for selected indicators of current well-being, 2018 or latest available year

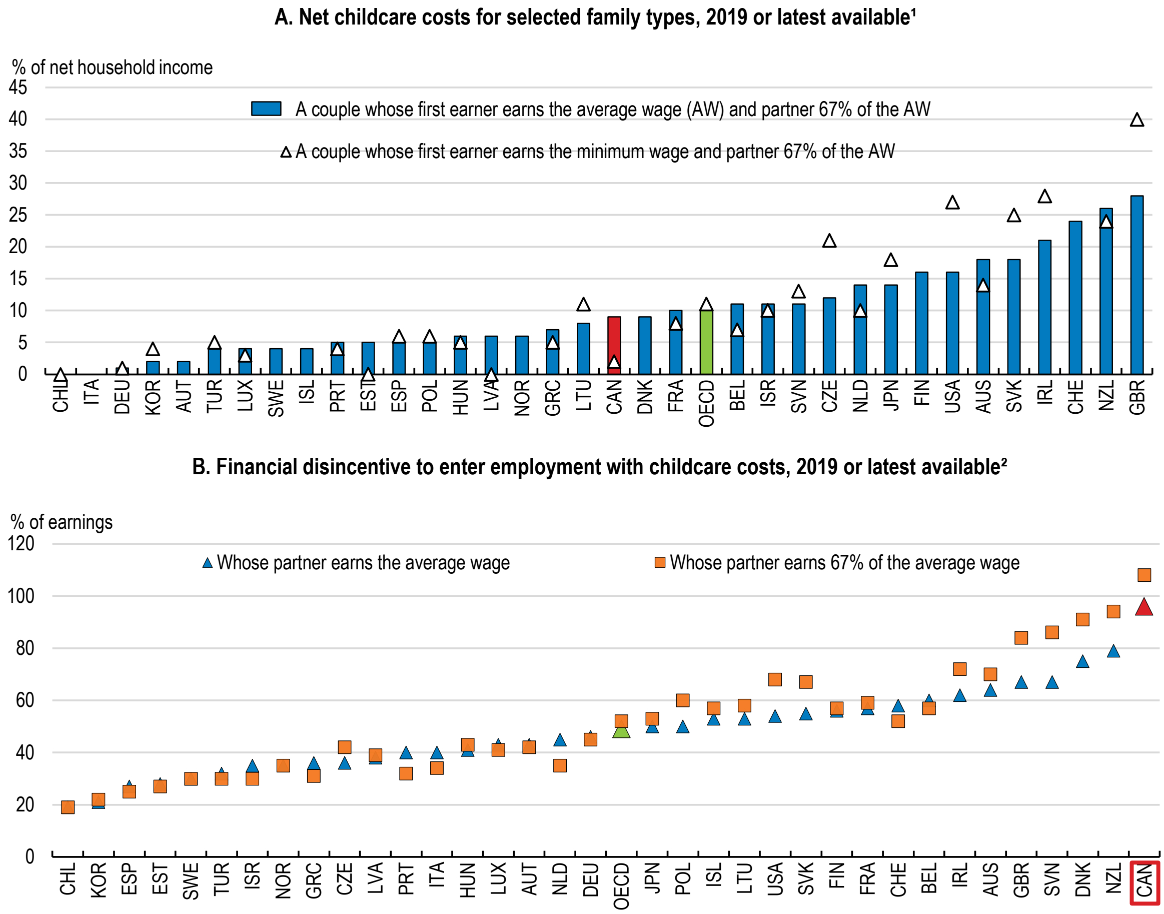


Source: OECD (2020), *How's Life in Canada 2020*, https://www.oecd.org/canada/Better-Life-Initiative-country-note-Canada.pdf.

StatLink https://stat.link/m4zw5i

Childcare policy in Canada is a provincial/territorial responsibility. Little is known about childcare quality variations and comparisons over time or internationally, but recent data show that childcare costs for typical couples in Ontario (the only province examined by the OECD) are moderately burdensome (Figure 2.9, Panel A). Based in part on the fact that Québec's labour-force participation rate for prime-age women moved from 2.7 percentage points below the all-Canada average in 1997, when it adopted its generous childcare-subsidy policy, to 3.3 percentage points above it in 2019, other provinces (notably British Columbia) and the current federal government have been giving priority to improving access to childcare with a view to encouraging employment by parents. Prior to the pandemic annual federal support amounted to CAD 2.8 billion (0.1% of GDP), mainly through a tax deduction for childcare expenses worth CAD 0.8 billion annually, and the Canada Social Transfer to the provinces and territories. However, taking the whole tax and benefit system into account and including childcare costs, the financial incentives to taking up full-time employment for people with young children in Ontario are the OECD's worst, with a 96% tax rate on the extra earnings for those earning an average wage (Panel B). However, Ontario does offer a refundable tax credit for childcare expenses to focus its support on low-income parents. Some other jurisdictions offer generous means-tested subsidies that lower net childcare costs for families, and a number of provinces complement them with maximum fees, ensuring that low-income families pay little out of pocket. The federal government has also made an effort to get women back to work in the crisis, having approved an extra CAD 625 million in childcare funding in July 2020. Earlier it had financed 40 000 more affordable places. However, the scarcity of spaces persists.

Figure 2.9. Childcare costs and their labour-market incentive effects in Canada



1. This chart shows the net childcare costs for parents using full-time centre-based childcare, after any benefits designed to reduce the gross childcare fees. Childcare benefits can be received in the form of childcare allowances, tax concessions, fee rebates and increases in other benefit entitlements. Net childcare costs are shown for couples assuming two children aged 2 and 3, one parent earns 67% of the average wage whereas the other earns either the minimum wage or 100% of the average wage.
2. This chart shows the percentage of earnings lost to either higher taxes or lower benefits when a parent of two children aged 2 and 3 takes up full-time employment and uses centre-based childcare. Calculations refer to a couple where the other parent works full-time at 67% of the average wage.
Source: OECD (2020), "Benefits and wages: Net childcare cost for parents using childcare", OECD Social and Welfare Statistics (database), https://doi.org/10.1787/b0781729-en; OECD (2020), Financial disincentive to enter employment with childcare costs (indicator). https://doi.org/10.1787/d44eb45b-en.

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The pandemic has probably exacerbated inequality along various lines

Data show that the disadvantaged have suffered more inequality since the advent of the pandemic (Hou et al., 2020). Racialised populations in particular were found to have suffered disproportionately from COVID-19, even if some provinces deliberately do not gather disaggregated racial and ethnic data, notably Québec (McKenzie, 2020). According to an online crowdsourced survey of 36 000 people from 26 May to 8 June, 34% of White Canadians had suffered job loss or reduced hours, compared to 42% for Filipino Canadians and 47% for West Asian Canadians. This could have been due to discrimination but was no doubt also because of differences in job distribution and length of tenure. In this same survey important financial impacts were cited by 23% of White Canadians, but by at least 42% of Arab Canadians, Filipino Canadians and West Asian Canadians. However, racialised populations were also more likely to have applied for and received federal financial support. In most OECD countries women are more likely to have been more exposed to the virus because of their occupational distribution: a larger share are employed in jobs requiring contact with diseases and with clients and high levels of physical proximity (for example, in the health-care and social-services sectors) and are less likely to be able to work from home (Lewandowski et al., 2020). Starting in July 2020 Statistics Canada has been giving disaggregated labour market information for racialised minorities. They continue to register much higher unemployment rates than those of White Canadians, but the gaps shrank noticeably in November (led by South Asian and Southeast Asian Canadians), reaching 3.3 percentage points.

What difference does a focus on poverty instead of inequality make?

Canada's multiple public low-income and poverty measures have evolved differently over time (Box 2.4). Working-age adult absolute poverty rates are still largely aligned with labour-market outcomes (the number of earners in the household), thereby emphasising the importance of boosting labour-force attachment, even if increasing numbers of workers are earning below-poverty level incomes (Stapleton, 2019). Accordingly, poverty rates are highest for people with disabilities (notably those with mental-health issues), lone parents and single working-age adults. But they are especially high for Indigenous Peoples (see below), Black Canadians and Chinese Canadians (double the rate for White Canadians) and above all for West Asian Canadians, Arab Canadians and Korean Canadians (triple the rate for White Canadians) (Hou et al, 2020) (see below). Chronic low-income rates were much higher in 2016 (the latest available data) for immigrants than the Canadian born, no matter how long since they arrived in Canada (Picot and Lu, 2017). In general, poverty rates are highest in the Maritime Provinces (where traditionally unemployment has been higher than average, wages and participation lower, and employment more seasonal) and lowest in the Prairies, which conforms to the pattern of average incomes across Canada.

Box 2.4. Canada's public measures of low income and the official measure of poverty

Canadian low-income measures comprise the Low Income Measure, the Low Income Cut Offs and the Market Basket Measure. The first is based on those who do not receive 50% of national median income and is therefore a relative measure (like the inequality measures above). The second is based on receiving income at which families are expected to spend 20 percentage points more than the average family on essentials (food, shelter and clothing) using estimates from an expenditure survey and is therefore an absolute figure. The last sets 53 regional different thresholds based on the time-varying cost of a basket of goods and services needed to maintain a basic, modest standard of living and is therefore another absolute measure. The Low Income Cut Off rate peaked around 1997 at about 15% and declined to around 9% in recent years, while the Low Income Measure has trended up since the late-1980s, reaching 14% in 2015.

In 2018 the federal government established the Market Basket Measure as Canada's official poverty line. The threshold annual income for a two-adult, two-child family in 2018 ranged from CAD 37 397 in parts of Québec to CAD 48 677 in Vancouver. In 2020 the basket was reviewed through a comprehensive stakeholder engagement process, since, prior to this review, some critics had opined that it suffered from the assumption that certain important items (the cost of a cell phone in particular) are a fixed proportion of food and clothing outlays and that minimal housing costs were severely underestimated. Both criticisms were addressed, thereby boosting the threshold in some cities (notably by 24% for a four-person family in Edmonton). The national poverty rate increased from 8.7% to 11.0% for 2018 as a result of this review, which continues to reflect a substantial decrease from 2015 when it was 14.5% according to the revised measure (Djidel et al., 2020). The official statisticians responsible for the Measure are now turning to other communications technologies, child-care expenses, remoteness (though it continues not to reflect poverty for First Nations on reserve), the adjustments for family size and composition and the calculation of the "other" component for more study. But prescription drugs may also be worthy of further consideration in view of the lack of universal coverage (see below). And it would be useful to investigate the size of the "poverty premium" in Canada (how much the poor pay for their goods and services because they cannot afford to buy in bulk, they pay higher home insurance as they live in riskier neighbourhoods, they have to access more expensive credit, payday loans in particular, etc.). This premium was estimated at nearly a thousand Canadian dollars per year in the United Kingdom several years ago (Davies et al., 2016).

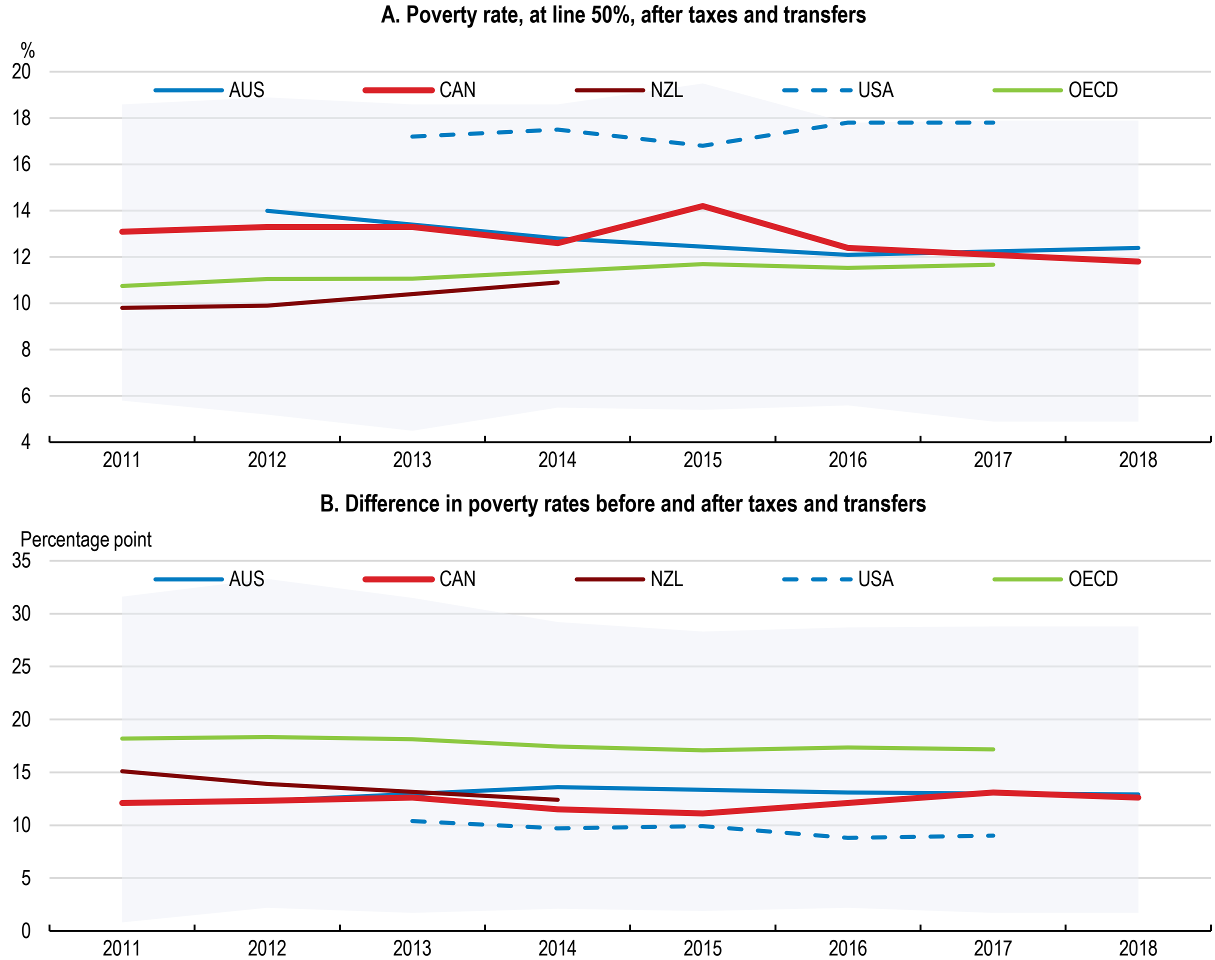
Canada's relative poverty has largely converged with the OECD average since 2015, notably with lower rates than the United States (Figure 2.10). That is attributable to a somewhat more redistributive tax and transfer system, although it remains considerably less so than the OECD average. One striking feature is that the level of provincial social assistance is in no jurisdiction sufficient to lift recipients over the Market Basket Measure threshold: even accounting for GST/HST tax credit and Child Benefits, it varies from 39-58% of that level for single, childless adults and from 67-86% for single adults with children (Hillel, 2020). Even though absolute poverty rates cannot be compared internationally poverty and low income among Canada's seniors' would seem to be in the middle of the G7 range: higher than the EU-country outcomes, but lower than the others'. Their Low-Income Rate has trended slightly higher since the mid-1990s but remains lower than that of other age groups in Canada. The child poverty rate has fallen moderately over the last 30 years to 10.8% (18.6% according to the LIM), in part thanks to a series of policy measures culminating in the Canada Child Benefit (CCB). The CCB helps almost 3.7 million families and about 6.5 million children, with 367 000 fewer children in poverty in 2018 than in 2015. According to Campaign 2000 End Child and Family Poverty (2020), in 2017 1.36 million children were in poverty using the after-tax Low Income Measure. The CCB is estimated to have reduced this by 684 000, while other public policies removed a further 0.4 million, implying that such measures reduced child poverty by 45%. Yet, poverty remains much higher for those with poor access to the CCB: those with precarious immigration status, children in shelters and First Nations children.

Another aspect of financial inequality is asset poverty or asset resilience, i.e. the share of households that could not manage to maintain their well-being at a low-income threshold (half of median income) for three months in the event of a sudden income stop. Based on Statistics Canada's Surveys of Financial Security, it has been shown that the share of asset-poor households is two to three times as large as those in income poverty. Asset poverty grew from 1999 to 2012 (Rothwell and Robson, 2017). Education has similar effects on both asset and income poverty, while immigration status has an influence only on the latter. Signs of financial distress are recourse to payday loans and missing mortgage or other loan repayments, which are all closely aligned with indebtedness and housing tenure (Marshall, 2019).

The recent implementation of a national Poverty Reduction Strategy

In August 2018 the federal government released *Opportunity for All – Canada's First Poverty Reduction Strategy*. The Strategy established the Market Basket Measure as Canada's official poverty line. In June 2019 it followed up with the Poverty Reduction Act, which targeted a halving in thus defined poverty from its then latest (2015) value of 12.1% (since revised to 14.5%) by 2030. An intermediate target of a 20% decline by 2020 was reached already in 2017. The latest figure – still for 2018 – is 11.0%. The Strategy also created a National Advisory Council on Poverty to ensure accountability. It is charged with producing an annual monitoring report to the Minister of Families, Children and Social Development, the first of which was expected by the end of 2020. That report would be given more prominence if it were presented to Parliament instead. At the same time, a dashboard of 12 poverty indicators (in addition to the Market Basket Measure itself) was created for ease of monitoring (Table 2.4). While a majority have been moving in the right direction, some have been deteriorating, namely unmet housing needs, food insecurity, youth not in employment, education or training, low teen literacy and numeracy, the average poverty gap and the entry rate into poverty.

Figure 2.10. Relative poverty is about OECD average despite less redistributive taxes and transfers



Note: The poverty threshold is set at 50% of median disposable income in each country. The shaded area shows the range in OECD countries.
Source: OECD (2020), Income and Inequality Distribution database.

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Table 2.4. Canada's official dashboard to track progress on poverty reduction, September 2020

Indicator	Most recent value	Trend	Percentage change	Reference period
Dignity				
Deep income poverty	5.4%	▼	-8.5%	2017 to 2018
(Persons with income below 75% of Canada's Official Poverty Line)				
Unmet Housing Needs	12.7%	▲	1.6%	2011 to 2016
Unmet Health Needs	11.2%	▼	-10.4%	(2000-01) to 2014
(Persons 12 years and older reporting not receiving health care when they felt they needed it)				
Food Insecurity	8.7%	▲	4.8%	(2011-12) to (2017-18)
(Households reporting Food Insecurity.)				
Opportunity and Inclusion				
Relative Low Income	12.3%	▼	-2.4%	2017 to 2018
(Persons who had less than half the median after-tax income)				
Bottom 40 Percent Income Share	20.8%	▲	2.0%	2017 to 2018
(Percentage of total after-tax income that went to those in the bottom 40% of the income distribution.)				
Youth Engagement	11.7%	▲	23.2%	2019 to 2020
(Persons aged 15-24 who were not in employment, education or training.)				
Literacy and Numeracy				
- Low Literacy (15 year olds)	13.8%	▲	29.0%	2015 to 2018
- Low Numeracy (15 year olds)	16.3%	▲	13.2%	2015 to 2018
Resilience and Security				
Median Hourly Wage				
- All	$24.04	▲	2.2%	2018 to 2019
- Women	$22.00	▲	0.4%	2018 to 2019
- Men	$26.00	▼	2.0%	2018 to 2019
Average Poverty Gap	33.4%	▲	1.5%	2017 to 2018
(For those living below the poverty line, the poverty gap ratio is the amount that the person's disposable family income is below the poverty line, expressed as a percentage of the poverty line.)				
Asset Resilience	51.2%	▲	10.8%	2005 to 2012
(Persons who had enough savings to maintain well-being for three months.)				
Low Income Entry and Exit Rates - Entry Rates (All Canadians)	4.1%	▲	5.1%	(2015-16) to (2016-17)
Low Income Entry and Exit Rates - Exit Rates (Low-income Canadians)	27.9%	▲	1.1%	(2015-16) to (2016-17)

Source: Statistics Canada.

Food insecurity as a manifestation of poverty

Food insecurity affects one in 12 households (3.0% are severely food insecure, 5.7% moderately so; in addition, another 4.0% are marginally insecure), including more than one in six children, and is particularly severe (afflicting more than one in four) among those identifying as Indigenous or Black or who have immigrated to Canada in the last five years (Tarasuk and Mitchell, 2020; Statistics Canada, 2020b). It is especially prevalent in the territories, above all Nunavut (57%). Most sufferers had employment income, even if its prevalence is especially severe among those reliant on social assistance (60%) and on Employment Insurance or Workers' Compensation (32%). Once the COVID-19 pandemic struck, Statistics Canada data from a new web panel survey showed that 14.6% of Canadian households experienced food insecurity in May 2020.

Food insecurity has multiple effects, notably on health. Those who are severely food-insecure in Ontario incur public health-care costs 2.5 times as much as others because of their higher rates of diabetes, hypertension and food allergies, and the premature death they experience (they die on average nine years earlier). It is reflected in the use of food banks, which has more than doubled in the past 30 years to some 900 000 users per month. Before the pandemic, the federal government announced that it would spend CAD 134 million on a variety of new food and agriculture measures, including food banks, farmers markets, community kitchens and, in conjunction with the provinces and territories, a national school food programme (Agriculture and Agri-Food Canada, 2020). Special measures also exist in remote northern communities. Then, after the pandemic hit the federal government established a CAD 200 million Emergency Food Security Fund, half of which was allocated by the autumn.

Yet, as food security advocates have long noted, this issue does not merely reflect access to food and will not be solved by food banks (which rely on highly processed, shelf-stable food) alone. Food insecurity and the higher rates of chronic diseases associated with it are linked to poverty, and its eradication will require improved food access -- more convenient location of grocery stores and overcoming the abundance of low-cost, fast-food options ("food deserts") -- and adequate income and awareness to be able to afford and choose nutritious food.

A basic income scheme is much discussed but would be expensive

Basic income generally refers to a direct cash transfer to recipients with few conditions to allow them to meet their basic needs. The current system of provincial and territorial social assistance ("welfare") programmes (which had over 1.58 million beneficiaries in 2019) provides only a survival level of means and is a far cry from what is required to escape at least the monetary aspects of poverty for those ineligible for other government transfers. Recognising this is only the first step to seeing the advantages of guaranteeing citizens and permanent residents enough income to avoid not only material deprivation but also social exclusion and injustice. Advocates of basic income (such as Forget, 2020) argue that it could not only effectively tackle poverty and inequality but also address the changing nature of work, which finds more people in non-standard jobs, and promote population health and well-being. It could also enhance automatic stabilisation during economic downturns and might allow the social safety net to be streamlined and more efficient. On the other hand, critics worry about the fiscal costs and possible work disincentives and oppose payments without requirements to work or seek work. Some would prefer that governments increase pro-poor spending on social services such as prescription drug and dental coverage, childcare and affordable housing. Canadian social policy already had some minimum income guarantees for children (the Canada Child Benefit) and for retirees (the Guaranteed Income Supplement) prior to the pandemic, but the gaps in the social safety net have been brought into sharper focus by the current crisis.

Besides the 2017-18 universal basic income pilot in Finland (Kangas et al, 2020) and a number of municipal initiatives around the world (OECD, 2017b), there is a long tradition of Canada of experimentation with guaranteed minimum income schemes, the difference between the two being whether or not they include clawbacks at some point to avoid paying the transfer to the already affluent. The Mincome pilot in Dauphin, Manitoba, was conducted from 1974 to 1978 and covered about 10 000 people. Another variant was the community wage in return for work – an idea disliked by some experts even if it buys political support, because of the extra administrative costs involved and the fact that it retains the stigmatisation of the poor (Boadway et al., 2016) – on locally developed projects in Cape Breton (Nova Scotia) under the Community Employment Innovation Project. It ran for several years starting in 1999 and was judged a success once the improvement in social trust was taken into account (Helliwell et al., 2020a).

Ontario also ran a project in three areas in the province from October 2017 until its cancellation was announced following a change in government in 2018 (payments continued until March 2019). Two small surveys of beneficiaries indicate a variety of benefits (Basic Income Canada Network, 2019; Ferdosi et al., 2020): improved physical and mental health following the adoption of a healthier diet, smoking or drinking alcohol less often, and more frequent physical activity; less use of food banks; greater motivation to find a better paying job; and higher likelihood of beginning an education or training programme. The first also found that, once the programme was cancelled, 80% of respondents reported that previous health problems returned and 61% that they had to alter future plans. Presumably, with a permanent basic income scheme in place, workers would also be able to walk away from unsafe workplaces in both pandemic and normal times, giving them more leverage when employers have the stronger bargaining position.

The political difficulties of organising a national guaranteed minimum income are substantial because of joint government jurisdiction. Otherwise, the main barriers are the huge expected fiscal cost of a programme large enough to matter in the fight against poverty with a small enough clawback rate not to constrain work incentives excessively and the need to avoid negative impacts on a large number of people, assuming existing transfers would be cancelled (OECD, 2017b). A recent costing of a particular guaranteed minimum income scheme by the Parliamentary Budget Officer (2020) that would pay the same benefits to those aged 18-64 as did the cancelled Ontario pilot (which offered 75% of the Low-Income Measure, viz. around CAD 17 000 and 24 000 annually tax-free for individuals and couples, respectively, plus an additional CAD 6 000 for people with disabilities) pegged the annualised cost in 2021-22, without considering any behavioural reactions such as possible adverse labour-supply effects (Clavet et al., 2013) at CAD 82-184 billion (some 4-8% of GDP), depending on the benefit's phase-out rate per dollar of employment income (ranging from 50% down to 15%). However, over CAD 30 billion in saving could be expected from the cancellation of other federal fiscal measures that would arguably no longer be needed, leaving a potential net cost of as little as CAD 50 billion (about 2 ½ per cent of GDP). That could be further sharply reduced at a general government level if provincial income assistance spending could be shifted towards such a scheme. Assumptions in another recent study were more generous, with annual benefits of CAD 22 000 and 31 000 for working-age individuals and couples along with a 40% clawback rate (Pasma and Regehr, 2019). This base case was estimated to cost CAD 134 billion (5.8% of GDP) annually. If the scheme were extended to include all adults including pensioners, the estimated gross cost would rise to CAD 187 billion (8% of GDP), though of course it could be offset by winding down the Guaranteed Income Supplement programme for the elderly, which will soon cost some CAD 20 billion per year.

The premise that getting people above the poverty line from just below it automatically improves their well-being has been challenged by Kumar et al. (2017) based on the Minimum Income for Healthy Living approach developed in the United Kingdom. For individuals to achieve a dignified life (to "thrive"), they need far more than having their basic needs met. This could cost CAD 46 000-55 000 per year for a single, non-elderly Torontonian, about double the Market Basket Measure value.

Some less costly ways to confront poverty

The least-cost solution to the problem of poverty is to make targeted increases in individual incomes via the tax and benefit system. Many observers argue that an expensive universal basic income or similar transfer programme is not needed to handle the poverty problem and that a well-designed tax-cum-social-assistance reform could suffice. In principle, in 2018 all Canadians could have been lifted above the Market Basket Measure poverty line with only CAD 18.5 billion in extra transfers (Hillel, 2020, p. 26). Details of three such proposals are provided in Box 2.5. Indeed, in a very recent exhaustive assessment of alternative approaches to treating the poverty problem in British Columbia Green et al. (2020) judged that a basic income programme was not the most cost-effective strategy to achieve poverty reduction with a view to moving to a more just society, judging it to be too individualistic and lacking in a spirit of community, social interactions, reciprocity and dignity.

Box 2.5. Three options to confront the poverty problem through tax/transfer system reforms

Some researchers have devised hypothetical reforms where a guaranteed minimum income is financed by cuts to tax expenditures and other benefits without considering any linkage of benefits to labour market activation. Wolfson (2018) outlined a "guaranteed income/simplified tax" proposal that could provide every adult CAD 8 000 and every child CAD 5 000 per year with a marginal total tax rate of 38% up to CAD 125 000 per year and 50.2% thereafter. Financing would be fully provided by abolishing the basic personal exemption and all refundable tax credits, capping tax benefits on contributions to retirement savings and pension plans at CAD 10 000 per year and making capital gains fully taxable.

In a similar vein, using 2015 data, Stevens and Simpson (2017) argued that eliminating the basic deduction and five other tax credits could allow a refundable tax credit of CAD 6 657 per adult (plus an extra CAD 1 500 for people with disabilities and CAD 750 for caregivers) with only a 15% clawback rate. Replication at the provincial level would allow payments ranging from CAD 8 777 per person in British Columbia to CAD 13 973 in Québec. But it would still leave a net fiscal cost of CAD 8.1 billion (about 10% of the pay-outs) due to the 1.8% overall loss of earnings from the calculated work-disincentive effects. Poverty (as measured by the Low Income Cut Off) would be eradicated except for a rate of 19% for the single non-elderly and 1.8% for non-elderly childless couples; the overall poverty rate would drop from 12.0% to 5.2%.

Finally, Boadway et al. (2016) favoured getting rid of all tax credits and applying a 30% clawback rate, which would allow annual payments of CAD 20 000 per adult within an equivalised scale, a slightly larger earnings loss of 2.2% and a sharper fall in overall poverty (to 3.2%) than the Stevens and Simpson proposal.

Some observers believe that the new benefits provided in the wake of the pandemic can be transformed into a guaranteed minimum income. The federal government decided to replace the Canada Emergency Response Benefit on 27 September 2020 with the Canada Recovery Benefit for those ineligible for Employment Insurance – the self-employed in particular – who have lost at least half of their earnings because of the pandemic and are looking for work, something that will raise difficult administration and enforcement issues (Boadway, 2020). The Recovery Benefit is a set amount of CAD 500 per week (CAD 450 after withholding tax) for up to 26 weeks in the following 12 months, implying only a small decline in income for those previously working full-time in a minimum-wage job. It allows recipients to earn more income (up to CAD 38 000 per year) than either the Canada Emergency Response Benefit or Employment Insurance before starting to claw it back through the tax system (at a 50% rate, meaning it is all gone only for those with annual income exceeding CAD 64 000). In that sense it has some of the features of a basic income, but costs less because it excludes those who have not been working at all and those whose earnings were lower than CAD 5 000 in 2019 or 2020, which is therefore a key reason why these measures are considered to be "basic income". An unfortunate feature as far as work incentives are concerned, however, is that the effective tax rate on earnings above the threshold is very high, since personal income tax is applicable in addition to the clawback: some estimates point to marginal rates of around 80% (Boadway et al., 2020). The Canada Recovery Benefit will run for a year at a budgetary cost of CAD 9.7 billion. At the same time the federal government established a floor for Employment Insurance payments (which replace 55% of wages) also of CAD 500 per week and temporarily cut the number of insured hours needed to qualify to 120 for regular benefits and offered additional support for those ill with COVID-19 as well as caregivers; in total these changes are estimated to cost CAD 33 billion over two years. At this point the Canada Recovery Benefit has not been integrated with other social spending measures, which will no doubt generate inefficiencies.

In sum, Canadians seem to have moved a fair distance since the advent of the pandemic to endorsing the idea of providing more financial support for the poor and unfortunate in society. This is a praiseworthy goal and could be achieved at least cost by means of enhancing existing social assistance schemes or by a carefully designed tax reform.

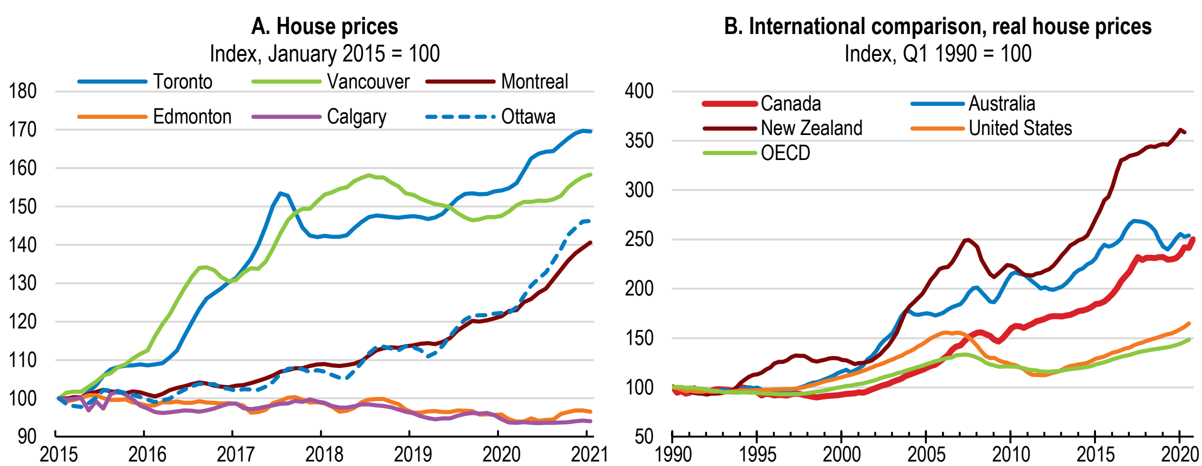
The challenges relating to housing affordability and homelessness

Affordability problems are widespread and concentrated among those on low incomes

Housing is obviously a key direct driver of overall individual and social well-being (OECD, 2019, p.156) and a bulwark for public health. In some form it figures in almost all the major composite indexes and dashboards of well-being in Canada and abroad. Canadians are by and large satisfied with their homes: in a 2018-19 survey of 65 000 Canadian households Statistics Canada (2019) found that 82.6% of respondents were either satisfied or very satisfied with their dwellings and 85.6% with their neighbourhoods. Energy efficiency was cited as the characteristic garnering the least satisfaction (62%) (Fonberg and Schellenberg, 2019). Affordability was also seen as a problem, with 30% less than satisfied, led by Toronto renters (48%) and Vancouver owners (58%). Homeowners seem to be happier than renters (Hardoon, 2020; Shi et al., 2019; Lemyre et al., 2018), especially if they are mortgage-free (Fonberg and Schellenberg, 2019). And those happiness outcomes extend to their health, with those having difficulty paying their housing costs reporting poor self-rated health more frequently (Pollack et al., 2010). One major exception to the predominance of satisfaction is in the North where the need for more and better housing is chronic, affordability problems abound, and homeownership rates are lower than elsewhere (Canada Mortgage and Housing Corporation, 2020).

Canada's major social inclusiveness challenges with regard to housing are: first, poor affordability mainly among lower-income groups, especially in major cities, notably Vancouver and Toronto (Figure 2.11, Panel A); and second, homelessness among the at-risk populations who suffer from income-based poverty but also from mental- and physical-health and substance-use and discrimination problems. Besides inclusiveness, housing markets should ideally be efficient and environmentally sustainable (OECD, 2020a). In general, Canada's housing market performs well along the first of these dimensions, less so along the second.

Figure 2.11. House price developments



Source: Teranet-National Bank of Canada House Price Index (housepriceindex.ca); OECD Economic Outlook database.

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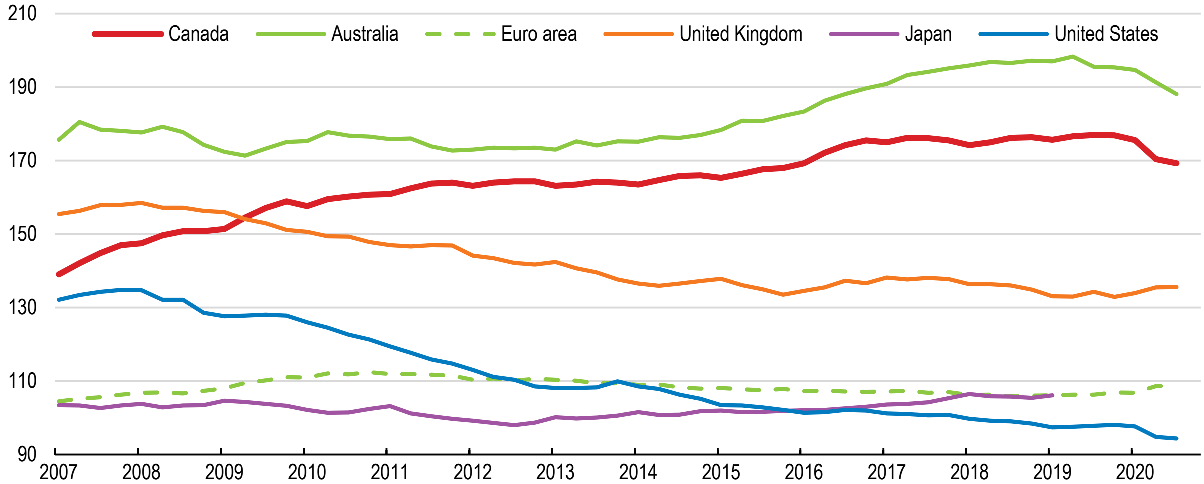
Canadian housing prices have not undergone any obvious national downturns for a very long time, even if regional markets have had bouts of weakness, such as Alberta's since the 2014 oil-price decline. Many observers had expected some weakness to emerge during the pandemic, but exactly the opposite has occurred, with strong price appreciation taking place in numerous local markets for single-family dwellings, despite an extremely robust supply response. The share of total consumption for the average household spending on own living quarters rose from 21.0% in 2010 to 22.5% in 2017, a trend that is common among OECD countries (OECD, 2020a, Figure 1.4). In 2016 it took about 10 years of disposable income for an average household to afford a typical 100-squre metre dwelling, up from only about seven years of income in 2000 (op. cit., Figure 3.1). At that point the spread of shelter spending by pre-tax income quintile ranged from 34.8% for the poorest to 27.4% for the most affluent; the gap of 7.4 percentage points compares to only 2.1 percentage points for food. Clearly, even if low mortgage rates have eased the debt-service burden for most homeowners, housing affordability has worsened for the poorest Canadians whose incomes have not kept pace with the rise in house prices that followed the downtrend in interest rates.

Prolonged strong growth in house prices is also generating inter-generational inequities: younger generations have had to delay moving out of the parental home (that is, fewer households have been formed; Leon and Iveniuk, 2020) and/or have been renters longer than earlier cohorts in order to build up enough savings for a down payment that in 2018 reached almost eight months of income for a first-time buyer with median income in Vancouver (Finance Canada, 2018). There has also been a sizable shift from single-family houses to multi-family apartments occupied by those in the 20 to 34 age bracket. Most obviously, overall household indebtedness has continued to rise (Figure 2.12), which stands out as one of Canada's few black marks among the indicators in the OECD's Better Life Index (OECD, 2020f). While insolvencies have plunged during the pandemic, a sharp reversal is expected once government support is withdrawn (Cision, 2020). Involving non-profit credit counselling services alongside government support measures would surely yield sizable benefits, even if Canadian youth outperform most others in financial literacy in the OECD's Programme for International Student Assessment, as do adults in other contexts (Klapper et al., 2015).

Canadians allocate an average of about 24% of their final consumption to housing (including water, electricity and fuels), almost two percentage points over the OECD average, but about five less than the leading Finns. A similar story pertains for imputed rents for homeowners. One study argued that the situation is especially acute in Nova Scotia whose average household allocated 47% of net income to housing in 2014, about 10 points more than 20 years earlier and eight more than the Canada-wide average (Engage Nova Scotia and the Canadian Index of Wellbeing, 2018). But, on the other hand, Canadians enjoy much more living space than most other OECD residents: Canada is the OECD's top country in terms of the number of rooms per person (OECD, 2020f), and the overcrowding rate among even low-income households in 2018 was only 1.1%, compared to a Member-country average of 16.2%. What is crucial is the number of people who cannot afford to live in a small but decent dwelling and of low-income households in dwellings that are not properly maintained, resulting in outstanding needs for major repairs (6.5% of all private households lived in such dwellings in 2016: 5.6% of owners and 8.0% of renters).

Figure 2.12. Household indebtedness

% of disposable income



Source: OECD, *National Accounts - Household Dashboard database*.

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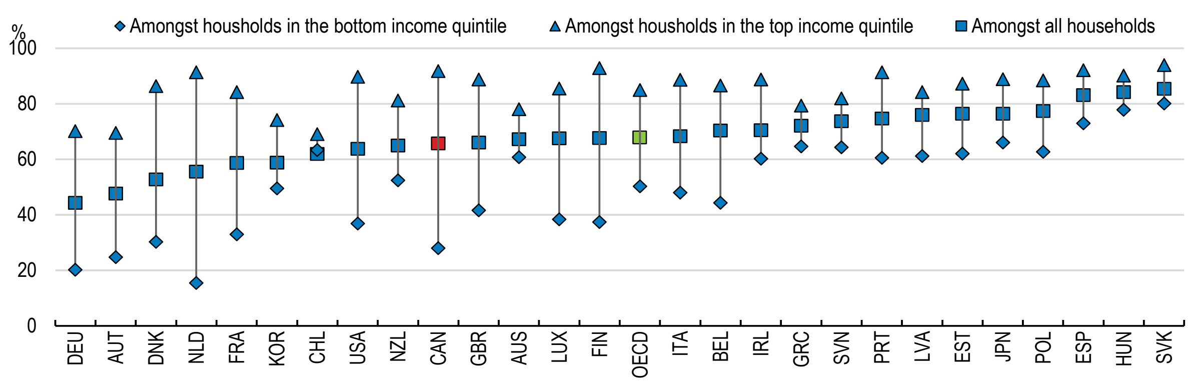
Canada's homeownership rate of 68.5% is just slightly above the OECD average of 67.8%, but the share of homeowners without a mortgage is much smaller. Homeownership is much more skewed by income than for most Member countries, however, as about 90% of those in the top income quintile were homeowners in 2016, compared to less than 30% of those in the bottom quintile (Figure 2.13).

Figure 2.13. The homeownership rate is near the OECD average but skewed towards the affluent

Share of homeowners across the income distribution, 2016



Note: Homeownership among households in the bottom net wealth quintile can be higher than among all households (e.g. in the case of the Netherlands). This is the result of composition effects in the bottom net wealth quintile. Net wealth is equal to total assets minus total liabilities, the bottom net wealth quintile can thus be composed either of low asset households, or of highly-leveraged households. Countries that experienced sharp declines in house prices in the period before 2014 (such as Ireland and the Netherlands) display high homeownership in the bottom net wealth quintile because many homeowners experienced shrinking net wealth and even negative equity due to high leverage in combination with asset depreciation. This shifted the composition of the bottom net wealth quintile towards more homeowners with a mortgage.
Source: OECD Wealth Distribution Database (oe.cd/wealth). Household Economic Survey database for New Zealand.

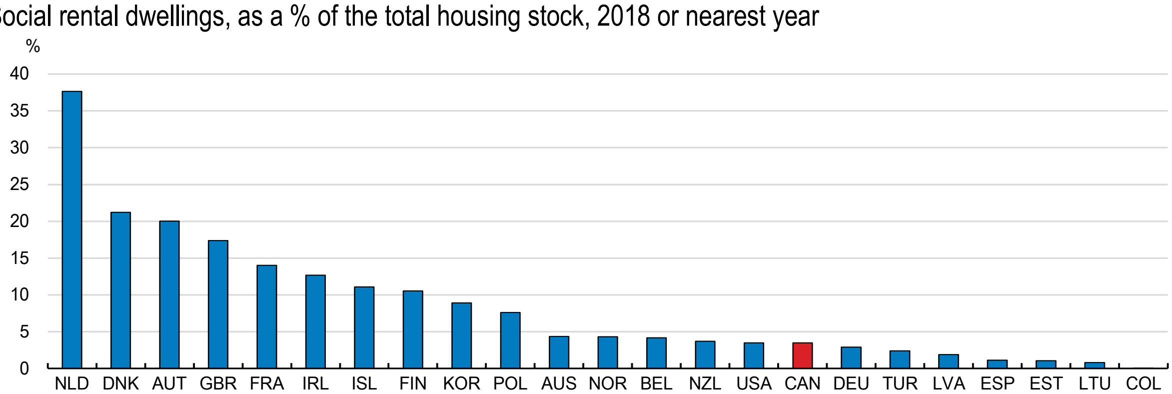
StatLink https://stat.link/efgo2k

High spending on housing is an issue mainly for those on low incomes. The so-called "cost overburden rate" – the share of households spending more than 40% of their gross income on housing – was 34.7% among renters in Canada in 2016, just above the OECD average figure (but for low-income owners with a mortgage it was 39%, well above the OECD average of 25.4%). Canadians consider housing to be affordable when it costs less than 30% of their gross income and in "core (or severe) housing need" when their housing costs more than 30% (50%). For a small number of extreme cases (8.1% of all renters), housing costs reach over 80% of income (Rech, 2019). However, the problem is one of distribution, since for all owners and private-market renters together the shares in core and severe housing need are only 5.2% and 15.3%, respectively, lower than the corresponding US figures of 6.5% and 19.7%, for example. Not surprisingly, affordability is an especially difficult problem in Vancouver and Toronto, which are ranked second and sixth least affordable of the 92 major markets in the countries covered by Demographia (2020) based on their multiples of median house prices over median gross pre-tax household incomes (11.2 and 8.6, respectively). Over the past decade these price pressures have spread outwards into nearby parts of British Columbia and southern Ontario.

A larger-than-OECD-average share of renters is in private-market rentals, as social housing (government-owned housing, which is the primary form of affordable housing) now represents less than 4% of the total housing stock (about half the OECD average share: Figure 2.14), the bulk of which was built in the 1960s and 1970s and is reaching the end of its useful life (without refurbishment). Since the presence of social housing exerts a moderating influence on nearby private rents, the shrinkage of the social stock has also been a boon to private landlords. Real government spending to fight housing poverty began to shrink already in the mid-1980s. The federal government essentially withdrew from financing affordable housing in the early 1990s. By 1996 new social housing construction had almost completely dried up. The shortage of social and affordable housing remains. While there were 629 000 households who reported living in social and affordable housing in late 2018, 284 000 reported having at least one member on a waiting list (although about a fifth of such households were already in a subsidised unit), 61% of which had been waiting for two years or more (Statistics Canada, 2019). A disproportionate share of the wait listed are in Ontario (3.4% of its population), Toronto in particular (Auditor General of Ontario, 2017). There, only 20 000 of the 285 000 below-market-rental units were built after 1996, compared to 1.36 million other dwellings.

Figure 2.14. The size of the social housing stock is relatively low in Canada

Social rental dwellings, as a % of the total housing stock, 2018 or nearest year



Note*:* For New Zealand, data refer to the number of social housing places (public housing) that are funded through central government and do not include social housing provided by local authorities. For the United States, the social housing stock includes public housing, subsidised units developed through specific programmes targeting the elderly (section 202) and people with disabilities (section 811), as well as income-restricted units created through the *Low-Income Housing Tax Credit* (LIHTC) programme; the number of public housing units as well as section 202 and 811 dwellings financed through the LIHTC programme have been adjusted to avoid double-counting, following OECD correspondence with the U.S. Department of Housing and Urban Development. For Canada, data exclude units managed by the *Société d'habitation du Québec* (SHQ) for the Province of Québec. Turkish data includes only social housing produced between 2002 and 2020 by the Housing Development Administration (TOKİ) and exclude those provided by local governments. For Spain, the figures may also contain other types of reduced rent housing, e.g. employer-provided dwellings. For Colombia, data refers only to social rental housing produced since 2019 in the *semillero de propietarios* programme.
Source: OECD, Housing Synthesis Report (forthcoming).

StatLink https://stat.link/9i8th7

The federal government has implemented a National Housing Strategy

The then newly elected federal government developed the first National Housing Strategy (*A Place to Call Home*) in 2017. The ten-year, initially CAD 40 billion plan (an average of 0.2% of current GDP; since expanded to over CAD 55 billion in the 2018 and 2019 Budgets) is designed to reduce or eliminate housing need for some 530 000 households of the 1.7 million judged to be in core housing need in 2016 and reduce chronic homelessness by half by 2027-2028. Through a combination of CAD 16.1 billion in extra federal funds, pre-existing federal budgets and matching funds from provinces and territories it will: 1) finance up to 125 000 new homes (over four times the number in the decade ending in 2015); 2) repair and renew a further 300 000 units (three times as many as in the previous decade) to catch up on deferred maintenance and improve energy efficiency; 3) provide CAD 1.74 billion for several Indigenous-led housing measures; and, 4) (as of April 2020) provide a new Canada Housing Benefit directly to an estimated 300 000 recipient households in need, worth an average of CAD 2 500 per year by the end of the decade. Such housing allowances avoid disincentives to mobility and may be more equitable than affordable housing, yet they may also perversely raise rental prices (Salvi del Pero et al., 2016). In 2020 the federal government also launched the Rapid Housing Initiative, a CAD 1 billion dollar measure for the rapid construction of as many as 3 000 permanent affordable housing units.

Options for improving housing affordability

Increasing the supply of housing would help to improve housing affordability. While Canada's estimated long-run housing supply elasticity seems to vary substantially across the country (from less than 0.5 in Toronto and Vancouver to about 2.0 in Edmonton) due to different geographic constraints and regulatory settings (Canada Mortgage and Housing Corporation, 2018), its national housing supply elasticity is only average by OECD standards (Cavalleri et al., 2019). It could have been expected to be greater than that because of its extensive land availability (even if most people live in a narrow strip of land near the US border). Raising it would ease the housing cost burden (Cavalleri et al., 2019). This could be done in Canada by ensuring a competitive construction sector, reducing rent controls and relaxing strict zoning and land-use regulations and urban containment policies, which serve to raise land values, generate greater urban sprawl and slow local growth (Demographia, 2020; Green et al., 2016). The authorities have recognised the importance of encouraging more supply and in August 2020 announced a five-year CAD 300 million Housing Supply Challenge, with CAD 25 million in a first round focusing on data gaps and future rounds related to other aspects of supply including northern housing.

Demand factors could also play a crucial role in rising house prices and increasing affordability problems (Gordon, 2020a). Declining (real) mortgage rates have been the most important factor in boosting demand and improving affordability for buyers. Tax considerations are also important. Even if tax relief for homeowners is comparatively limited and residential property taxes are heavy, the system is by no means neutral between owning and renting. Property taxes could conceivably be made progressive and land-value-capture taxes/fees for capital appreciation due to publicly provided infrastructure could be instituted, as in New Zealand. Gordon (2020b) argues that non-residents, mainly from China, have a tax advantage over those paying income tax in Canada in using their cumulated wealth to purchase Canadian property and shows that the non-resident share of purchases is a significant determinant of housing price-to-income ratios in Vancouver and Toronto. One solution is to tax foreign purchases, as British Columbia and Ontario have done (even if these taxes may be skirted by using proxy buyers not subject to the tax or by opaque corporate ownership structures). Another is to tax foreign speculators who leave their properties vacant, as British Columbia started to do at end-2018 with its Speculation and Vacancy Tax (Gordon, 2020b). These policies seem to have had some limited success, though disentangling the effects from those of actions by the Chinese authorities to discourage such capital outflows to avoid excessive risk-taking is difficult. Finally, in principle of course, non-residents could be made liable for a penalty rate of local property tax as well.

Policies could also focus to a greater extent on keeping rents affordable. To that end the federal government just announced its intent to boost the existing Rental Construction Financing Initiative by CAD 12 billion over seven years. It allows the Canada Mortgage and Housing Corporation to provide low-interest loans and mortgage insurance for developers of purpose-built rental housing. The extra funds should allow the construction of some 28 500 units. Some call for a sizeable increase in the existing CAD 13.2 billion National Housing Co-Investment Fund (Campaign 2000 End Child and Family Poverty, 2020; CCPA, 2020), which supports new construction and renovation of existing units and requires applicants to keep rents for at least 30% of units in supported projects below 80% of the area's median market rental rate for 20 years. The generosity of the Canada Housing Benefit could also be further boosted (CCPA, 2020), though some of the benefit will leak into rents and therefore accrue to landlords, especially in tight local housing markets where supply is inelastic. In addition, governments could prioritise social and affordable housing when disposing of surplus land, as was begun on a modest scale under the Federal Lands Initiative in 2019 with five sales in four cities.

Some of the features of Ontario's affordable-housing system need to be reconsidered. First, municipal providers should require those who no longer qualify for such housing to leave, as all four western provinces allow for, although there are trade-offs to incentivising better-off tenants to move out ("throughfare") (OECD, 2020k). Second, providers should be required to prioritise more generally those in greatest need of housing, not just victims of family violence. All providers should implement maximum asset tests so as to preclude those having over a million dollars in assets being eligible. Third, the province should examine ways of avoiding the apparent poverty trap that discourages people from getting a job if they lose their rights to such housing and end up worse off.

Innovative forms of housing and its financing should be piloted and encouraged so as to encourage a faster shift away from the idealised single-family home, whose predominance has led to excessive use of cars, with their costly externalities in terms of congestion, air pollution and carbon emissions. Besides changing urban planning so as to increase urban density that would justify greater investments in public transit. In addition, more emphasis could be given to general "co-living" arrangements (with small private bedrooms and large communal social spaces) for single-person households and to mixing housing of different kinds (such as combining seniors' with either student housing or childcare, as Japan has done in its *yoro shisetsu*) (OECD, 2020l). Redundant office space from increased teleworking and hotels and motels bankrupted during the current economic crisis could be turned into affordable housing. More low-cost modular housing could be built. A larger financial boost in the form of seed capital (Hunsley, 2020), could be provided for housing co-operatives or trusts (also called associations), which in Canada currently comprise about 93 000 households with about a quarter of a million people. Co-operatives play a substantial role in the market in Australia, Austria, Denmark, Germany, the Netherlands and Sweden (OECD, 2020a, Boxes 8.3 and 10.1; Caturianas et al., 2020, Tables 3 and 6) and were estimated in 2003 to be 14% more cost efficient than other forms of multi-unit housing (Auditor General of Ontario, 2017). Similarly, the First-time Home Buyer Incentive shared-equity programme could be expanded (Temkin et al., 2011); it allows purchasers to have less mortgage debt and share symmetrically in the price risk, while US experience shows that they perform just as well in terms of mortgage delinquencies (Theodos et al., 2019). To this point uptake has been low.

Homelessness is a chronic problem with heavy well-being costs

Observers have called Canada's homelessness problem a crisis for at least a decade now (Gaetz, 2010). Primary homelessness includes those sleeping rough or in emergency shelters. But there are many others in precarious situations, including those who "couch surf" with friends or family, often termed the "hidden homeless" (OECD, 2020j). Some people experience homelessness over a long period, while for others the condition is transitional. Many are employed, but their wages are so low that they cannot afford food and shelter cost increases. Stakeholders believe that 85% experience homelessness solely because of affordability issues (Employment and Social Development Canada, 2018b). Increases in homelessness are driven by structural factors (such as tight housing markets, gentrification, the entry of financial investors into the sector, labour market changes and a shrinking social safety net), institutional and systemic failures (when people exit from foster care, the criminal justice system, the military, hospitals and mental-health facilities), often in combination with individual circumstances. People experiencing homelessness have clearly suffered even greater deprivation during the ongoing pandemic (CCPA, 2020), which has underscored the cracks in Canada's social safety net, given how difficult social distancing is for those without stable housing and how isolating life is for them. Homelessness often begins with an eviction. OECD data show that Ontario has a very high rate of initiated eviction, surpassed only by the United States. A recent paper by Leon and Iveniuk (2020) examines eviction applications in Toronto neighbourhoods and concludes that they are related to the local poverty rate, the share of Black households and the amount of subsidised housing (negatively).

Canadians experiencing chronic homelessness live as many as 25 fewer years than others (in France the gap is up to 35 fewer years) and (although causality is hard to determine) suffer from higher risks of mental illness (one-third of the homeless suffer from it, especially women (Rech, 2019)), food insecurity (Fafard St. Germain and Tarasuk, 2020), substance-use problems and sexually transmitted diseases. Homelessness also multiplies the costs of other societal ills such as family strife and unemployment (Laird, 2007; OECD, 2020j). It imposes heavy fiscal costs even without explicit policy treatment: people experiencing homelessness require counselling and extra medical and emergency room services and sometimes additional criminal-justice spending. Those costs have been estimated at CAD 55 000 per person annually. Indeed, every dollar spent on affordable housing and support for the chronically homeless is said to save CAD 2.20 in public spending for health, social services and justice (Gaetz et al., 2014).

How widespread is homelessness in Canada? The COVID-19 pandemic has had a profound impact on homelessness. During the pandemic, government aid has prevented many of the poorest from losing their homes, and evictions have been curtailed, but there is not yet evidence on increases in its prevalence beyond visible encampments in cities such as Victoria, Toronto and Edmonton. The latest figures (from the March-April 2018 nationally coordinated Point-in-Time count) show that across 61 communities there were about 32 000 individuals experiencing homelessness on a single night, of which 65% were in shelters, 21% in transitional housing and 14% sleeping rough, (Employment and Social Development Canada, 2019a). In 2016 129 127 people (0.36% of the population) used the nation's 400 or so emergency shelters, including victims of family and gender-based violence. This was down moderately from about 156 000 in 2005 and 142 000 in 2010. Putting these figures into international context is difficult because of a number of measurement issues (Table 2.5).

The province of Alberta has managed the steepest decline over time, thanks to its adoption of policies – a long-term strategy involving a multi-level political commitment to end homelessness and a shared, collaborative approach in policy and services – emulating Finland, which has recorded a sharp drop over the last decade, along with only three other EU countries (Baptista and Marlier, 2019). Youth homelessness has also diminished, but the numbers have been increasing for seniors (Employment and Social Development Canada, 2019b). Trends have been disparate: as mentioned, various Albertan cities have made substantial progress in lowering their numbers by adopting more innovative, integrated and cooperative approaches to the problem, but Toronto's situation has grown more severe, as efforts made by the city have been unable to achieve an inclusive regime open to civil society (Doberstein, 2016), and the city has reduced community-based crisis services. Nationally, about 70% of those accessing shelters are men, 31% Indigenous (far beyond their 4.9% population share), 17% youth and 6% immigrants/refugees (Baker, 2019). In addition, approximately 20% experience chronic homelessness (defined as: individuals who have experienced homelessness for at least six months over the past year or have had recurrent experiences of homelessness over the past three years, with a cumulative duration of at least 18 months. Length of stay at shelters has increased in recent years, thus, while overall numbers have declined, nightly occupancy of the approximately 15 000 emergency shelter beds available is still over 90% (Employment and Social Development Canada, 2019b).

Policies to deal with homelessness

In principle, policies to address homelessness fall into categories of preventive measures, emergency actions or ways of encouraging people to transition into some form of acceptable and sustainable housing (OECD, 2020j). All three are part of an optimal strategy, but for a long time many countries, including Canada, put too much emphasis on the emergency-measures component, what some have termed “managing the crisis” (Gaetz, 2010). Although responsibility for social and welfare services rests with the provinces and territories, the federal government has made significant investments to support those serving the homeless, including through Reaching Home: Canada’s Homelessness Strategy (see below), mainly for health and other services at the community level (Doberstein and Smith, 2016; Gaetz, 2010). On average, approximately CAD 13 was invested in addressing community homelessness issues for every dollar spent by the federal homelessness programme in 2015-16 (Employment and Social Development Canada, 2018a).

Table 2.5. Homelessness in an international perspective

	Year	Number of homeless[1]	Homeless as % of total population[2]	Figures include *more than* persons living rough, in emergency accommodation and in accommodation for the homeless?
Australia	2016	116 427	0.48%	Yes
Austria	2017	21 567	0.25%	No
Brazil	2015	101 854	0.05%	Not provided
Canada[3]	**2016**	**129 127**	**0.36%**	**No**
Canada[3]	**2018**	**32 000**	**0.09%**	**Yes**
Chile	2019	14 013	0.07%	No
Croatia	2013	462	0.01%	No
Czech Republic	2019	23 900	0.22%	Yes
Denmark	2019	6431	0.11%	Yes
Estonia	2011	864	0.06%	Yes
Finland	2018	5482	0.10%	Yes
France	2012	141 500	0.22%	No
Germany	2018	337 000	0.41%	Yes
Greece	2009	21 216	0.19%	Yes
Hungary	2014	10 068	0.10%	No
Iceland	2017	349	0.10%	Yes
Ireland	2018	6194	0.13%	No
Israel	2018	1825	0.02%	No
Italy	2014	50 724	0.08%	No
Japan	2019	4555	0.00%	No
Latvia	2017	6877	0.35%	Yes
Lithuania	2011	857	0.03%	No
Luxembourg	2014	2059	0.37%	Yes
Mexico	2010	40 911	0.04%	Yes
Netherlands	2016	30 500	0.18%	Yes
New Zealand	2013	41 207	0.94%	Yes
Norway	2016	3909	0.07%	Yes
Poland	2019	30 330	0.08%	Yes
Portugal	2017	4414	0.04%	No
Slovenia	2015	2700	0.13%	No
Slovak Republic	2011	23 483	0.44%	Yes
Spain	2012	22 938	0.05%	No
Sweden	2017	33 250	0.33%	Yes
United States	2018	552 830	0.17%	Yes
UK: England	2017	(57 890 households)	(0.26% households)	Yes, but limited to certain priority categories
UK: Northern Ireland	2018	(9673 households)	(1.23% households)	Yes, but limited to certain priority categories; includes those threatened with homelessness
UK: Wales	2018	(10 737 households)	(0.80% households)	Yes, but limited to certain priority categories; includes those threatened with homelessness
UK: Scotland	2018	(36 465 households)	(1.50% households)	Yes; includes households threatened with homelessness

1. Methodologies differ across countries for calculating the homeless population, so the counts are not comparable across countries. In particular, since many people cycle in and out of homelessness throughout a year, period prevalence rates are several times larger than point-in-time counts, which measure homelessness on a single night.
2. Refers to population on 1 January of the year of reference, see OECD Population database.
3. Canada: the first, higher figure is a period prevalence figure for the number of emergency shelter users; the lower figure is for a point in time but includes those in transitional housing and sleeping rough.
Source: *OECD Policy Brief on Affordable Housing* (2020), Indicator HC3.1.1, except for Canada’s point-in-time estimate.

Gradually Canada has joined a large number of other OECD countries in adopting the principle of Housing First, which is based on securing permanent housing as rapidly as possible for those experiencing homelessness and only then dealing with their other problems. At least for highly vulnerable groups, its success has been clearly demonstrated (Stergiopoulos et al., 2015), most remarkably in Medicine Hat (Alberta) where chronic homelessness has been eradicated.

To prevent individuals and families from becoming homeless, more could be done to avoid evictions beyond the current moratoria and other measures taken during the pandemic, such as by focusing interventions at that stage (through better coordination with substance-use and mental-health supports and anti-poverty measures, and improved mediation and strengthened legal aid) and of course by boosting rental supply by the various means discussed in the previous section.

Preventing and reducing homelessness is a key component of Canada's National Housing Strategy, which includes funding of CAD 2.2 billion over 10 years to expand and extend federal homelessness programming. Launched in April 2019, Reaching Home: Canada's Homelessness Strategy is intended to support the most vulnerable Canadians in maintaining safe, stable and affordable housing and to reduce chronic homelessness by half by 2027-2028. It is a community-based programme that provides direct financial support to urban, Indigenous, rural and remote communities to help them address their local homelessness needs, including those of seniors, the LGBTQ2 community, victims of family violence, racialised people, Indigenous peoples, youth, veterans and those with disabilities, mental health and addiction issues. Cumulative additional funding of almost CAD 700 million was announced during 2020 to help the sector manage the impacts of the pandemic and lower the risk of COVID-19 transmission amongst people experiencing homelessness by reducing overcrowding in shelters, establishing isolation spaces and securing additional accommodation, notably over the winter months, as well as by delivering more permanent housing solutions and other prevention activities to stem the inflow into homelessness caused by the economic downturn. A National Housing Council was announced in November 2020, including the yet-to-be-named Federal Housing Advocate. That should be resourced adequately. Annual monitoring reports are to begin soon, outcomes will be analysed and results will help to inform future federal homelessness policy and programme design. Looking forward, the importance of system coordination and governance in tackling homelessness has been emphasised (Doberstein, 2016), and some observers have called for an enhanced federal-provincial partnership on housing issues (CCPA, 2020).

The role of physical and mental health status in determining well-being

The relative importance of health outcomes in well-being determination

Health is the dimension of life where there is the strongest consensus across OECD countries about its centrality to people's well-being. In a recent assessment of 20 well-being dashboards developed by Member governments all but one (which focused on environmental sustainability) featured health, and there is also a fairly high degree of alignment among them as to what indicators to use to reflect this dimension (Exton and Fleischer, 2020). Health outcomes – whether measured by objective or subjective indicators – are also important determinants of life satisfaction. Together they explain some 20% of cross-country differences, exceeded only by per capita incomes at 49%. In Canada, the life-satisfaction penalty for poor or fair subjectively assessed mental health is even greater than its counterpart for physical health (Shi et al., 2019). Some experts believe that these figures may be biased by common mood effects and so prefer to use objective health indicators (Clark, 2018). The two can give quite different readings at the aggregate level: according to the Canadian Institute for Health Information, in 2015-17 Newfoundland and Labrador has the second best self-reported overall health among Canadian provinces but is among the worst for objective measures like life expectancy at birth or at age 65.

The most commonly used objective health indicator is life expectancy, though usually there is some sort of adjustment for the person's health status. Canadians have a life expectancy at birth of around 82 years, up around five years since 1990. This places them in the middle of nations at a similar level of income. A recently released survey from the Conference Board covering 11 high-income OECD countries in a recent survey by the Commonwealth Fund that shows that Canadians are more likely to have multiple chronic conditions and mental health conditions and an avoidable emergency-room visit in the past two years than most others (Doty et al., 2021).

Income has a large impact on Canadians' life expectancy, as it does on a variety of health-related outcomes including mental illness and suicide rates, with people in top-quintile neighbourhoods enjoying a four-year advantage in life expectancy and about half as many cases of mental illness and suicide as those in a bottom-quintile district (Table 2.6); unfortunately, no comparable data exist for other countries. Income makes a significant difference to the share of Canadians having multiple health conditions or mental health conditions, as well as in various access measures such as having to skip health care (especially dental care) because of cost, lacking a regular provider or place of care and experiencing difficulties in getting after-hours care (Doty et al., 2021). But it makes no difference in the ability to make an appointment for primary care within a day, no doubt because of the anti-queue-jumping provisions of the Canada Health Act. Differences in education also have a significant impact on health outcomes, as do other measures of socio-economic status; indeed, a few years ago it was estimated that health inequalities led to CAD 6.2 billion in extra annual health-care spending (Public Health Agency of Canada, 2016). Once adjusted for health status the impacts of income and education on life expectancy are much larger: the shortfall is over 11 (adjusted) years for the lowest quintiles in each case. As well, Indigenous people have lower average life expectancy, by about a decade; they also have much more mental illness and higher attempted suicide rates (see section below).

Table 2.6. Inequalities in life expectancy and hospitalisations for mental illness and suicide

Comparisons with reference group (male, non-Indigenous identity, high foreign-born population area, large urban centre other than Toronto, Montréal and Vancouver, highest income/education and least deprived quintile areas)

	Life expectancy: differences in years	Hospitalisations for mental illness: rate ratio	Hospitalisations for attempted suicide: rate ratio
Female gender	+4.5	1.2	-3.3
Indigenous identity	-10.5	N.A	N.A
Area with predominance of First Nations	-11.2	3.0	3.7
Area with predominance of Métis	-6.9	2.1	2.7
Area with predominance of Inuit	-12.0	2.2	6.5
Low foreign-born population area	-2.9	1.3	1.7
Medium foreign-born population area	-1.0	1.1	1.3
Remote area	-3.7	2.0	1.9
Rural area	-1.1	0.9	1.3
Small urban centres	-1.0	1.5	1.1
Toronto, Montréal, Vancouver	+1.5	0.9	0.8
Lowest income quintile area	-4.1	2.2	1.8
Lowest education quintile area	-3.1	1.5	1.6
Most materially deprived quintile area	-3.8	2.2	1.6
Most socially deprived quintile area	-2.8	2.9	1.7
Highest combined deprivation quintile area	-5.9	5.5	2.7

Source: Pan-Canadian Health Inequalities Reporting Initiative (2018), *Key Health Inequalities in Canada: A National Portrait*, Annexes 1 and 2.

Health inequality in Canada is generally low- to-middle ranking. OECD (2019d) looked at 14 health-inequality indicators in terms of exposure to risk factors and access to health care for 33 countries and found Canada to be in the low-inequality group for five and the intermediate group for smoking, general practitioner and specialist visits and breast-cancer screening (data were lacking for the other indicators). In comparative terms Canada's penalty in terms of self-assessed health for low educational attainment is smaller than the OECD average (OECD, 2020f), and utilisation of health-care services is unequal in a variety of dimensions, but especially for dentistry (a finding confirmed by the Commonwealth Fund), no doubt because of its poor insurance coverage (OECD, 2019d; Doty et al., 2021). In addition, specific groups are at a considerable disadvantage. Canada maintains a database of over 100 health indicators disaggregated by 14 social stratifiers and produces a monitoring report every four or five years. Findings of interest are that those identifying as bisexual suffer from noteworthy health inequality (e.g. self-rated mental health, suicide attempts, arthritis and asthma; see (Table 2.8 below), and otherwise such inequality is highest for Indigenous people and racialised populations.

Canada spends 11.6% of its GDP on health care, much less than the United States, but well above the OECD average of 8.8%. That share is very likely to rise steadily in coming years, even without any future pandemic (Drummond and Sinclair, 2020), mainly because of population aging and new medical technologies, notably in the form of innovative drugs and those to treat rare diseases.

With provincial/territorial responsibility for the delivery of health care, Canada can compare outcomes regionally and draw the appropriate conclusions from any systematic differences. However, for that potential to be properly exploited, health information systems need to be consolidated (Drummond and Sinclair, 2020), and data quality and timeliness improved. One example is cause-of-death statistics in the current pandemic, which have been gathered and transmitted from the provinces to the relevant central authorities very slowly, encumbering the analysis needed for an optimal policy response. Scotland manages that in merely four days. The role of data and digital technology in achieving health policy objectives has been examined in OECD (2019g).

Waiting times have been a longstanding concern

One longstanding concern in Canada has been waiting times for many different health services (including for mental health, discussed below), notably non-emergency treatments. Survey data published by the Fraser Institute show they reached a median of 21 weeks in 2019 but varied from 16 to 49 weeks across provinces (Barua and Moir, 2019). An estimated 2.9% of the population was waiting for some procedure at that point in time, leading 1.5% of the population to seek treatment outside the country during the year. The economic cost of these waiting times aggregated to an estimated CAD 1.9 billion in 2017, counting only lost working time (Barua and Hasan, 2018). No research has looked at how large is the negative well-being impact of having to wait for treatment. Official data tell a similar story. Despite government-recommended waiting-times ceilings, nearly 30% of patients do not receive treatment for joint replacements and cataracts within those time frames. There has been clear deterioration in recent years (Canadian Institute for Health Information, 2020), in spite of greater resources, due to demand-increasing population ageing and, for joint replacements, rising incidence of osteoarthritis and obesity. Postponement of interventions due to the COVID-19 pandemic is likely to have worsened the waiting-times problem.

Compared to other countries Canada's waiting times are around the OECD median, but much longer than in the best performing countries like Denmark and Italy (Table 2.7). In the recent Conference Board survey only Sweden had a worse outcome than Canada for the share of people unable to make a primary-care appointment within a day among the 11 countries included (Doty et al., 2021). The Canadian authorities recognise that waiting times are an issue in all types of health services recently surveyed by the OECD, as is the case for only five other countries out of 24 (OECD, 2020d). Other countries have managed to make progress, notably Denmark, England and Finland.

The primacy of mental health in determining well-being

According to the World Health Organisation, good mental health is a state of well-being in which the individual realises their abilities, can cope with the normal stresses of life, can work productively and is able to make a contribution to their community. According to the Institute of Health Metrics and Evaluation, mental disorders afflict up to about one in eight adults in the world at any one time – many more at some point in their lifetime: the Public Health Agency of Canada believes it to be one in three in Canada if one includes substance use/dependency problems as well. Recent OECD/WHO data (which admittedly suffer from some comparability problems) show that its treatment cost CAD 9.6 billion in 2010, some 10.6% of total health expenditures, a share exceeded only by France, Norway and Germany (Figure 2.15). Its total economic burden for Canada was pegged at close to 3% of GDP in 2012 (Mental Health Commission of Canada, 2012) but over 4% of OECD GDP once indirect costs are included. Those who suffer also tend to be exposed to poverty, low skills and joblessness (or at least job insecurity). The risks of hospitalisation for mental illness and of suicide are significantly higher for those who are materially and/or socially deprived, poorly educated, on low income or Indigenous (Table 2.6 above). It is likely that, as for physical ill-health, more effort should be devoted to prevention of mental illness. But the treatment of mental ill-health beyond the obviously required long-term support for those with severe psychoses is thought to be particularly cost effective, because it saves on physical health-care services and generates large productivity gains (*Global Happiness and Wellbeing Policy Report 2019*, Chapter 3). Layard (2019) argues that it is cheaper in well-being terms to treat more people for depression and anxiety than to improve physical health or implement pro-poor income redistribution and even, by a narrow margin, than to lower unemployment through active labour-market policies. Also, more needs to be done to ensure that patients are treated respectfully by health-care professionals (OECD, 2019h) and to integrate mental health and employment policy, an area where Canada does relatively well but has nonetheless scope for further progress.

Table 2.7. A cross-country comparison of waiting times

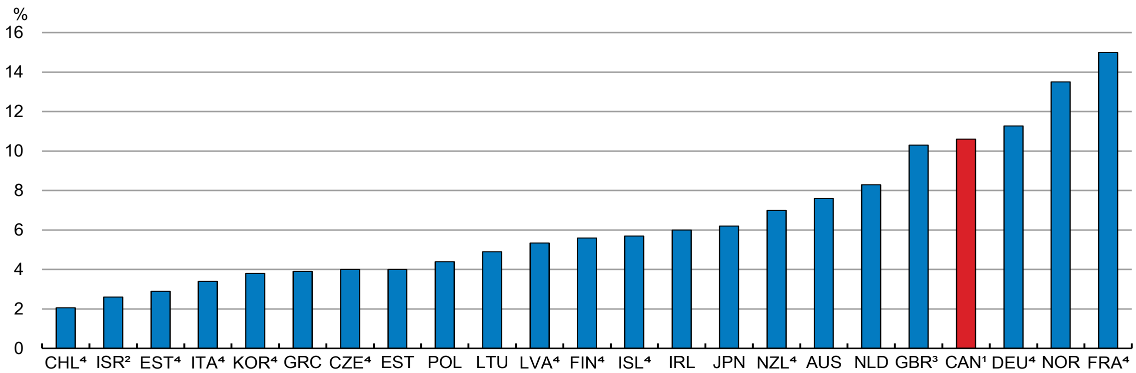
Median waiting times for selected elective surgeries (days), 2018

	Cataract surgery	Hip replacement	Knee replacement	Prostatectomy	Coronary bypass
Australia	84	119	209	44	17
Canada	**66**	**105**	**122**	**40**	**6**
Chile	97	240	839	69	26
Denmark	36	35	44	36	10
Estonia	187	282	461		
Finland	97	77	99	39	15
Hungary	36	43	85	10	22
Israel	77	56	85	36	5
Italy	24	50	42	36	9
New Zealand	82	81	89	66	62
Norway[1]	132	123	152	105	62
Poland	246	179	253		
Portugal	119	126	204	81	5
Spain	74	118	147	75	37
Sweden	51	75	90	45	7
United Kingdom	65	92	98	35	55
Country median	**76**	**99**	**111**	**42**	**16**

1. Waiting times for Norway are over-estimated because they start from the date when a doctor refers a patient for specialist assessment, whereas elsewhere they start only when a specialist has assessed the patient and puts them on the waiting list for treatment.
Source: OECD Health Statistics.

Figure 2.15. Spending on mental health

Mental health spending as percentage of total health spending, 2018 (or latest year)



1. Includes dementia.
2. Covers only inpatient (mental health hospital) care.
3. Data for England.
4. Covers only public health spending.

Source: World Health Organisation (2018), *World Health Atlas 2017*; OECD (2020), *OECD Mental Health Performance Benchmarking Data and Policy Questionnaires,* OECD Publishing, Paris.

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In 2015 the Mental Health Commission of Canada (2015) published a dashboard of 55 mental-health indicators, which they graded according to a traffic light system: only 6 were coded green, 28 yellow and fully 21 red. The Public Health Agency of Canada has since developed a helpful Positive Mental Health Surveillance Indicator Framework covering a wide variety of dimensions (notably emphasising "positive" mental health) and separating adults from youth, a useful distinction since their situations are often different. However, the latest (2019) version contains a majority of data that are rather out of date and nothing newer than from 2017, limiting its effectiveness. In August 2020 data from the 2019 Canadian Community Health Survey were released, showing that 67% of Canadians over 12 living in the ten provinces rated their mental health as very good or excellent, down from 72% in 2015 (Statistics Canada, 2020a) (Table 2.8). Declines were widespread regionally as well as by age group (except for seniors), gender, Indigenous or visible minority status and sexual orientation. There was a parallel increase in the share of the population 12 years old and over reporting a diagnosed mood or anxiety disorder (from 12% to 14%), with an especially pronounced jump for those aged 18 to 34 (13% to 17%).

Table 2.8. How Canadian adults and youth assessed their mental health in 2019

Share of Canadians (excluding the territories) reporting very good or excellent mental health, 2015 and 2019, %

	2015	2019
Canada, excluding the territories	72	67*
Sex		
Males	74	70
Females	70	64
Age group		
12 to 17	78	73*
18 to 34	72	61*
35 to 49	72	67*
50 to 64	72	70*
65 and older	71	71
Indigenous, all ages[1]	63	54*
Indigenous, aged 18 to 34	59	47*
Non-Indigenous, all ages	73	68*
Sexual orientation[2]		
Heterosexual	73	68*
Gay or lesbian	70	58*
Bisexual	43	37*
Canadians designated as visible minorities	73	67
Black Canadians	74	66

* Significantly different from 2015.
1. Indigenous includes First Nations off reserve (but excludes those in remote northern areas in the provinces), Métis and Inuit outside Inuit Nunangat.
2. The question on sexual orientation is posed to respondents aged 15 and older.
Source: Canadian Community Health Survey, 2015 and 2019.

The COVID-19 pandemic and the resulting economic downturn – like other downturns – has worsened the public's mental health (Findlay and Arim, 2020). Some groups have suffered more, notably women and especially, according to a crowdsourcing survey, gender-diverse individuals (Moyser, 2020b), recent immigrants (Evra and Mongrain, 2020), youth, health-care workers, Indigenous people and those from racialised populations (see below). In June 2020 the Mental Health Commission of Canada and the Conference Board of Canada (2020) reported that 84% of 1 800 people surveyed had heightened mental-health concerns (based on 15 indicators) during the lockdown, although other surveys show lower figures. But Canada is not alone in this regard: in Europe, the life-satisfaction effects of degraded mental health in April 2020 as compared to the 2019 average were estimated at 3.5 times the loss in GDP per capita in well-being terms, and the share of respondents who self-reported good or very good health fell from 69% to 63%, while those reporting being depressed (lonely) rose from 6%(6%) to 13% (17%) (Allas et al., 2020). Canadians, however, reported better physical health in the pandemic (Findlay and Arim, 2020), and those who became more physically active did much better in well-being terms than those who became less active (Lesser and Nienhuis, 2020).

In order to improve access to mental health care then Canada should implement maximum waiting times for adult mental-health services as many other OECD countries have done, among them Australia and England. To be effective, however, this would probably require adequate resources to provide increased service volumes. As well, it should adopt even more stringent ceilings for children and adolescents, given the long and growing waiting lists in evidence in Ontario, for example (OECD, 2020d).

The role of health behaviours, especially problematic substance use

Health behaviours, including substance-related harms, lower life expectancy and harm well-being. For example, the well-being benefit of not smoking has been estimated to have been worth CAD 563/week (which cumulates to around 62% of per capita GDP) in 2009-10 (Shi et al., 2019). Obesity (and thus the risk of diabetes and dying from COVID-19) (Holly et al., 2020), smoking and harmful alcohol consumption all vary socio-economically in Canada, as in other countries (OECD, 2019d) (Table 2.9). Gender, income, educational attainment, sexual orientation and Indigenous and ethnic status all have clear associations. Problematic substance-related harms are arguably the most serious health behaviour. The latest data show that altogether almost 76 000 Canadians died of substance-related causes in 2017, which cost the Canadian economy CAD 46 billion (2.9% of GDP), up 6% in the previous two years (Canadian Centre on Substance Use Costs and Harms Scientific Working Group, 2020).

Table 2.9. Inequalities in obesity, high alcohol consumption and smoking

Prevalence ratios compared to the reference category (female, non-Indigenous, white, heterosexual, non-immigrant, large urban centres other than Montréal, Toronto and Vancouver, highest income quintile, university graduate)

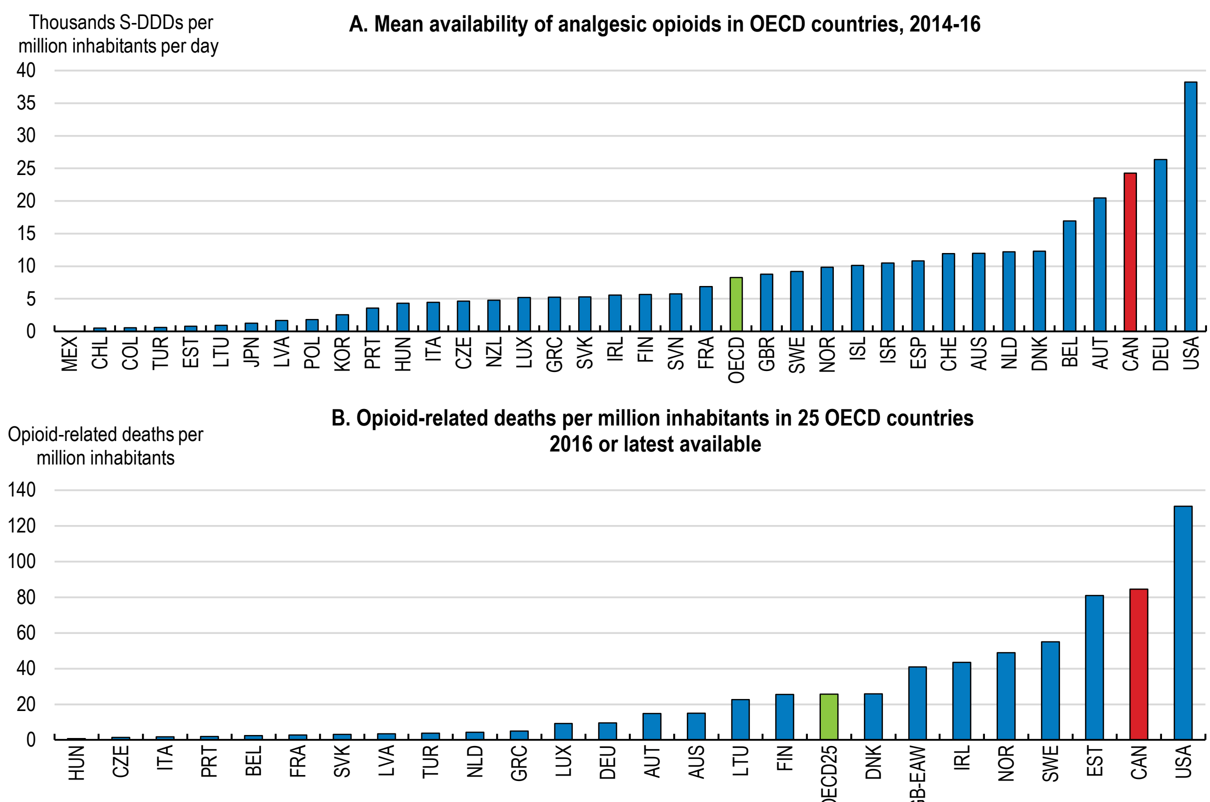
	Self-reported obesity	High alcohol consumption	Smoking
Male	1.1	2.3	1.3
First Nations	1.6	1.3	1.9
Métis	1.4	1.4	1.7
Inuit	1.6	1.3	2.4
Black	1.0	0.3	0.5
East/Southeast Asian	0.3	0.3	0.5
South Asian	0.6	0.3	0.3
Arab/West Asian	0.8	0.3	0.8
Bisexual	0.9	1.2	1.6
Lesbian/gay	0.9	1.3	1.4
Recent immigrant	0.6	0.3	0.5
Non-recent immigrant	0.7	0.5	0.6
Remote areas	1.3	1.1	1.3
Rural areas	1.2	1.0	1.2
Small urban centres	1.2	1.0	1.2
Toronto, Montréal, Vancouver	0.8	0.7	0.9
Lowest income quintile	1.2	0.6	1.9
Less than high-school education	2.0	1.4	3.9
High school graduate	1.6	1.3	2.6

Source: Pan-Canadian Health Inequalities Reporting Initiative (2018), *Key Health Inequalities in Canada: A National Portrait*, Annexes 1 and 2.

Canada has also been suffering from a comparatively severe epidemic of opioid-related deaths in recent years (more than triple the OECD average), albeit less widespread than in the United States (OECD, 2019e) (Figure 2.16). Fentanyl, a powerful synthetic opioid that has infiltrated the illegal drug supply, or one of its analogues was involved in 77% of the deaths in the first quarter of 2020. Canadian deaths relating to opioid use reached 5 084 in 2017 (Canadian Centre on Substance Use Costs and Harms Scientific Working Group, 2020), including not only deaths from poisoning but also from partially attributable infectious conditions such as opioid-attributable infectious diseases and motor vehicle collisions. Even higher numbers, based on official data for poisoning alone, were reported for 2018 (OECD, 2019e). Opioid-related deaths resulted in 100 000 lost years of potential productive life in 2017 (Canadian Centre on Substance Use Costs and Harms Scientific Working Group, 2020, p.31) -- one type of what were termed “deaths of despair” by Case and Deaton (2020), with a considerable impact on life expectancy in both the United States and Canada (in 2017 opioids cost Canadian men 0.11 years in lost life expectancy and women 0.02 years) -- especially in certain regions and among younger and middle-aged adults. The COVID-19 outbreak has compounded Canada's ongoing overdose crisis with dramatically higher opioid-related harms. In 2020 in British Columbia alone 1 716 people died from an overdose, a greater toll than in any other year and about double the number who died of COVID-19 in the province in the year. Opioid use cost the national economy around CAD 6 billion in 2017 and looks likely to have continued to rise since then, given the rising number of related deaths (Canadian Centre on Substance Use Costs and Harms Scientific Working Group, 2020). Those costs take the form of health-system costs, lost productivity (mainly premature death, but also long-term disability, short-term absenteeism and impaired job performance) and extra costs of criminal justice.

To respond to the disturbing trends in opioid-related harms and deaths in evidence since the pandemic began the federal government has increased its support for community-level harm reduction and safer supply interventions and provided guidance on prescribing, dispensing and delivering opioids and other narcotics. However, further increasing the availability of harm reduction and safe supply, improving access to evidence-based treatments, reducing reliance on the criminal-justice system and enhancing data and surveillance capacity are all options that should be explored.

Figure 2.16. Opioid availability and related deaths in OECD countries



Notes: This does NOT include illicit opioids. S-DDD: Defined daily doses for statistical purposes. GB-EAW: England and Wales.
Source: OECD (2019), *Addressing Problematic Opioid Use in OECD Countries*, OECD Health Policy Studies, OECD Publishing, Paris, https://doi.org/10.1787/a18286f0-en.

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Policy options for improving the health and well-being of Canadians

What should be done to ensure the health-care system is working to improve the health and well-being of Canadians? First, health-care spending should be refocused initially on a broader definition of health outcomes including their physical, mental and social dimensions, but ultimately on well-being more generally, possibly through the adoption of multi-disciplinary health teams to manage funding to achieve optimal well-being outcomes (Drummond and Sinclair, 2020). Ontario is moving in this direction with its “accountable care” approach. The impact of spending on carers and family members should also be considered (*Global Happiness and Wellbeing Policy Report 2019*, Chapter 3). In that regard, a greater policy spotlight should be placed on mental health, even if Canada already seems to spend more than many other countries. Already in 2012 the Mental Health Commission of Canada argued for a rise in the mental-health share of the government’s health-care spending dollar from 7% to 9%, but there has been no progress since then. If extra funding were provided during lockdowns, more treatments and services could be digitally delivered and guided meditations made widely available. Emotional skills teaching and relationship coaching for high-risk groups could be provided (Frijters et al., 2020). The recent decisions to bolster distress centres and provide more remote mental health care certainly go in the right direction. Yet, the crucial role of upstream determinants of mental health must be recognised: policymakers need to focus on social factors such as wealth inequality, inadequate housing, dysfunctional neighbourhoods and systemic racism, notably involving Indigenous peoples (Boyer, 2017), if they hope to make more significant progress among the less fortunate in this dimension (Shim and Compton, 2018).

Second, several features of health-care delivery should be adjusted to reduce waiting times, lower long-run costs and improve quality and safety. For example, any remaining remuneration and coverage uncertainties for telemedicine need to be quickly resolved, so that a maximum amount of all forms of health care can thus continue to be delivered without exposing health-care workers unnecessarily and available efficiencies achieved (Wyonch and Maharishi, 2020). There should also be a faster shift to team-based care through enhanced inter-professional collaboration, allowing a more holistic approach to care. Canadian health authorities could do more to alleviate lengthy waiting times throughout the system by: following Australia, New Zealand and Norway and implementing patient prioritisation procedures; adopting technologies allowing patients to easily find available doctors; rolling out more widely existing processes to improve co-ordination between primary-care providers and both specialists and hospitals; allowing nurses and other health-care professionals to take over some tasks from physicians such as immunisations (as in the majority of other OECD countries (OECD, 2020d); and ensuring that primary-care patients can be seen outside working hours (where Canada does comparatively poorly, according to very recent evidence from the Commonwealth Fund (Doty et al., 2021).

Third, more funding should be directed to public- and community-based interventions and other prevention measures, as they have proven high cost effectiveness (Masters et al., 2017). One example of this that is gaining recognition internationally is Iceland’s Planet Youth model. OECD Health Accounts show public health to be only around 6% of Canada’s total health-care outlays.

Fourth, policy environments could be used to provide more structured support for healthy lifestyle choices. As regards alcohol-related policies, availability is no doubt a key issue, but taxes should probably be raised further for distributional reasons as well. Physicians should receive better training in pain management so as to avoid unnecessary use of opioids and in ways to support people with substance-use disorders (addictions). And the health-care, social and criminal-justice systems should better coordinate their efforts in that area. While the use of cannabis was legalised in Canada in 2018 (it was only the second country in the world after Uruguay to do so), it is noteworthy that 13 OECD countries (plus parts of Australia) have decriminalised narcotics for possession and consumption for personal use, and two more have depenalised it, and there has been no sign of increased use, for example, in Portugal since its decriminalisation in 2001 (OECD, 2019e, Table 4.3 and Box 4.4).

The need to expand public insurance coverage to include pharmaceuticals

Canada is the world's only country out of the 67 with a public universal health-insurance regime that excludes drug coverage at the national level (Quebec, for example, has had mandatory drug coverage since the 1990s). Instead, it has a fragmented patchwork of over 100 different public payers and over 100 000 private, mainly employer-managed plans (each with their associated administrative costs), which still leaves an estimated 20% of the population lacking effective coverage (including those who have only coverage for chronic conditions entailing extreme costs). Various attempts have been made to expand Medicare to overcome this coverage problem over the years, notably with the recent report of the Advisory Council on the Implementation of National Pharmacare (Health Canada, 2019). It made a powerful case for completing Medicare by pointing out that: 1) Canadians spend more on prescription drugs per capita than anybody else other than Americans and Swiss, mainly because of high prices (though, following a lengthy consultative process, new regulations will take effect at mid-year 2021 governing patented medicines whose prices will be compared with those in 11 other advanced OECD Member countries); 2) three million Canadians fail to have their prescriptions filled because of affordability challenges, while a further million cut back on food and heating and yet another million borrow to do so; and 3) many suffer needlessly and/or die prematurely. It cited evidence that if out-of-pocket expenses were removed for just diabetes, cardiovascular disease and chronic respiratory conditions, there would be 220 000 fewer emergency-room visits and 90 000 fewer hospitalisations, saving CAD 1.2 billion a year.

The Council's plan was to create a national drug agency in 2021 charged with establishing an initial essential formulary of 100-200 drugs covering about half of all prescriptions and negotiating their prices, then to launch the system in 2022 and continue to phase-in new drugs over the following five years. Currently some public payers have excessive numbers of drugs on their formularies – Ontario has over 3 800, for example – which may boost prices and make shortages and physician errors more likely (Persaud and Ahmad, 2017). They could easily follow more closely the WHO's model approved list, the most recent version of which (April 2019) contains 460 medicines, an approach used by 155 countries. The Council recommended very modest co-payments with exemptions for those on low incomes and an annual ceiling of CAD 100 per family, as well as separate arrangements for expensive drugs to treat rare diseases. But coverage for dentistry, vision and mental health would still remain job-related.

While incremental fiscal costs would be heavy (CAD 3.5 billion in 2022, rising to CAD 15.3 billion in 2027), overall national drug spending would fall by CAD 0.3 billion in 2022 and CAD 5.0 billion in 2027, as average prices would fall through the exercise of greater bargaining power. Other efficiencies would arise. Those employers who currently offer drug plans would save an annual CAD 750 per employee or CAD 6 billion in total, their workers about CAD 100 each or CAD 4 billion in total, and 95% of households would gain, by an average of CAD 350/year. In addition, job-switching costs ("job lock") would be reduced, yielding gains in labour-market efficiency.

However, momentum for Pharmacare has been lost due to its budgetary costs (no matter the extent to which they fall on the federal or provincial/territorial governments) and the complexity of negotiating a deal with the provinces/territories as well as opposition from the health-insurance industry and retail pharmacies (commissions from generic-drug producers would decline). Nevertheless, before the pandemic, Health Canada planned on moving ahead with Pharmacare. But, even if no final decisions have been taken, it may go ahead only with so-called "foundational issues": implementing a programme for covering expensive drugs for rare diseases, agreeing a national formulary and setting up a joint procurement agency, assuming the provinces and territories agree. If providing Pharmacare is deemed too fiscally costly in the current context, at a minimum efforts should be made to fill current coverage gaps in the interest of social inclusion in this time of COVID-19.

The lack of paid sick leave for most workers is unfair and risky

Another gap in the social safety net is the lack of paid sick leave for the majority of Canadian employees. Currently, such leave is a voluntary employer-provided fringe benefit that is valid until Employment Insurance benefits kick in (if applicable). In 2016, 58% of workers had no paid sick days, the figure rising to 74% for those earning less than CAD 25 000 per year (Decent Work and Health Network, 2020). That explains why the problem is more severe for women, immigrants, Indigenous peoples and racialised populations, all of whom are more concentrated in low-paid jobs. It is also more prevalent for non-unionised workers. Only workers in Québec, Prince Edward Island and federally regulated sectors (who number about 915 000) get any mandated paid sick days. The federal government recognised the risks of discouraging those with COVID-19 from staying home so as to avoid spreading the virus and recently implemented a ten-day scheme, but it was explicitly for COVID-19 (and not for other illnesses) and thus temporary. However, the same arguments apply more generally, which would explain why 17 of 22 advanced economies and 19 of 34 OECD Members had such mandates (Decent Work and Health Network, 2020). It would therefore seem to make good sense to universalise the applicability of this benefit.

The quality of long-term care can be improved

With an aging population – the share of those over 65 is projected to rise from a sixth to a quarter by 2041 – demand for long-term care for the elderly is rising and will continue to do so. This can be provided at home (by paid or informal carers, notably family members), in community settings or in long-term care facilities such as nursing homes (which currently house about 42% of those over 80 needing constant care, compared to an OECD average of about 30%). Institutionalised care for the elderly is a difficult problem to manage. And it is getting ever more challenging thanks to chronic diseases and health conditions and the rising prevalence of dementia (from which two-thirds of residents of long-term care homes suffer), and old and often rundown infrastructure, which sometimes leads to overcrowding. According to the 2016 Census, about 1.2% of Canadians were residents of such homes, with similar numbers in nursing homes and in other seniors' residences, excluding the 0.2% who were in facilities for disabilities and addictions. Waiting lists exist for both types. In Ontario, they are an average of five months for those in the community and 100 days for those currently in acute-care institutions (Royal Society of Canada, 2020). OECD data (OECD.Stat) show that Canada devotes spending by government and compulsory schemes of about 1.5% of GDP on long-term care, less than some European countries at around 2%. Some relief was provided in the 2017 federal budget when CAD 6 billion over a decade in extra funding was provided to help the provinces and territories supply home care. Nevertheless, the quality of care provided in long-term care institutions is often poor, and the situation came to a head when the COVID-19 pandemic hit. Virus outbreaks appeared in multiple long-term care institutions throughout the country, but especially in Nova Scotia, Québec and Ontario. One recent study compared outcomes in Ontario and British Columbia and concluded that the considerable difference in performance was attributable to: better coordination between the system, hospitals and public health authorities; greater funding (CAD 222 per resident per day rather than CAD 203), allowing for more carer hours per resident and fewer shared rooms (24% compared to 63%); more non-profits; and more comprehensive inspections (Liu et al., 2020). Overall, by mid-year, about 80% of the nation's fatalities had been residents of such homes, probably a higher share than anywhere else in the OECD (Grant, 2020) and double the average. The latest data show that that cumulative share has fallen only marginally to below three-quarters.

While initial responses to the pandemic were dictated by the system's capacity, the federal government acted to increase the wages of low-income essential workers the definition of which was left to the provinces and territories, but the result was that in some places poorly paid workers were left without protection against wage losses. Most provinces/territories also implemented orders for long-term care workers to work at only a single site (to prevent transmission) either on a mandatory or voluntary basis.

The current problems in Canada's 2039 care homes reflect long recognised deficiencies that were highlighted by the pandemic (Royal Society of Canada, 2020). These shortcomings relate to infection prevention and control, workforce issues and aging infrastructure, all in a context of the patchwork of often light regulatory standards. According to the Canadian Institute for Health Information, while 46% of these institutions are publicly owned, 28% are profit-driven (the rest are private, but not-for-profit); on average, for-profit homes have worse conditions, and their for-profit status is associated with the extent of outbreaks and the number of resident deaths, but not with the likelihood of outbreaks (Stall et al., 2020). Many homes, especially those in the for-profit sector, have too few staff who are often low paid, poorly trained, part-time and casual and with higher turnover (Box 2.6). In general, countries with centralised regulation and organisation of long-term care have had better outcomes during the pandemic (Grant, 2020).

Box 2.6. Indicators of staff shortages and low pay in Canadian long-term care institutions

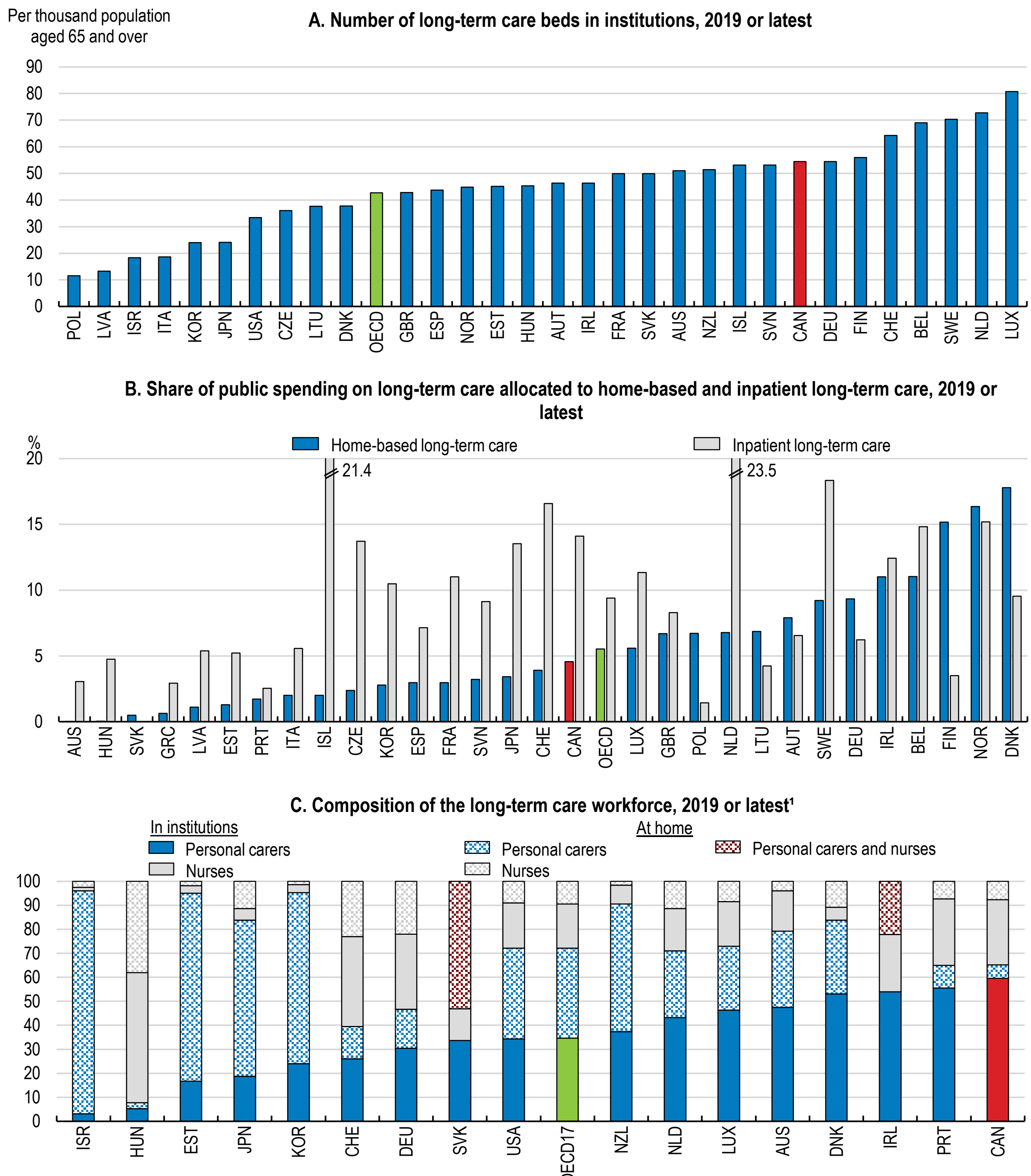
Throughout the sector in Canada staff are lacking and thus overworked and subject to burnout, chronically badly paid (average pay is 35% lower than in the hospital sector for the same occupation (OECD, 2020g, Figure 1.6) and without the right to hazard pay or sick leave) and poorly trained and thus subject to heavier injury risk. Up to 35% have only part-time hours, which requires many of them to move from one residence to another, thereby also boosting the risk of spreading contamination in a pandemic. Canada has fewer nurses and personal support workers in long-term care institutions per resident than most other OECD countries, for example half what the Netherlands and Norway have. Only seven provinces require that a registered nurse be on duty at all times. There has also been a shift away from registered nurses to unlicensed care aides (Royal Society of Canada, 2020). Canada lacks about 20% of the required number of daily nursing-care hours per resident. Without comprehensive care, residents often rely on family members to fill in services gaps, a solution that is becoming increasingly difficult due to family composition and distance (Royal Society of Canada, 2020). Merely to keep the ratio of care workers to the elderly population constant their numbers will have to rise by 80% by 2040, a much larger increase than in the average OECD country.

The solutions are also multiple but politically difficult, given provincial and territorial responsibility in this area. The most radical would be to alleviate the burden of seniors' care by modifying the Canada Health Act and putting all such services (not just hospital and physician services) into Medicare. Costs could be covered by dedicated taxes (possibly only on those over a certain age threshold), as in the United States, Japan, Israel and several EU countries.

In any case, there should be more support for people to remain at home, as a majority of them clearly prefer, as long as possible ("ageing in place") through encouragement of healthy ageing and use of innovative technologies. Even though Canada had been one of the leading countries in deinstitutionalising its elderly care, with a 12.2% fall in the number of beds per senior in the decade to 2015 (OECD, 2020i), the number of beds per senior was still above the OECD average (Figure 2.17,Panel A), the share of nurses and personal carers working in home care remained the smallest among 17 OECD countries in 2016, and its public spending on home care was lower than the OECD average, having shifted away from such care in recent years (Panel B). Only Ontario spends more than half its budget for elderly care on care in the community as opposed to specialised institutions; that must surely change. When institutionalisation is unavoidable, the standards applied must be improved and inspections more frequent and rigorous: in 2019 Ontario inspected only nine of its 626 long-term care institutions.

Long-term care workers must be better paid and trained, both to enter the profession and through continuing education, even when they are agency provided. Long-term care workers and residents should be given priority for vaccinations in the impending roll-out and for protective equipment and test-and-trace efforts in any future waves of this pandemic, and multi-site work practices must be at least temporarily banned. The federal government should establish national standards for staffing and infectious disease control (Royal Society of Canada, 2020; Canadian Medical Association et al., 2020), even in the face of opposition from some provinces/territories who want only untied increases in federal transfers (which the government just agreed to, but only once the pandemic is over). In its recent Fall Economic Statement it reiterated its intention to seek such national standards and provided CAD 1 billion in new funding for protecting these facilities from COVID-19 and future pandemics. Finally, data collection must be intensified and used in the accreditation process, especially in the for-profit sector.

Figure 2.17. Long-term care: number of beds, spending and staffing



Note: For each panel, OECD unweighted average is computed using the OECD countries shown in the chart.
1. For Ireland and the Slovak Republic, the break-down by occupation of long-term care workers at home is not available.
Source: OECD (2020), Health statistics database, https://doi.org/10.1787/health-data-en.

StatLink https://stat.link/ih2b9z

The role of environmental factors in the quality of life

Various aspects of environmental quality also appear among the dashboard of well-being indicators used by nearly all countries. The literature on the determinants of subjective well-being shows that people are indeed sensitive to their immediate surroundings, notably the quality of the air they breathe (as 4.2 million premature deaths are attributable to it every year according to the World Health Organization). Connectedness with nature is significantly associated with "eudaimonic" well-being (living a good and meaningful life) and personal growth (Pritchard et al., 2020). However, the relationship between well-being and longer-term sustainability considerations seems less clear (Box 2.7). Greener environments closer to nature encourage physical activity that generates physical- and mental-health benefits and social interaction. This may be especially true for older people for whom active aging provides physical and mental health benefits; this has led to an "ecological model of aging" and the development of "age-friendly communities" (Zheng and Yang, 2019). The same social environments favouring current happiness are likely to support social behaviours necessary to improve the quality and security of the environment for future generations (Barrington-Leigh, 2017; Helliwell et al., 2020b).

Box 2.7. The environmentalist's paradox: improving well-being despite a worsening ecosystem

It has been argued that most people who respond to surveys about their well-being are not very forward-looking (Benjamin et al., 2020). For example, human well-being has been rising over time, despite a degradation of the ecosystem in a number of domains (the "environmentalist's paradox"). Raudsepp-Hearne et al. (2010) point to three possible explanations: 1) well-being seems to be mainly dependent on food services (which alone have improved), as opposed to those from forests, for example; 2) technological innovation has allowed some decoupling of well-being from nature (reducing environmental stress); and 3) time lags may lead to future declines in well-being resulting from this degradation. Sachs, in his Introduction to the Global Council for Happiness and Wellbeing Policy Report (2019), advocates supplementing current well-being indicators with stocks of natural capital, as is done by the OECD's *How's Life?* reports. Qasim and Grimes (2018) use the concept of Adjusted Net Saving (as calculated by the World Bank as net national saving plus education expenditure less energy, mineral and forest depletion less air-quality damage from CO_2 and particulates). They show that the impact of Adjusted Net Saving on subjective well-being is negative for 10-15 years but turns around and becomes positive and sometimes significant after 20 years. Barrington-Leigh (2020) calls for quantitative limits on resource use and waste streams for sustainability considerations ("ecological precaution").

The list of proven environmental drivers of subjective well-being is long and growing. People in urban contexts are less happy than their rural counterparts beyond a certain point of environmental stress, despite the income gains resulting from agglomeration economies, because of:

- The associated water and air pollution (Luechinger, 2009; Levinson, 2012). OECD countries with low levels of particulate pollution also have greater average subjective well-being (Krekel and MacKerron, 2020). Happiness Research Institute and Leaps by Bayer (2020) calculates that inhabitants of Krakow, the European city with the worst air pollution, experience a loss of well-being equivalent to about 15% of their annual income.
- Noise pollution (Rehdanz and Maddison, 2008). The UK Treasury's Green Book (2018, pp.63-64) gives suggested values for the costs of these externalities according to day versus night, decibel levels of 45-75 and whether the noise is road-, rail- or aircraft-sourced.
- A lack of green space (Krekel et al., 2016) and traffic congestion/longer commutes that are typical of city life (Burger et al., 2020).

In a larger sample of 130 countries De Neve and Sachs (2020) investigate the connection between subjective well-being and the United Nations Sustainable Development Goals. Their results point to a significant, positive impact of only some of the environmental Goals on well-being: numbers 6 (Clean Water and Sanitation), 7 (Affordable and Clean Energy) and 11 (Sustainable Cities and Communities), in particular. Perhaps surprisingly, Goals 12 (Responsible Consumption and Production) and 13 (Climate Action) have significantly negative coefficients. When they aggregate the Goals into five groups and decompose the cross-country variance of well-being, they find those associated with the environment account for 8% of the total explained, economic factors are responsible for 31%, health 24%, social 20% and legal 17%.

How does Canada rank according to these environmental indicators?

Canada scores relatively well on environmental indicators with a close link with well-being, and often worse for greenhouse gas emissions and other longer term indicators. Canada is ranked 20th behind Australia, immediately behind New Zealand but ahead of the United States in the Environmental Performance Index (see Table 2.1 above), which covers 11 domains and includes 32 indicators for 180 countries (Wendling et al., 2020). It scores highly for indoor air pollution, lead exposure, biodiversity habitat (terrestrial ecological diversity) and growth rates of both sulphur dioxide and nitrogen oxides. But it scores very badly for greenhouse gas emissions per capita (168th), ecosystem services (110th), species habitat (suitable habitat changes since 2001) (101st), protected areas (91st), fisheries (89th), greenhouse gas intensity trend (77th) and ozone exposure (55th).

Other sources show sub-standard Canadian outcomes for the share of renewable energy, the amount of fine particle pollution and water quality (tentatively, because, while monitored across the country, the data are not strictly comparable). Ontario raised its drinking-water standards and inspection resources in the wake of the 2000 Walkerton water disaster; now the issue is rather on takings (withdrawals) and toxic blue-green algae blooms. Alberta has water-quality and -quantity frameworks but only in the north-east where oilsands producers are located and need to know the system's carrying capacity. But there are fears that tailings ponds are leaking into groundwater in that region (Commission for Environmental Cooperation, 2020). There is also water stress in some regions, such as southern Alberta. Canada's share of wastewater undergoing primary treatment – which had been a focus of the latest *OECD Environmental Performance Review* (2017) because charges for such services were too low to recover costs – can be substantially improved (Canada ranks 28th in the OECD). Indeed, there was no sign of improvement in the latest OECD data: the share being treated had fallen from 87.2% in 2004 to 84% in 2017.

Other concerns include disturbing trends in the Red List Index of threatened species (especially for monitored mammals and fish, while some bird species have improved) (World Wildlife Fund, 2020) and in Canada's overall material footprint thanks to steadily declining biocapacity since 1961 (Global Footprint Network, 2020). The lack of environmentally related taxation, which is lower as a share of GDP only in Mexico and the United States among OECD countries and has fallen since 2000, is also notable (Figure 1.20 in Chapter 1), although the use of cap-and-trade systems lowers the share all else equal. Raising this share could have a large well-being payoff in terms of aligning prices with external costs and also generating useful revenues, which could be used for spending on other social programmes.

Government policies to deal with these major environmental challenges

Ever since 2008 the federal government has had a Sustainable Development Strategy, defined for successive three-year terms, with the current version lasting until 2022 (Environment and Climate Change Canada, 2019). It includes aspirational, long-term goals in 13 dimensions with 25 indicators that directly support 12 of the 17 SDGs. The latest edition strengthened targets in six areas, added objectives for zero-emission vehicles (notably 100% market share by 2040) and clean-tech exports, reworked the Sustainable Food Strategy and expanded the suite of indicators to measure progress. In terms of *levels* areas of concern include: electronic waste, sulphur dioxide embodied in imports, production-based nitrogen, nitrogen embodied in imports, energy-related carbon emissions, carbon dioxide embodied in imports and the effective price of carbon. For *trends* those judged unsatisfactory are: sustainable nitrogen management, safely managed sanitation services and the renewables share of energy production.

The special case of Canada's Indigenous peoples and racialised populations

Indigenous peoples have long had poor well-being outcomes

Canada has had a long history of policy failure in addressing challenges faced by its Indigenous peoples whose socio-economic outcomes have been harmed by the history of colonialism and the intergenerational trauma it has caused. It was only in 2007 that Canada signed the UN Declaration on the Rights of Indigenous Peoples (and introduced legislation to implement it in December 2020). This historical process culminated in official apologies for the century-long system of residential schools (see Kim (2019) for a summary), the Truth and Reconciliation process, the recent National Inquiry into Missing and Murdered Indigenous Women and Girls and a notable acceleration in negotiating land claims settlements. These outcomes have led to or at least coincided with a cultural resurgence and a feeling of revitalisation in many Indigenous communities.

The importance of achieving secure land tenure and overcoming the long-term barrier of the 1876 *Indian Act*, which leaves reserve land by default under federal government control, was recently emphasised by OECD (2020h). While it took Canada more than 40 years to negotiate 40 Indigenous land and rights agreements prior to 2015, new processes aim to achieve faster results in terms of empowering Indigenous governments. These include more than 75 new Recognition of Indigenous Rights and Self-Determination discussions that were underway by the time of the March 2019 federal budget, 29 of which had resulted in signed preliminary accords (Budget Chapter 3). Nevertheless, further improvements in governance practises that would empower Indigenous governments are possible (OECD, 2020h).

Indigenous peoples are approaching 5% of the total Canadian population, a share that is likely to rise in the medium term (Drummond et al., 2017). There are three distinct groups of Indigenous peoples, each with different histories, identities and challenges: First Nations, Métis and Inuit. The differences between them (and among First Nations) are large, which has led to the mutual agreement to adopt a "distinctions-based approach" to all relevant policymaking. However, knowledge about the socio-economic situation of First Nations people living on reserves is often lacking because some do not take part in Statistics Canada surveys, including the census. The importance of collecting better data for all Indigenous peoples was recently emphasised by OECD (2020h). But it is clear that, despite significant and rising funding for education and health care (especially in remote communities) and to provide those on reserve with income assistance, they remain a distinctly disadvantaged group.

This is highlighted by two recent publications. The National Indigenous Economic Development Board (2019) examined 31 measures covering employment, income, community well-being, education, business development, governance, resources and infrastructure. It concluded that, while progress is being made on some indicators since its initial report in 2012, most gaps remain large, and a few are moving in the wrong direction. This implies a substantial likelihood that the target of economic parity in 2022 will be missed without accelerated policy and programme supports, especially for the First Nations on reserve populations where gaps are largest.

The second is a report from the First Nations Information Governance Centre (2020), which recently published a useful summary of the situation in 2015-16 based on Regional Health Surveys. It focuses on chronic health conditions, which afflict nearly 60% of First Nations adults (even more for females). Almost one in ten claimed they did not get all the health care they needed because of waiting lists, the lack of available providers or affordability or coverage factors. Yet it should be mentioned that there has been measureable improvement in the area of long-term drinking water advisories on public on-reserve systems whose number has fallen from 105 in November 2015 to 59 in December 2020. The target was to eliminate the problem by the middle of 2021 thanks to massive Federal budget spending that began with Budget 2016 and was reinforced in Budget 2019. But that target will be missed, despite the recent announcement of a further CAD 1.5 billion in additional investments including CAD 114 million in annual operating funding by 2025-26 to ensure clean drinking water for First Nations communities.

The Indigenous peoples have a number of other dimensions of well-being in which their outcomes are much worse than those of their non-Indigenous counterparts (Table 2.10; note that these data exclude First Nations on reserve and Inuit living in Inuit Nunangat)). They have a greater incidence of poor self-reported mental health, especially for women (who are much more frequently victims of family and other gender-based violence (Native Women's Association of Canada, no date) and even forced sterilisation), those aged 18-34 and First Nations, along with a greater deterioration since 2015 (Statistics Canada, 2020a). The share reporting a diagnosed mood or anxiety disorder tells a similar story. They also suffer much more from substance-use-related harms, and deaths by homicide and suicide, especially among the Inuit: for the entire Indigenous population, the homicide rate is about five times that of the rest of the population, a difference of over 100 deaths per year. Given that suicide rates are about ten times higher in Inuit communities than the national average, Inuit leaders have helped to develop a suicide prevention strategy to help individuals in crisis to access appropriate services.

Table 2.10. Selected indicators of comparative well-being of Canada's Indigenous peoples

	Indigenous			Non-Indigenous		
A. Mental health outcomes, 2019						
1. Perceived mental health						
% Share very good or excellent	54			68		
Of which:						
Women	49			?		
Men	59			?		
Those aged 18-34	47			?		
First Nations	49			- -		
Change since 2015, % points	- 9			- 5		
2. % With diagnosed mood/anxiety disorder						
Total	27			13		
Of which:						
Women	35			16		
Men	19					
First Nations	31			--		
Change since 2015, % points	+ 5			+ 2		
B. Poverty indicators, %						
% With income below MBM poverty line, 2015						
Total	24			13		
Of which:						
Those aged below 18	30			?		
First Nations off reserve	30			--		
1. % Living in food insecure households, 2017						
Adults	38			?		
Of which:				?		
Men	34			?		
First Nations off reserve	43			- -		
Inuit	53			- -		
C. Recent unemployment outcomes, % NSA						
	Total	**Women**	**Men**	**Total**	**Women**	**Men**
Dec. 2019-Feb. 2020	10.0	7.3	12.6	5.5	4.9	6.0
Mar. 2020-May 2020	16.6	13.6	19.5	11.7	11.7	11.7
June 2020-Aug. 2020	16.8	16.8	16.7	11.2	11.9	10.6

Source: Canadian Community Health Survey 2019; P. Arriagada, T. Hahmann and V. O'Donnell (2020a), "Indigenous people and mental health during the COVID-19 pandemic", Statistics Canada, 23 June; A. Bleakney, H. Masoud and H. Robertson (2020), "Labour market impacts of COVID-19 in Indigenous people: March to August 2020", Statistics Canada, 2 November.

Poverty is also much more widespread for First Nations off reserve than non-Indigenous, less so for Métis and Inuit (Canada Without Poverty, n.d.). The same pattern of much higher poverty rates also applies to children, especially for Status First Nations on and off reserve (Beedie, 2019; Campaign 2000, 2020). In 2016 fully 297 of the 367 (81%) First Nations reserves for which census data are available had poverty-level average incomes per capita, and 27 had average annual incomes below CAD 10 000. Not surprisingly their disadvantage extends to food insecurity as well. This contributes to poor physical and mental health, worse educational outcomes and added family stress. COVID-19 had a larger impact on their ability to meet their financial obligations or essential needs, self-reported as strong or moderate by 36% compared to 25% for others (Arriagada et al., 2020b). This is consistent with the more persistent rise in unemployment during the crisis, especially for women (Table 2.10, Panel C).

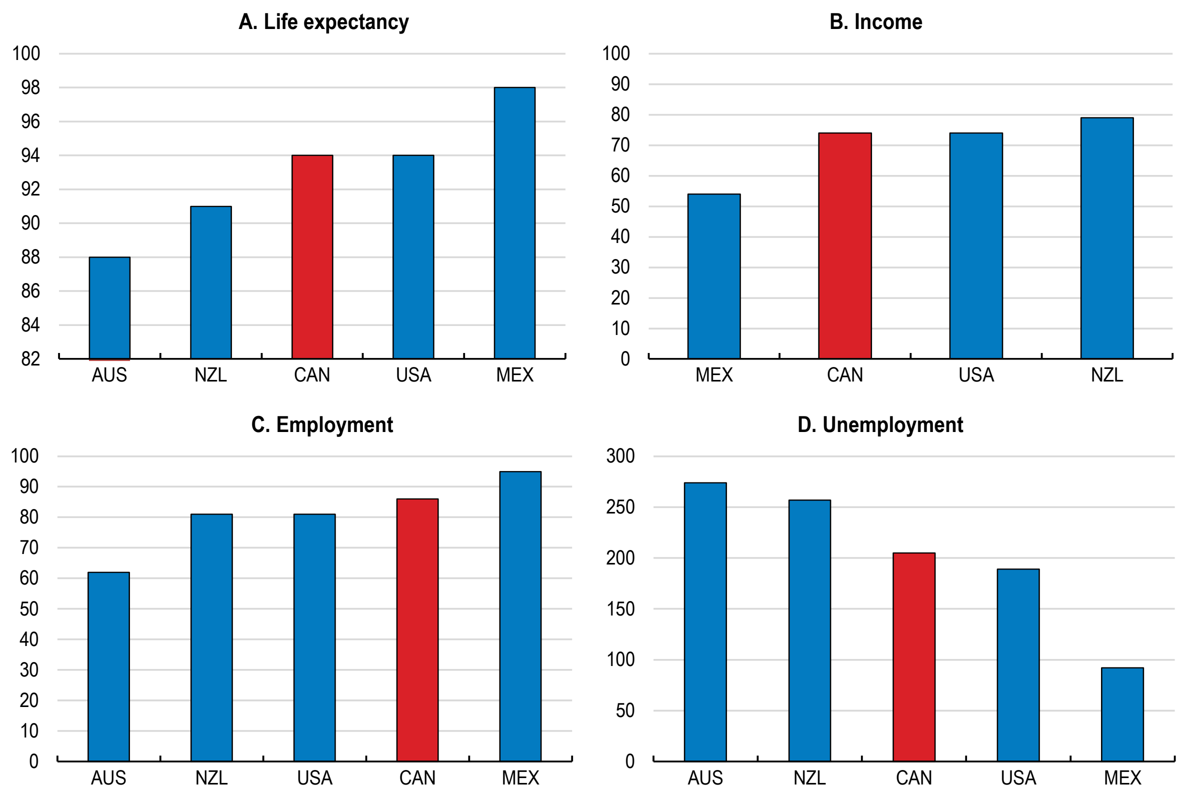
Overcrowding, poor-quality housing as well as outright homelessness are also much more serious problems for Indigenous peoples than others. The probability of a person needing to use a homeless shelter is 11 times greater for an Indigenous man and 15 times greater for an Indigenous woman than for their non-Indigenous counterparts. But the Indigenous peoples consider homelessness to be much broader than merely lacking a roof over one's head. It is the loss of "All My Relations", i.e. the sense of belonging and mental balance that goes with one's connections to kin, the community and the land (Thistle, 2017). No doubt all these conditions have led to a particularly severe hit to their well-being during the ongoing pandemic, given the large role of cultural traditions, pride, self-respect and self-determination for Indigenous people than for the mainstream population and their lack of buffers to fall back on. In recognition of their greater vulnerability the federal COVID-19 Economic Response Plan provided a number of new supports and beefed up some existing programmes to support Indigenous communities, enhance public health and mental wellness services, expand the number of shelters for women and children fleeing violence and boost income support, notably to post-secondary students (worth CAD 72.5 million).

At least well-being gaps seem to have stopped their structural widening. Based on an unweighted index devised by the federal government comprising per capita income, labour market participation, housing and educational outcomes using census data, First Nations, Inuit and non-Indigenous communities have all experienced similar-sized improvements since 1981 (Richards, 2020), leaving a fairly constant gap of 19 percentage points (58.4 vs. 77.5) in 2016. But the key to overcoming their well-being shortfall may lie in labour-market outcomes – Indigenous peoples' average unemployment rate in the 25-year period was 15.3% as against 7.4% for others (the gap is especially pronounced in rural areas (OECD, 2020h)); that is related to the lack of employment opportunities on First Nations reserves. To put these outcomes into context one can compare Canada with other countries that also have similar Indigenous populations (Figure 2.18). These data show it in the middle of this group when it comes to comparative outcomes for life expectancy, per capita incomes, and employment and unemployment rates. Outcomes also appear fairly comparable to those of Roma in Central and Eastern Europe, notably the Slovak Republic, as well as Arab Israelis (see OECD, 2019f, Chapter 1).

To achieve improved labour market outcomes, better results in primary and secondary education and more post-secondary skills training are needed. Employment and skills gaps mutually interact over time, as poorly trained labour discourages job creation and the lack of jobs ultimately discourages skills acquisition (Mahboubi and Busby, 2017). In 2019 the federal government changed the funding framework for First Nations K-12 education, gave additional support for full-time kindergarten and language and cultural programming and boosted capital spending on new schools, as well as adopting a distinctions-based approach to post-secondary education strategies. Yet providing more job opportunities in remote Indigenous communities may be a prerequisite for an improvement in labour market outcomes. Similarly, the disproportionate share of Indigenous people incarcerated also harms their employment opportunities. Furthermore, one third of Indigenous people are at high risk from being automated out of jobs by digitalisation, slightly more than non-Indigenous, because they are more heavily located in low-wage sectors, given the preponderance of people lacking a diploma or degree (25.6% among non-elderly adult Indigenous versus 10.8% for non-Indigenous) (Diversity Institute et al., 2020). In an in-depth look at labour-market outcomes of Canada's Indigenous people, OECD (2018a) recommended: 1) greater flexibility in programme management; 2) better alignment of federal with provincial and territorial programming; 3) leveraging the role of cities in addressing the needs of urban Indigenous people; 4) improved collection and use of labour-market information (a pilot labour market information programme was launched in 2019); 5) using targeted work-experience programmes; 6) expanded Indigenous access to post-secondary education; 7) increased use of mentorship; and 8) exploring the use of social enterprises.

Figure 2.18. Indigenous groups elsewhere face similar well-being challenges to those in Canada

Values show Indigenous levels as a percentage of non-Indigenous levels



Note: The life expectancy rate of Indigenous Canadians is the weighted average of First Nations, Métis and Inuit women and men. Median income refers to total personal income for Canada; median household income for Mexico; median personal income for New Zealand; and median earnings for the United States. Non-Indigenous peoples' income corresponds to the median earnings of the total population for the United States. Employment and unemployment refer to people aged 15-64, as a percentage of the population of the same age, except for Canada where it refers to populations aged 15 and over.
Source: Adapted from OECD (2019), *Linking Indigenous Communities to Regional Development*, https://doi.org/10.1787/3203c082-en.

StatLink https://stat.link/u8xiy6

Indigenous entrepreneurship and business success has long been stunted not only because of a lack of relevant education and training, but also because of the barriers of rurality, small scale, lack of infrastructure and poor access to credit (OECD, 2020h). The federal government could do more to favour Indigenous businesses in its public procurement and make greater efforts to bolster the 59 Aboriginal financial institutions who are members of the National Aboriginal Capital Corporations Association. It could also offer more entrepreneurship training and advisory support. But this is not to deny the importance of economic development led by Indigenous governments, including resolving land claims and resource rights and developing their own revenue sources for achieving sustained improvement in Indigenous socio-economic outcomes.

Another major issue facing both Indigenous households and firms because of their strong concentration in remote northern communities is their poor access to broadband. The latest comparative data available (for 2018) show that households on First Nations reserves fared worse than not only the Canadian average but than typical rural households (Table 2.11). In its connectivity strategy (High-Speed Access for All) the federal government committed to working with Indigenous communities to implement connectivity projects and meet their needs, but their goal of ensuring fast and reliable access to this critical infrastructure only by 2030 is not sufficiently ambitious. It should ensure that these gaps are more quickly overcome.

Table 2.11. Broadband access by First Nations households by speed in Mbps, %, 2018

Speed	Canada	Rural communities	First Nations reserves
1.5+	98.8	94.2	92.6
5+	97.9	90.5	85.8
10+	96.6	84.2	71.4
16+	94.1	73.8	55.8
25+	93.7	72.1	54.0
50+	86.5	43.0	32.3
50/10/Unlimited	85.7	40.8	31.3
100+	84.9	37.9	29.3

Source: CRTC (2019), *CMR 2019-Retail Fixed Internet Sector and Broadband Availability*, Figure 9.24.

One worthy recent innovation is the way the federal government funds First Nations communities with various flexible funding instruments that came out of negotiations with First Nations governments designed to achieve a new fiscal relationship with sufficient, predictable and sustained funding. For example, instead of providing annual appropriations, with all the uncertainty that entails, some years ago it began to offer ten-year grants, which afford their governments a lower administrative and reporting burden and considerable additional discretion in how to allocate available resources over time and across programmes, as carryovers are then permitted. Unfortunately, many have thus far not taken up the option because of feelings of distrust and of inconsistency with the decolonisation process, as well as, in some cases, a lack of governance capacity and an ability to meet eligibility requirements. Nevertheless, as of 2019, 84 First Nations (out of some 600) are in the 10-year funding system, and that number is rising fast. Other notable examples of devolution and self-determination include: the recognition of five Indigenous organisations by the government of Canada, federal Indigenous Labour Market Programming, health-care provision in British Columbia and various First Nations public services in Northern Ontario.

Racialised populations are also severely disadvantaged in well-being terms

There were 7.7 million Canadians belonging to visible minorities (22.3% of the population) in 2016 (double that in Toronto), up from 16% a decade earlier thanks to Canada's ethnically diverse sourcing of immigrants. While many were not born in Canada and suffer economically from their immigrant status, native-born Canadians that are non-White have an extra source of disadvantage. For example, in 2016 their poverty rate varied by group but for most was more than double the 9.6% recorded for White Canadians (Hou et al., 2020) and reached around 30% for some groups; only Filipino Canadians had a lower rate than White Canadians (8%). Similar disparities were noted for Black and other non-White single young adults in Toronto in 2016 (Duah-Kessie et al., n.d.). Racialised populations have suffered an unemployment rate gap of nearly two percentage points, almost all of which was for women (3.2 points) (Block et al., 2019). But men from racialised populations suffer a 22% earnings penalty, pointing to the increasing prevalence of working poor, especially among Black and South Asian Canadians (Stapleton, 2019). Both genders declared smaller and less frequent capital gains and investment income on their tax returns, implying relevant wealth differences. Black Canadians also suffer from less access to nutritious food, more frequent housing problems (Leon and Iveniuk, 2020) and greater dissatisfaction with their neighbourhoods (Claveau, 2019).

Crowd-sourced data show that during the COVID-19 pandemic, Canadians from racialised populations experienced job loss or reduced working hours to a greater extent than their White Canadian counterparts, resulting in a larger share reporting a heavy financial impact (25.0% versus 22.1%). They also reported that their mental health in the spring of 2020 was only fair or poor somewhat more frequently than did White Canadians (27.8% versus 22.9%) and that they had moderate or severe anxiety (30% versus 24.2%) (Moyser, 2020a); however, these gaps did not seem to have widened since the pandemic started. In recognition of the specific mental health problems of Black Canadians the federal government recently committed funds to local youth-at-risk culturally focused mental health programmes.

Main findings and recommendations

MAIN POLICY FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Bringing well-being to the fore in the wake of the pandemic	
Canada is one of a shrinking minority of OECD countries that has no official well-being framework. The federal government tasked a Minister with devising one in 2019, and work is underway.	**Develop a dashboard of well-being indicators for use in government decision making that covers current and future well-being, inclusiveness and environmental sustainability.** **Use the dashboard to identify policy challenges and to measure progress in outcomes.**
Strengthening social welfare	
Canada's middle-income group has shrunk more than in most countries. Its tax-transfer system does less than most to offset what the market has wrought.	Ensure that tax returns are filed automatically, as the government has recently promised, so that all eligible people receive the benefits to which they are entitled.
The current gender wage gap is among the OECD's largest, especially for women with school-age children. Childcare access is heavily income-constrained.	**Boost childcare provision through increased subsidies of services, tougher quality control and more support for working parents to pay for these services.**
Poverty in Canada is especially high for Indigenous peoples and racialised populations. Social assistance leaves most recipients in poverty and suffering from food insecurity. Governments have given extra support to food banks during the pandemic.	Consider combating poverty through more generous social benefits and tax-based measures, preferably without increasing the overall size of the budget and avoiding deleterious labour-supply effects.
Creating more affordable housing	
Housing affordability is a localised problem concentrated at the bottom of the income distribution. Social and affordable housing is limited, and waiting lists are long. The federal government has had a National Housing Strategy since 2017.	**Improve housing supply by ensuring a competitive construction sector, reducing rent controls and relaxing strict zoning and land-use regulations and urban containment policies.** Put more resources into social housing, and encourage alternative ownership arrangements.
Homelessness is another manifestation of poverty, closely aligned with poor health, especially mental illness, as well as food insecurity and substance abuse. It has heavy fiscal costs. The length of time people spend in shelters is increasing.	Provide the new National Housing Council with adequate initial resources, and adjust funding to developing needs. Quickly name the promised federal Housing Advocate.
Improving health and long-term care	
Having different health-care systems across the provinces and territories should provide a wealth of data to determine optimal policies, for example in dealing with the chronic problem of waiting times.	**Seek efficiency gains and reduced waiting times through better patient prioritisation, improved co-ordination between primary-care providers and specialists, greater use of telemedicine and the reallocation of some tasks from physicians to nurses**. Exploit systemic differences across different provincial and territorial health-care systems to define best practises.
Mental health plays a key role in well-being and its dispersion. Mental illnesses are widespread and extremely costly, yet treatment is very cost effective. Even before the pandemic fewer people than in 2015 rated their mental health highly, and "deaths from despair" were increasing for most female age groups. Public health receives a small share of total health-care spending.	**Provide more resources for mental health and public health.** Adopt maximum waiting times for adults' mental health, and make those for children and youths more stringent, even if this implies more public spending.
Problematic substance use contributed to about 76 000 deaths in Canada in 2017 and cost the economy dearly. About 5 000 persons died from opioids.	Enhance public health efforts to reduce and prevent substance-related harms. Ensure that the health-care, social and criminal-justice systems better coordinate their efforts in the area.
Canada is unusual in having a public universal health-care system that excludes drug coverage at the national level. The current patchwork imposes heavy administrative costs, leaves 19% of people in Canada without effective coverage and generates high drug prices (because of the failure to exploit collective buying power) and "job lock".	**Follow through with the plan to negotiate with the provinces and territories the gradual adoption of universal drug coverage ("Pharmacare").**
Another gap in the social safety net is the lack of paid sick days for over half of all employees, including as many as three-quarters of the lowest paid. A temporary scheme has been implemented but only for those suffering from COVID-19.	Negotiate a pan-Canadian plan with the provinces and territories to mandate a reasonable number of paid sick days for all workers.

The poor situation in the long-term care sector came to the fore in 2020 when the COVID-19 pandemic first hit: nearly three-quarters of the fatalities have been among elderly residents of long-term care institutions.	**Increase support for high-quality institutional and home-based long-term care.** Tighten standards, make inspections more frequent and rigorous, and intensify data collection for use in the accreditation process. Improve training and pay for long-term care workers. Encourage aging in place.
Building a more sustainable environment	
Well-being is also influenced by environmental factors. Canada's environmental performance is diverse but middling overall. Environmentally related taxation is among the lowest in the OECD, and it has been falling in relation to GDP, though some of the gap is due to the use of cap-and-trade systems rather than carbon taxes to fight climate change.	**Follow through with the recent plan to accelerate the increases in carbon pricing and taxation through 2030 while protecting the poorest from the impact on their living standards.** **Make greater use of taxation and charges to tackle environmental externalities, including from vehicle fuels, waste water treatment and solid waste disposal.**
Supporting the well-being of Indigenous peoples and racialised populations	
Canada's Indigenous peoples have long suffered from a number of disadvantages, despite rising public funding. Progress has recently been made in renewing government-to-government relationships through achieving self-determination, specifically by resolving land claims cases and offering ten-year funding, so far taken up only by a minority of groups.	**Enhance self-determination among Indigenous peoples.** **Maintain the distinctions-based approach to policy, and ensure adequate funding to achieve policy goals.** Ensure fast and reliable access to high-speed broadband sooner than by 2030.
Racialised populations are over a fifth of the national total and rising fast. They suffer from higher unemployment, especially for women, lower earnings, particularly among men, and, for most groups, much higher poverty rates. Economic and social pressures they face have increased with the pandemic.	Implement those reforms to the social assistance and/or tax systems, Pharmacare and paid sick leave recommended above, as a good first step to deal with the social injustices confronting these minority groups.

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CANADA

Canada's vaccine rollout is bringing the prospect of an end to the COVID-19 crisis and a pick-up in output growth is expected. An ultra-low policy rate and other monetary measures continue to provide substantial support for the economy and fiscal support for households and businesses has been substantial. However, risks and uncertainties remain large, notably around how quickly restrictions can be reduced as vaccine rollout proceeds, and how rapidly households will unwind precautionary saving. The COVID-19 crisis has also brought to light shortfalls in welfare programmes. Building back with a sustainable economic recovery will involve challenges for Canada's policy on greenhouse-gas reduction and will reinforce the need to tackle some longstanding issues in welfare programmes and in impediments to business productivity.

This Survey's in-depth examination of well-being finds that Canada has scope to make greater use of quantitative indicators in policymaking. This could help frame policy agendas and benchmark progress. Healthcare, childcare, affordable housing and support for Indigenous peoples are among the areas with room for improved policies that can lead to improvements in well-being.

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