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Regional Convergence and the Role of Federal Transfers in Canada

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Abstract

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Differences in per capita output across Canadian provinces have narrowed less than disparities in per capita income in past decades. Using a panel regression framework, this paper studies the differential impact of federal transfer programs on output convergence. The evidence suggests that while the Employment Insurance (EI) system seems to have had a significant negative effect on output convergence—by discouraging migration within Canada—the Equalization transfers may have helped spur convergence. The EI system, despite reforms introduced in the 1990s, still appears to contain features that deter labor mobility.

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