

Comments on
Agenda for Canada's
*Prosperity*¹

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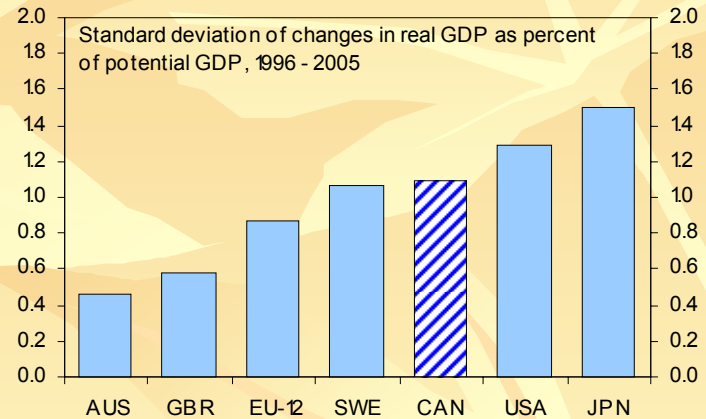
¹ The views expressed herein are those of the author, and do not necessarily those of the IMF, its Executive Board, or its management.

Will look at Canadian Productivity from a macroeconomic perspective

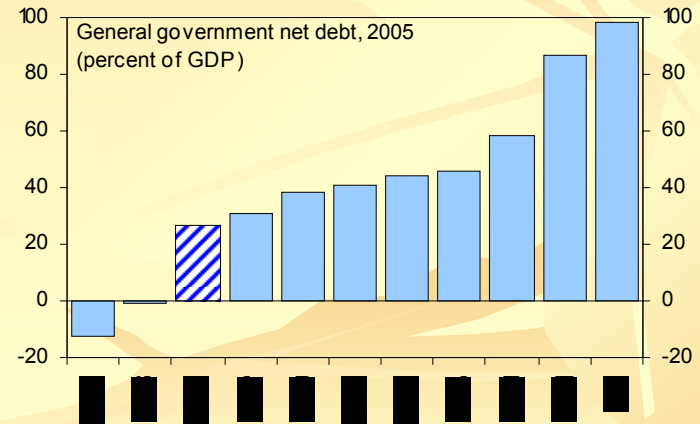
- Macroeconomic stability has allowed a focus on productivity agenda
- Agree with most of report's recommendations, including need to lower taxes on capital...
- ...*but* part of issue seems to be lower flexibility in allocation of resources across industries
- Would underline potential benefits from lower FDI restrictions and more banking system competition...
- ...*while* a US focus can miss some weaknesses in tax structure and utilities

Stable macroeconomic policies have supported Canadian growth

- Canada is susceptible to large external shocks...
- ...*but* stable monetary policy has helped lower output volatility
- Fiscal surpluses are preparing for an aging population...
- ...*allowing* more focus on productivity



Source: World Economic Outlook.



Source: OECD Economic Outlook.

Slow productivity growth partly reflects less flexibility

- Cardarelli (2004) finds Canadian productivity growing as fast as US except in IT-intensive industries (Trade, Electronic equip.) from 1995-2000...
- ...*but* Canada's industrial structure was less focused on high-productivity sectors and Canada was less good at redirecting resources to such industries
- This “composition effect” explains majority of slower Canadian aggregate productivity growth...
- ...*which* implies that economic flexibility is another key to economic success

How does Canada stack up with Australia?

- Australia is another successful reformer over last decade...
- ...*with* more deregulated product markets...
- ...*but* less flexible labor markets
- Canada's labor markets work well from Ontario west (Bayoumi, 2006)

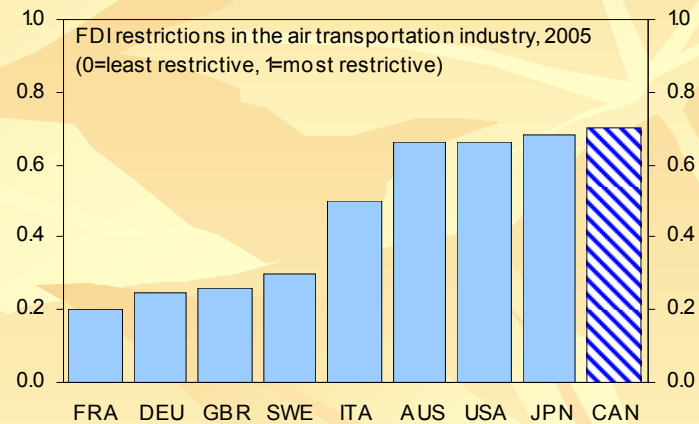
Growth in Real GDP per Capita			
	Canada	Australia	G-6
1995-2004	2.2	2.3	2.0
1981-1994	1.0	1.5	1.8

Relative Structural Reform Indices and Tax Rates				
	Canada		Australia	
	1995	2004	1995	2004
Structural reform indices 1/				
Product markets 2/	1.18	1.00	1.28	1.34
Labor markets	1.10	1.09	0.73	0.74
Average Effective Tax Rates				
Labor	27%	25%	24%	24%
Corporate	39%	31%	28%	18%

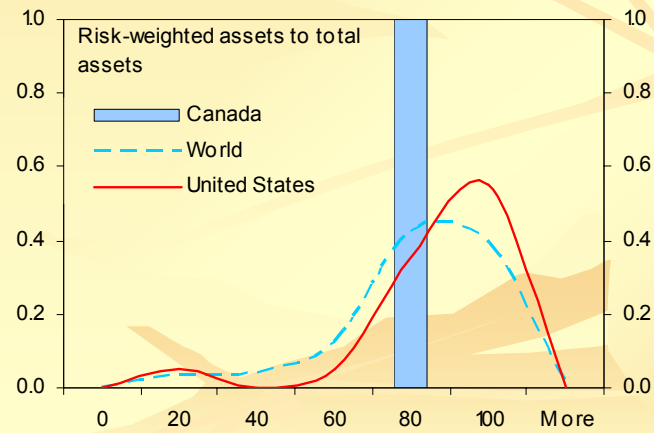
Sources: OECD; C.D. Howe Institute; and Fund staff estimates.
 1/ Relative to a PPP-weighted average of the same indicators for the G-6.
 2/ For 1998 and 2003.

FDI restrictions may affect Canadian productivity

- All FDI proposals are vetted...
- ...*and* FDI regulations are onerous in many network industries
- Sheltered banking system focuses on safe loans...
- ...*possibly* reducing opportunities for SMEs



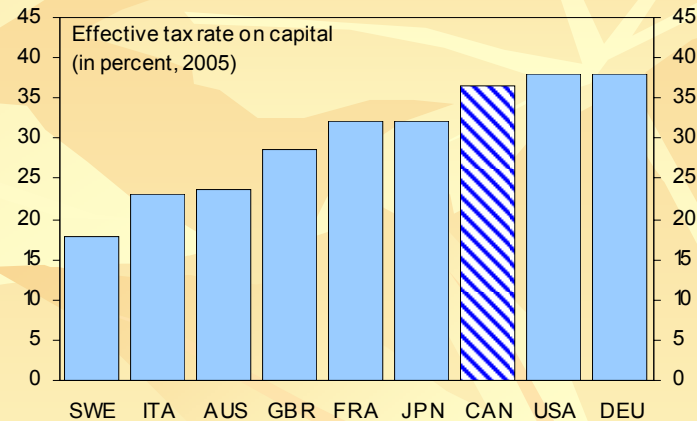
Source: OECD.



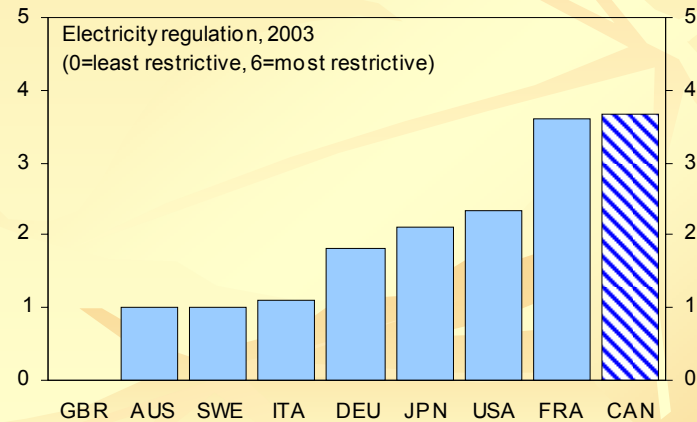
Sources: Bankscope; and IMF staff estimates.

US is not perfect either!

- As major trading partner, US is obvious comparison...
- ...*but* can also learn from other countries
- US and Canada have relatively high income tax rates...
- ...*and* significant electricity regulations



Source: C.D. Howe Institute.



Source: OECD.

Resources

All IMF publications, including this year's staff report, working papers, and Selected Issues, can be found on www.imf.org.

A compendium of past staff research is being published early this summer, in the IMF's *Occasional Papers* series.

References

Bayoumi, Tamim, Bennet Sutton, and Andrew Swiston (2006) "Shocking Aspects of Canadian Labor Markets," IMF WP/06/83 and CEPR Discussion Paper 5843

Cardarelli, Roberto (2004) "The Canada – United States Productivity Gap: Evidence from Industry Data," in Canada Selected Issues IMF Country Report 04/60