



# Economic policy priorities

OECD perspective on lifting  
Canada's competitiveness  
and prosperity



Canada has enjoyed strong economic performance in recent years ...

It has seen the payoff for getting the macroeconomic framework right (low inflation and sound public finances) ...

and making structural reforms and liberalising markets




Priority: maintain good public finance position




## Canada faces two main challenges:

- How to improve productivity growth; and
- How to ensure fiscal and social policies are on a sustainable path



Productivity growth depends on getting the overall business environment right....

- Business taxation
- Human capital




High business taxes discourage investment...

Canada has the highest marginal effective tax rates in the OECD

(Mintz *et al.*)

and was the only OECD country (out of 19) that had higher marginal effective tax rates in 2004 than 1982


(Devereux and Birch Sørensen)



Corporate capital taxes and sales tax  
on capital goods are the most  
damaging business taxes in Canada

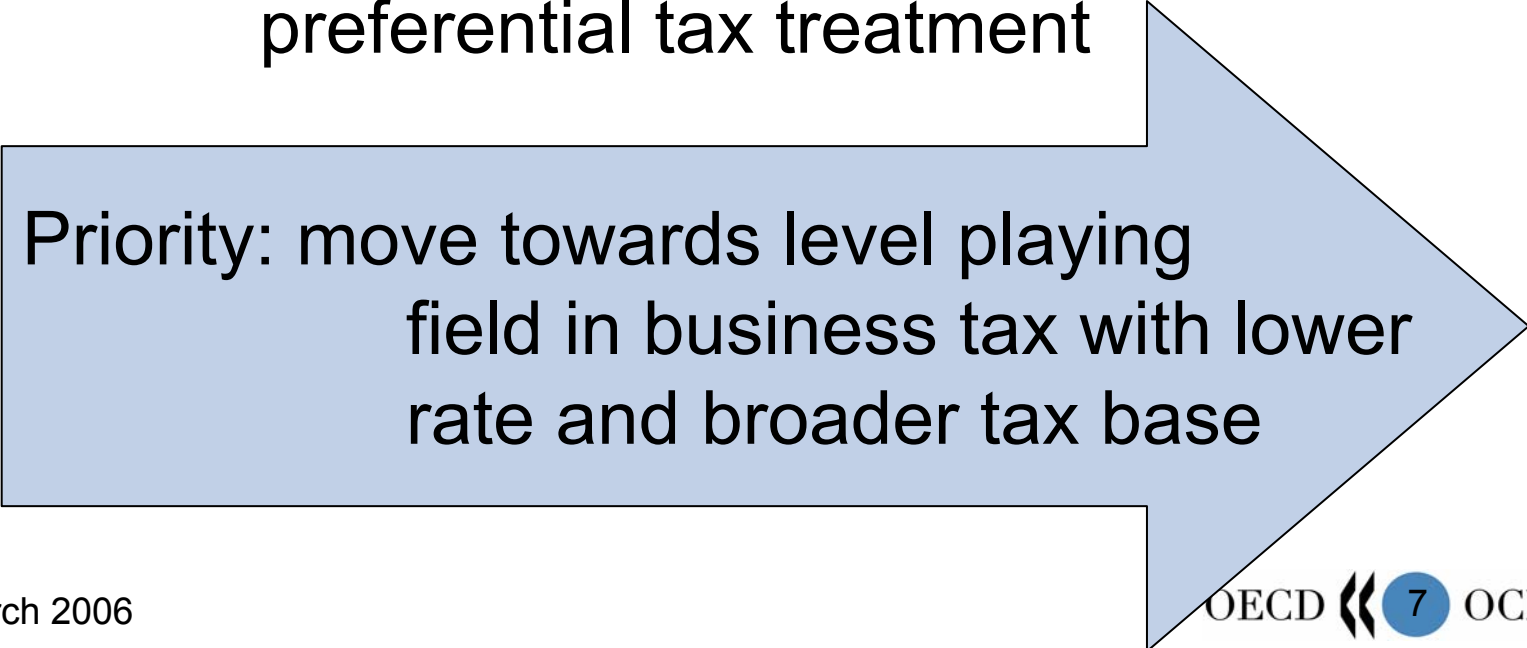


Priority: abolish capital taxes and  
shift from sales tax to GST




Marginal effective tax rates are higher for services than for manufacturing and for primary producers

There are many tax credits and special provisions and small businesses get preferential tax treatment

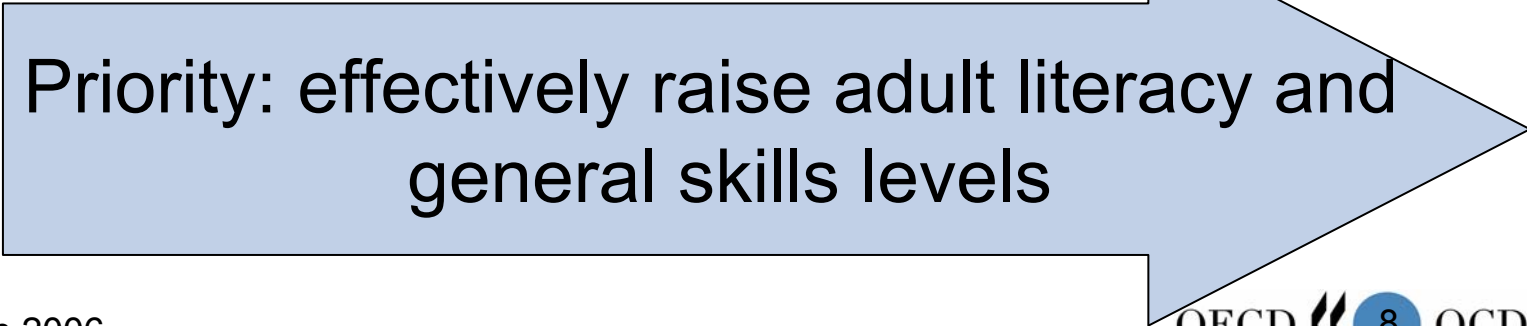


Priority: move towards level playing field in business tax with lower rate and broader tax base



Human capital matters for productivity growth...and literacy levels are even more important than formal qualifications.

But 9 million working-age adults are below the proficiency level for modern, knowledge-based economy  
(Adult Literacy and Life Skills Survey)



Priority: effectively raise adult literacy and general skills levels



# A sustainable path for fiscal and social policies

- Ageing pressures
- Federal-provincial arrangements
- Minimising poverty traps

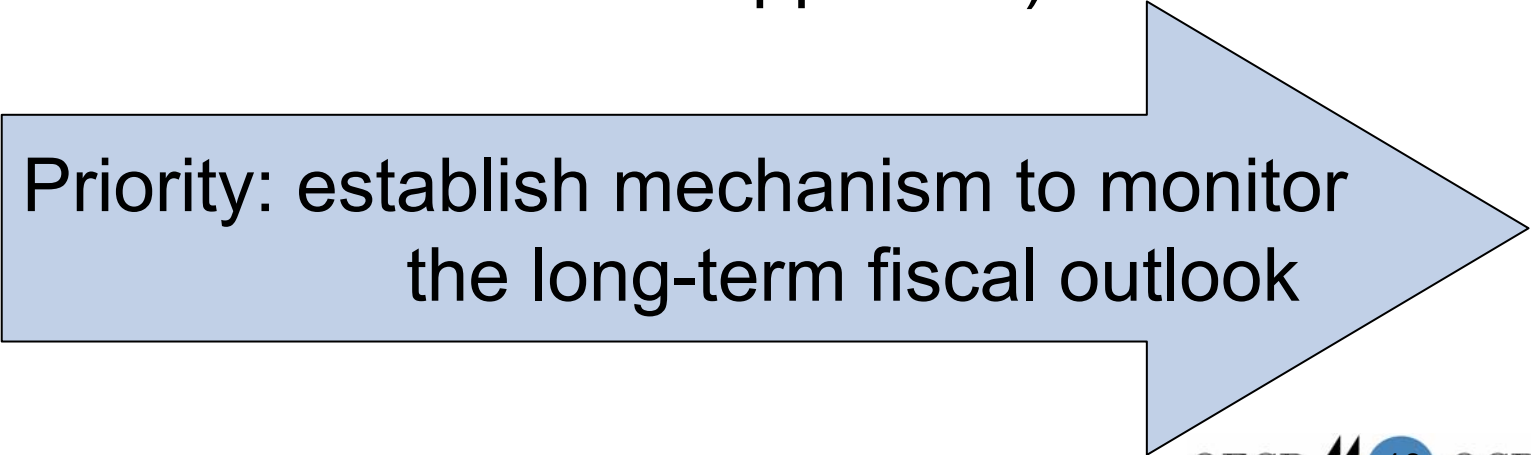


Aging pressures affect the long-term  
budget outlook ...

especially public health care spending

(Oliveira Martins *et al.*)

Need to see what today's policy  
choices imply for the future  
(including the pay-off from an “invest  
for tomorrow” approach)

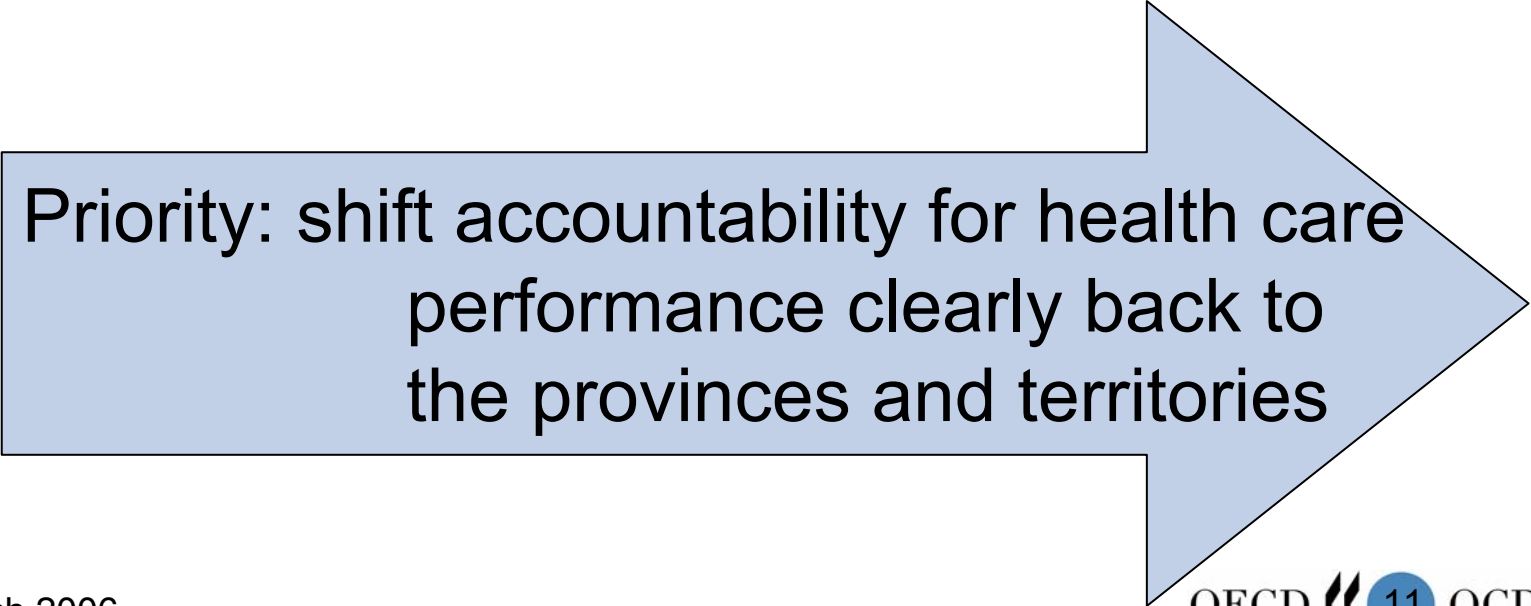


Priority: establish mechanism to monitor  
the long-term fiscal outlook




Health care services need to become more efficient

Federal-provincial deals undermine accountability -- encourage provinces to bargain for more money instead of improving service delivery

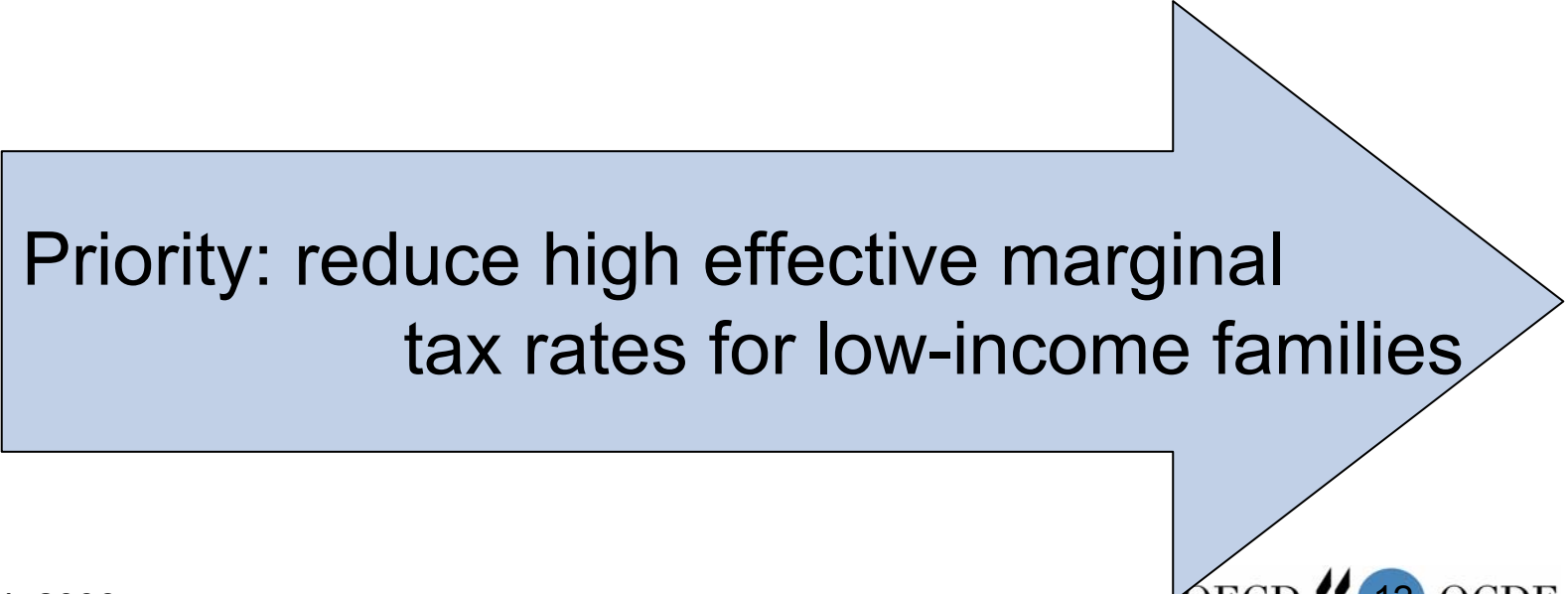


Priority: shift accountability for health care performance clearly back to the provinces and territories




High marginal effective tax rates for low income families create poverty traps...

instead of helping them to get ahead



Priority: reduce high effective marginal tax rates for low-income families

## Priorities for competitiveness and prosperity

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- maintain good public finance position
  - abolish capital taxes and shift from sales tax to GST
  - move towards level playing field in business tax with lower rate and broader tax base
  - raise adult literacy and general skills levels
  - establish mechanism to monitor the long term fiscal outlook
  - shift accountability for health care performance clearly back to the provinces and territories
  - reduce high effective marginal tax rates for low-income families