

# Rebalancing Priorities for Canada's Prosperity: Comments

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## General Comments

- Graphically illustrates the effects for all Canadians of our stagnant standard of living
- Usefully pulls together the state-of-the-art knowledge of what is needed to raise Canada's standard of living and adds many fresh perspectives
- There is now an impressive recipe for raising Canadians' standard of living
- The big question is: Why haven't Canadians formed a common cause around the need to drive up productivity?

## The Diagnostic

- As with their work on Ontario, the Institute benchmarks much of the study against the U.S. That's their mandate, although it does make the work a bit too U.S.-centric.
- For example, why exclude the countries with under 10 million people that have exceeded our GDP/capita? Those countries are Luxembourg (pop. 449K), Norway (4.5 mm), Ireland (3.9 mm), Iceland (279K), and Denmark (5.4 mm).
- Agree there is no reason we can't match (even exceed) the U.S.
- Also agree the culprit is mostly flagging Canadian productivity
- Hate to drag a nice study into messy data issues, but
  - Comparing hours worked in Canada and the U.S. is problematic. Institute is to be commended for switching to hours data from Baldwin – which show productivity is less of a problem
  - Public sector data suspect (is our public sector really much more productive than in the U.S.)
  - Still, best single point estimate is that Canadian private sector productivity is 79 per cent of U.S. benchmark - - so the issues survive the data problems
- Some sectoral perspectives would be useful (above and beyond cluster analysis)
  - For example, is F.I.R.E. really so much less productive in Canada and if so, why (the data point to lack of capital in Canada)
- Have never bought the urbanization angle. It reflects other things like geography (fixed) and sectoral composition (not even convinced we are less urbanized)

- Need to go one step behind undercapitalization and low penetration of trading clusters (competitive structure, prohibition on foreign competition, lack of entrepreneurial drive?)
- Correctly point out the problem for very high marginal effective personal income tax rates - - but it doesn't start at \$22,000. The source appears to be C.D. Howe Institute which ignores the welfare rules

## The Solution

### Areas of Consensus (well almost)

- More investment required in:
  - Education, particularly PSE
  - Immigration integration
  - Machinery and equipment and software
- Public spending needs to shift from consumption to investment
- Shift taxation away from capital/income and sharpen incentives
- Sharpen incentives on programs such as employment insurance

### Jury Out on:

- Eliminating corporate taxation
- Lifetime tax base for personal income taxation
- Scrapping R & D tax credits (consensus on administrative reform)

### Analysis Not Up to Par on Fiscal Federalism

- Needs a better context (Canadian economic space has shifted from east – west axis to north – south and tariff wall has come down. Can transfer system remain unchanged?)
- No proof transfers go to consumption as it is a block transfer and money is fungible
- Are lower federal taxes in some regions any fairer than transfers? Are they even legal?

Some Promising Areas Not Addressed:

- Enhancing competition such as through removing barriers to foreign competition
- A complete overhaul to the immigration system (selection and not just settlement - - turning a passive system into an active one)
- There is more to the underinvestment by private business than taxes (with record retained earnings and falling import prices investment still isn't rising much)

## The Big Question

- If the problem is so obvious and serious
- And the recipe for reform is so clear and generally accepted

### **Why Haven't Canadians Formed a Common Cause for a Productivity Revolution?**

- Institute notes the excellent productivity side-piece in the Fall Economic and Fiscal Update
- But not a word was said about productivity/standard of living in the election
- No party platform comes close to the consensus recipe
- The public typically thinks productivity is bad

**Conclusion: Economists (and policy makers) are failing the communications test**

**Can the Institute's work change this?**