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This is the time to build on Canada's strengths and look beyond the economic recovery to achieve our future prosperity potential

The Institute for Competitiveness & Prosperity urges Canadian governments, business leaders, and citizens to remain focused on our long-term Prosperity Agenda as we plan for a future beyond the economic recovery

Toronto – While the impact of the recent recession has been devastating, the Institute, like all Canadians, is hopeful that the worst is behind us and we are on the road to economic recovery. Our challenge is to look beyond the recovery, whenever it occurs; ensuring that the recession's damage is short lived while keeping our eye on a long-term Prosperity Agenda for Canada. This is the key conclusion of the Report on Canada *Beyond the recovery*, released today by the Institute for Competitiveness & Prosperity.

In the Report, the Institute reaffirmed that Canada's economy is among the world's most successful. Our Gross Domestic Product (GDP) per capita ranks fourth among countries with populations greater than 10 million. But against the United States, Canada's GDP continues to trail significantly. This gap represents lost prosperity potential, which negatively affects Canadians at all income levels.

The Institute reports that Canada's GDP per capita – a measure of the value created by workers and firms in Canada from the human, physical, and natural resources in the country – trailed the US by \$9,300 or 17 percent in 2009, essentially unchanged from the 2008 gap of \$9,400 in constant (2009) dollars.

The Report also identifies some positive developments in Canada's competitiveness. "Canada has made huge progress on our Prosperity Agenda by restructuring the way we tax business investment," said Roger Martin, Chairman of the Institute and Dean of the Joseph L. Rotman School of Management at the University of Toronto. "At the federal level, we see the government committed to its planned reductions in corporate tax rates. And in Ontario and British Columbia the conversion of their provincial sales taxes to value added taxes harmonized with the federal goods and services tax is a tough sell politically – but it is the right thing to do. Canada will move from one of the worst to one of the best tax regimes in the world for encouraging new business investment." Martin added that, "We are encouraged too that Canada's businesses have continued to close the technology investment gap with their US counterparts, as our dollar has strengthened. But a significant gap remains, and we encourage them to continue on that path."

Some other factors continue to be troublesome, however. Huge federal and provincial deficits will necessitate fiscal belt tightening. The Institute is concerned that governments will cut back severely on their investments in education – which happened the last time they attacked their deficits. We need to avoid repeating that mistake. We must continue making investments in education to increase access for all Canadians to post secondary education, to raise the number of master's graduates, and to improve the classroom experience for students.

In addition, protectionist sentiments are growing in the United States and elsewhere, and we should be working to combat them. "But", said Martin, "retaliation is not the answer. Much of our prosperity is built on trade, and we need to look for ways to expand, not contract, it." The Report applauds the leadership Ontario and Quebec have shown in encouraging the federal government to launch trade negotiations with

the European Union. And it urges pursuit of other trade expansion opportunities with countries like China and India.

The Institute also calls for new approaches to Canada's innovation agenda. It argues that increasing exposure to international trade will add pressure on our businesses to become more innovative. But it also criticizes current government approaches that over emphasize *invention* – new-to-the-world discoveries often driven by scientific curiosity – and under emphasize true *innovation* – the creation of products, services, or processes that create net new value for customers. "Obviously, we need science-based discovery as a foundation for innovation," said Martin. "But our prosperity is the result of business innovation that adds value to our day-to-day lives. Our public policy focuses almost exclusively on getting more scientific invention. Without greater emphasis on true innovation, we will continue to spend billions of dollars funding invention and get little innovation to show for it."

In summary, Martin concluded, "We need to look beyond the current turbulence and beyond the recovery, avoiding the temptations and traps of poor economic policy. We must strive to stay on track to achieve our prosperity potential through positive attitudes, wise investments, excellent tax policy, and structures that encourage innovation."

The 2020 Prosperity Agenda for Canada

Attitudes

- **Remain determined to close the prosperity gap**

Investments

- **Continue investing in people for Canada's competitiveness**
- **Increase business investment in information and communication technology**

Motivations

- **Implement announced changes in Ontario's and British Columbia's sales and corporate tax structures and encourage governments in Saskatchewan, Manitoba, and PEI to follow their lead**
- **Lower marginal effective tax rates for lower income Canadians**

Structures

- **Balance our public innovation strategies**
- **Continue to encourage federal efforts to expand international free trade agreements**
- **Keep the friendly pressure on our US neighbours to resist protectionist impulses and, in fact, look for even more opportunities to expand our trade**
- **Step up our efforts to increase trade with China and the European Union, our next largest trading partners after the United States**

The complete report can be downloaded directly from:

http://www.competeprosper.ca/images/uploads/Report_on_Canada_2010.pdf

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About the Institute for Competitiveness & Prosperity

The Institute is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario's Task Force on Competitiveness, Productivity and Economic Progress. The Institute and the Task Force are supported through the Ministry of Economic Development and Trade.