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Canadians should set their sights on achieving Canada's future prosperity potential

Institute for Competitiveness & Prosperity urges governments in Canada and all Canadians to become active partners in implementing the 2020 Prosperity Agenda

Toronto – Despite some concerns about an economic slowdown, Canadians have excellent opportunities to redouble their efforts at tackling a long-term Prosperity Agenda to reach our economic potential by 2020.

Canada has one of the most prosperous and competitive economies in the world. But we are not living up to our full economic potential that would increase well being for ourselves and future generations. The Institute for Competitiveness & Prosperity, in its fifth Report on Canada, *Setting our sights on Canada's 2020 Prosperity Agenda*, released today, proposes the 2020 Prosperity Agenda as a way of contributing to the national discussion on realizing our prosperity potential.

The Institute, chaired by Roger Martin, Dean of the Rotman School of Management, was established by the Ontario Government in 2001 to stimulate businesses, governments, educational institutions, and individuals to increase the pace of innovation and competitiveness. The goal is to continue to increase our standard of living.

The Institute's research confirms that Canada's economy is one of the world's most successful, especially when compared to countries outside North America. Canada's Gross Domestic Product (GDP) per capita ranks second among countries with a population greater than 10 million. GDP measures the value created by workers and firms from the human, physical, and natural resources in Canada. But against the United States, Canada continues to fall further behind. In 1981, Canada's GDP per capita was \$3,000, or less than 10 percent behind US GDP. Over the intervening years, the gap has widened and now Canada trails the US by \$8,800, or 17 percent, per person.

This gap represents lost prosperity, which matters to all Canadians. In its Report on Canada last year, the Institute set out its Agenda for achieving this potential by 2020. This year, the Institute reviews progress and identifies the key next steps to put Canada on the path to achieving this Agenda.

It urges Canadians to reduce the GDP gap with the United States to \$3000. "This gap represents unmet potential prosperity for Canadians at all income levels. At the same time, our governments have been less able to make the necessary expenditures in social programs and investments in future prosperity," said Roger Martin.

The Institute concludes that Canada's competitiveness is important for the average Canadian family. Its research shows that, if we met our prosperity potential, families would gain \$8,800 in disposable, after tax income – every year. It also indicates that families across the income spectrum are affected by our unfulfilled prosperity potential. As the prosperity gap widened through the 1990s, Canada's upper- and middle-income families fell behind their US counterparts.

Traditionally, lower income Canadians have out performed their US counterparts – but this advantage is fading as we fall further behind the US in overall prosperity. And governments at all levels across Canada would also generate an additional \$68 billion in tax revenue, an amount that could fund important social and capital investments.

Lagging productivity continues to be the biggest barrier to closing the gap. The Institute points out that productivity growth comes from innovation, not just efficiency improvements. According to Martin, “we need to create more value that customers want in our products and services. That requires innovation and upgrading – such as has occurred in the Ontario and BC wine industries with the development of high value Icewine and its consumer acceptance around the world.”

The Institute is proposing a wide range of initiatives to encourage and support innovation. Among them is the high priority for Canadians to shift their attitude from a collective complacency to a shared determination to achieve this potential. The appointment of the Competition Policy Review Panel headed by Lynton “Red” Wilson is a step in the right direction. The Panel’s mandate is to review key elements of Canada’s competition and investment policies to ensure that they are working effectively in encouraging even greater foreign investment and creating more and better jobs for Canadians.

Another priority is to build a smarter tax system to raise motivations for businesses to invest. Currently, Canada has among the highest tax rates on business investment in the world. The Federal Government is taking dramatic action to give Canada an environment more conducive to business investment. Its fall 2007 economic statement puts in place significant reductions in corporate income tax rates. Ontario - and other provinces - need to follow suit. “At the federal level, we’ve been disappointed by the reduction in the GST, as it is one of the best ways to raise revenue without harming business investment,” said Martin. “But this creates an opportunity for five provinces to replace their provincial sales tax with a value added tax and then harmonize its collection with the federal GST. This move would stimulate investment and create jobs better than any other tax reform.”

Tax changes would help lift Canada’s anemic business investment in productivity- and wage-enhancing machinery, equipment, and software. But we also need initiatives to welcome more robust business competition and ways to ensure highly capable managers are leading the pace.

The Institute continues to urge governments to increase their investment in education and points out that this is starting to occur, especially in Ontario. Its research in the area of poverty points to the importance of a high school diploma and other formal skills. At the post secondary level, the Institute urges an examination of the balance between research and student experience in our universities. “We’re building a solid research capability in Canada’s universities,” said Martin. “But there’s evidence that the day-to-day student experience may be suffering from crowded classrooms and unavailable professors. We need to understand the tradeoff better.”

In summary, Martin said, “We are calling for Canadians to keep their sights focused on the Prosperity Agenda. Let’s take pride in what we have accomplished; but let’s acknowledge we could do better and put ourselves on a path to achieving our long-term prosperity potential.”

Setting our sights on the 2020 Prosperity Agenda

Attitudes: Accept the challenge; overcome complacency

- Government, business, labour, and community leaders need to turn up the volume on the importance of prosperity and productivity

Investment: Focus on people and technology

- Invest in focused and innovative ways to fight poverty
- Raise awareness among all Canadians of the benefits of education
- Continue investments in post secondary education
- Assess the tradeoff between research and the student experience in our universities
- Step up business investments in information and communication technology

Motivations: Pursue smarter taxation

- Remove capital taxes immediately
- Reduce corporate income tax rates
- Convert provincial retail sales tax to a value added tax harmonized with the GST
- Continue attacking high marginal tax rates for lower income Canadians

Structures: Place a premium on creativity and innovation

- Focus venture capital efforts on quality, not quantity
- Continue to expand innovation policy to include building management capabilities
- Pursue the reduction of barriers to investment and trade

The complete report can be downloaded directly from:

http://www.competeprosper.ca/download.php?file=ICAP_RoC2008_Final.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.