

For Immediate Release – March 8, 2007

Institute urges Canadians and their leaders to turn up the volume in discussions of Canada's widening prosperity gap with the United States

Institute for Competitiveness & Prosperity proposes an aggressive agenda for increasing Canada's prosperity and argues that doing nothing is not a worthy option

Toronto – Canadians need to step up to the challenge of closing our prosperity gap with the United States by 2020. With the likelihood of a federal and several provincial elections over the next 18 months, Canadians will have the opportunity to discuss and debate the importance of the prosperity gap and ways to narrow it. The Institute for Competitiveness & Prosperity in its Report on Canada 2007, *Agenda for Canada's prosperity*, released today at the Conference on Canada's Prosperity Challenge, proposes a prosperity agenda as a way of invigorating the debate.

Canada's economy is one of the world's most successful; and most signs – low unemployment rates, solidly performing stock market, and a strong Canadian dollar – reinforce this. But it is not meeting its full potential. More worrisome, two decades ago, Gross Domestic Product (GDP) per capita in Canada was only \$3,300 (constant 2005 dollars) below – or 10 percent behind that in the United States. Over the past two decades, we have drifted further behind US performance – and Canada now trails the United States by \$9,200 or 18 percent. GDP measures the value created by workers and firms in Canada from the human, physical, and natural resources in the country.

Roger Martin, Dean of the Joseph L. Rotman School of Management at the University of Toronto and Chairman of the Institute expressed the concern that, "Canada's stealthily slow drift of under achievement could erode our economic strength, while most Canadians remain unaware of the problem." With current trends in Canada's economic performance, it is possible that the prosperity gap could nearly double to over \$17,000 per capita by 2020. "That's why doing nothing is not a worthy option," said Martin.

On the positive side, Martin added, "Closing this prosperity gap would have real benefits for Canadian families." On average, each family would gain \$11,900 in disposable, after tax income – every year. Governments across Canada would generate an additional \$108 billion in revenue every year. This added revenue potential would easily pay for the kind of spending increases that are being proposed around the country and still leave room for the biggest tax cut in Canadian history by a wide margin.

The Institute's *Agenda for Canada's prosperity* highlights the significant changes required in attitudes, investment patterns, motivations to do business, and market and governance structures across the country.

As Martin said, “We are calling for a shifting of Canadians’ overall attitude from collective complacency to a shared determination to close the prosperity gap. If federal and provincial party platforms over the past few elections are any guide to public attitudes, it’s clear that issues related to our competitiveness, productivity, and prosperity are not seen as centrally important to the public. We need to raise the volume on these issues.”

Lagging investment is a major factor in the prosperity gap, and the Institute continues to urge a shift from consuming today’s resources to investing in future prosperity. Our business leaders need to increase their investment in machinery, equipment, and software, particularly information and communications technology (ICT). Our federal, provincial, and local governments have been increasing public spending on health care and social services at the expense of investments in education and infrastructure. We need to rebalance spending priorities. Individuals, especially the young, need to ensure they get as much education as possible. The report praised initiatives by some provinces to increase the age when students can quit school.

Our tax system needs to be smarter to motivate business entrepreneurship, creativity, and innovation. Canada has among the highest tax rate on business investment in the world. A smarter tax system would encourage more business investment to increase the number of high paying jobs in Canada. As Martin observed, “most other governments around the world understand that taxing business investment at high rates is just counter productive. Here in Canada we should shift from being laggards to innovators in tax reform.” Among the Institute’s recommendations are for provincial governments to eliminate immediately the tax on capital where it still exists; to convert the existing provincial sales tax systems where they still exist to a value added tax like the GST; and for the federal and provincial governments to work together to attack features of the tax and social benefit clawback system that impose punitive effective tax rates on lower income individuals and families working to climb the economic ladder.

Finally, the Institute makes recommendations to strengthen market and governance structures to enhance prosperity. “Our governments have done a good job in providing the basic support for a competitive economy – including decent infrastructure and good primary and secondary education. But they need to enhance areas of more specialized support, especially to improve the quality of venture capital financing innovative firms and to graduate more students with business degrees.” The Institute also calls for reduced regulation of industries to enhance competitive pressure in them, thereby increasing innovation, productivity, and prosperity. In addition, it proposes more negotiations to develop bilateral trade deals to enhance market potential for our industries as well as providing greater competitive pressure to increase innovation and productivity.

Some of our current governance structures in Canada can inhibit productivity growth, and the Institute urges the federal and provincial governments to focus fiscal federalism discussions on how they can strengthen competitiveness and prosperity in all regions of Canada. Martin said, “We should be trying to make the pie bigger rather than debating how to divide the pie.”

The Institute makes specific recommendations in its 2020 Challenge: Agenda for Canada’s prosperity.

Challenge 2020: Agenda for Canada's prosperity

Attitudes: From collective complacency to shared determination to close the gap

- Recognize imperative for closing prosperity gap
- Commit to taking the extra steps to increase our productivity and our capacity for innovation and upgrading

Investment: From consumption today to investment for tomorrow

- Increase investment in machinery and equipment, particularly information and communications technology
- Encourage Canadian youth to invest in their educational attainment
- Increase investment in post secondary education
- Rebalance government spending away from consumption to investment

Motivations: From unwise taxation to smart taxation

- Increase Capital Cost Allowances to match economic depreciation
- Eliminate the capital tax in Canada where it still exists
- Convert provincial sales tax to a value added tax, where applicable
- Lower perversely high marginal tax rates for individual Canadians
- Assess radical new approaches to taxation
- Reduce or eliminate Scientific Research and Experimental Development (SR&ED) and focus on reducing taxes on business investment overall

Structures: From general support to specialized support and competitive pressure

- Continue to improve the quality of venture capital
- Increase business education
- Reduce regulation to increase competitive pressure
- Reduce counter-productive labour regulations
- Continue to pursue bilateral free trade agreements
- Rebalance fiscal federalism to encourage investment in have-not regions
- Introduce employer experience rating to Employment Insurance

The complete report can be downloaded directly from:

<http://www.competeprosper.ca/public/tor07.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.