Setting our sights on Canada’s 2020 Prosperity Agenda

Report on Canada 2008

Presentation to Conference on Canada’s Prosperity Challenge

Roger L. Martin

April 1, 2008
Setting Our Sights on Canada’s 2020 Prosperity Agenda

- Canada’s 2020 Prosperity Agenda
- Productivity and Canada’s Prosperity Potential
- AIMS and the 2020 Prosperity Agenda
- Staying on Track
The 2020 Challenge: Agenda for Canada’s Prosperity

<table>
<thead>
<tr>
<th>THE GOAL</th>
<th>Current</th>
<th>Target 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close the prosperity gap</td>
<td>$8,800 behind the United States in GDP per capita</td>
<td>Cut the prosperity gap to $3,000</td>
</tr>
<tr>
<td>Attitudes</td>
<td>Collective complacency</td>
<td>Shared determination to close the gap</td>
</tr>
<tr>
<td>Investment</td>
<td>Consume today</td>
<td>Invest for tomorrow’s prosperity</td>
</tr>
<tr>
<td>Motivations</td>
<td>Unwise taxation</td>
<td>Smart taxation</td>
</tr>
<tr>
<td>Structures</td>
<td>Preserve status quo</td>
<td>Encourage creativity and growth</td>
</tr>
</tbody>
</table>
### Canada’s GDP Per Capita is Among the World’s Highest

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita (C$ 2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$52,900</td>
</tr>
<tr>
<td>Canada</td>
<td>$44,100</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$43,800</td>
</tr>
<tr>
<td>Australia</td>
<td>$42,800</td>
</tr>
<tr>
<td>Belgium</td>
<td>$40,200</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$39,600</td>
</tr>
<tr>
<td>France</td>
<td>$38,400</td>
</tr>
<tr>
<td>Germany</td>
<td>$38,300</td>
</tr>
<tr>
<td>Japan</td>
<td>$38,300</td>
</tr>
<tr>
<td>Italy</td>
<td>$34,900</td>
</tr>
</tbody>
</table>
Canada’s Prosperity Gap Has Widened


Year | Prosperity Gap (C$ 000)
---|---
'81 | ($3,000)
'85 | ($4,500)
'90 | ($6,400)
'95 | ($7,700)
'00 | ($8,400)
'03 | ($8,000)
'06 | ($8,800)

US | $8,800

Canada |
Trailing Metro Regions in Canada Account for the Prosperity Gap

Urban and rural GDP per capita (C$ 2005) 1986–2005

GDP per capita

$60

$50

$40

$30

$20

$10

$0


US

Canada

US

Canada

Metropolitan regions

Non-metropolitan regions

Institute for

COMPETITIVENESS & PROSPERITY
Realizing Prosperity Potential Affords Higher Public Benefits

Increased federal, provincial, and local government revenue from narrowing the prosperity gap to $3,000 per capita

$68 billion

Potential annual tax reduction

$47 billion

Potential annual expenditure increases

Health care

$4.4 billion

(Romanow)

Early childhood education

$4.1 billion

(Mustard-McCain)

Infrastructure

$6.0 billion

(Canadian Council of Professional Engineers)

Kyoto

$6.5 billion

(David Suzuki Foundation)
Canada Income at Upper End of Distribution Trails United States

After-tax income of economic families of 2 or more persons, by selected percentiles
1980–2005

United States

Canada

80th Percentile

000 C$ (2005)

$120

$100

$80

$60

$40

$20

$0

1980
1985
1990
1995
2000
2005

Prosperity Gap (GDP per capita)
Canada Median Income Has Fallen Behind United States

After-tax income of economic families of 2 or more persons, by selected percentiles
1980–2005

United States

Canada

80th Percentile

Median

Prosperity Gap (GDP per capita)


$120

$100

$80

$60

$40

$20

$0

-20

000 C$ (2005)
Canada Income at Bottom of Distribution Exceeds United States; But Advantage Fading

After-tax income of economic families of 2 or more persons, by selected percentiles
1980–2005

United States
80th Percentile

Canada

Median

Prosperity Gap
(GDP per capita)

20th Percentile

000 C$ (2005)

$120

Current Steep Rise of Canadian Dollar is Unprecedented


US$ / C$
Doing Nothing Entails Significant Prosperity Risks

C$ 2006

Current prosperity gap, 2006

Potential prosperity gap, 2020*

($8,800)

($13,700)

($17,400)

Do nothing – optimistic case

Do nothing – pessimistic case

($3,000)

Take action: Agenda 2020

April 2008
Setting Our Sights on Canada’s 2020 Prosperity Agenda

- Canada’s 2020 Prosperity Agenda
- **Productivity and Canada’s Prosperity Potential**
- AIMS and the 2020 Prosperity Agenda
- Staying on Track
Institute Measures Four Components of Prosperity

<table>
<thead>
<tr>
<th>Prosperity</th>
<th>Profile</th>
<th>Utilization</th>
<th>Intensity</th>
<th>Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>Potential labour force</td>
<td>Employed persons</td>
<td>Hours worked</td>
<td>GDP</td>
</tr>
<tr>
<td>Population</td>
<td></td>
<td>Potential labour force</td>
<td>Employed persons</td>
<td>Hours worked</td>
</tr>
</tbody>
</table>

- **Participation**
- **Employment**

- Cluster mix
- Cluster content
- Cluster effectiveness
- Urbanization
- Education
- Capital investment
- Productivity residual
Productivity Is Key Component of Prosperity

Prosperity = Profile × Labour effort × Utilization × Intensity × Productivity
Productivity Growth Comes From Value Added Products and Services and Efficiency

Sources of productivity growth

Value added
Creating unique products, services, and features

Efficiency
Reducing costs and improving processes
Institute Has Identified Important Productivity Drivers

Sources of productivity growth

Value added
Creating unique products, services, and features

Efficiency
Reducing costs and improving processes

Drivers of productivity

Skilled workers
Capable managers
Scientific & engineering talent
Investments in technology
Vigorous competitors
Clusters of people and businesses
Balanced regulatory environment
Higher Productivity Is Associated With Higher Earnings

Wages versus relative labour productivity, Canadian provinces and US states (C$ 2006), average 2001–06

- Average wages
- R² = 0.64

Canadian provinces
US states

Relative labour productivity (Ontario = 100)
Intensity and Productivity are Key Drivers of Prosperity Gap

Elements of GDP per capita (C$ 2006)

- US GDP per capita: $52,900
- Participation Employment: $1,200
- Intensity: $900
- Cluster mix: $4,500
- Cluster content: $300
- Cluster effectiveness: $1,300
- Urbanization: $2,500
- Education: $1,900
- Capital investment: $500
- Productivity residual: $800
- Canada GDP per capita (83.4% of US): $44,100

Prosperity Gap: $8,800 or 16.6% of US GDP per capita
Growing Productivity Gap Drives Prosperity Gap with United States


- Productivity gap
- Prosperity gap
- Intensity gap
- Utilization lead/gap
- Profile lead

000 C$ per capita

Prosperity lead

$2

Canada Leads Prosperity Internationally Through Labour Effort, Not Productivity

Components of Canada’s prosperity lead versus other large countries (C$ 2006) 1990–2006

- **Prosperity lead**
- **Utilization lead**
- **Profile lead**
- **Intensity lead / gap**
- **Productivity gap**

*Versus median of 10 most prosperous (GDP per capita) countries with 10 million or more people.*
Productivity in Canada’s Cities Lags City Regions Globally

Productivity, labour effort, and prosperity in 78 OECD metropolitan regions

**Productivity**
- GDP per worker (C$ 2004)
- Toronto: $80,200
- Vancouver: $73,300
- Montreal: $69,900
- US Cities (23): $117,700
- Europe (35): $84,700
- Australia, New Zealand (3): $80,400
- Middle East, Asia, Latin America (14): $57,000
- Global Average (78)*: $84,600

**Labour effort**
- % of population working
- Toronto: 52.2%
- Vancouver: 52.4%
- Montreal: 50.0%
- US Cities (23): 50.0%
- Europe (35): 44.3%
- Australia, New Zealand (3): 50.1%
- Middle East, Asia, Latin America (14): 44.6%
- Global Average (78)*: 46.3%

**Prosperity**
- GDP per capita (C$ 2004)
- Toronto: $41,900
- Vancouver: $38,400
- Montreal: $34,000
- US Cities (23): $58,800
- Europe (35): $37,500
- Australia, New Zealand (3): $40,300
- Middle East, Asia, Latin America (14): $25,500
- Global Average (78)*: $39,100
Setting Our Sights on Canada’s 2020 Prosperity Agenda

- Canada’s 2020 Prosperity Agenda
- Productivity and Canada’s Prosperity Potential
- **AIMS and the 2020 Prosperity Agenda**
- Staying on Track
AIMS Drives Prosperity; Prosperity Drives AIMS

Capacity for innovation and upgrading

- Attitudes
- Structures
- Investment
- Motivations

Prosperity

VIRTUOUS OR VICIOUS CIRCLE
Canadian Are Generally Complacent About Prosperity Gap

Do you think the fact that Canada has fallen behind the US in terms of economic growth is...

- Not really a problem: 17%
- Just one of many problems government should address: 41%
- A significant problem that needs to be dealt with soon: 27%
- A critical problem that requires immediate action: 12%

39% see it as a “critical or “significant problem.”
But When Informed About Benefits of Closing Gap...

Do you think the fact that Canada has fallen behind the US in terms of economic growth is...

Not really a problem
- 17%

Just one of many problems government should address
- 41%

A significant problem that needs to be dealt with soon
- 27%

A critical problem that requires immediate action
- 12%

Benefit if we closed the gap:
- $11,900 more in household income
- $108 billion more in tax revenue annually
- Up to 18% tax reduction

39% see it as a “critical” or “significant” problem
Canadians Respond to The Case for Closing the Prosperity Gap

Do you think the fact that Canada has fallen behind the US in terms of economic growth is...

- Not really a problem: 17% before knowing benefit, 9% after knowing benefit
- Just one of many problems government should address: 41% before knowing benefit, 31% after knowing benefit
- A significant problem that needs to be dealt with soon: 27% before knowing benefit, 33% after knowing benefit
- A critical problem that requires immediate action: 12% before knowing benefit, 24% after knowing benefit

Benefit if we closed the gap:
- $11,900 more in household income
- $108 billion more in tax revenue annually
- up to 18% tax reduction

57% see it as a “critical” or “significant” problem.
Canadian Businesses Under Invest to Support Their Workers

Private sector machinery, equipment, and software investment per worker, 1981–2006

- Information and Communications Technology (ICT)
- All other

Total investment in machinery, equipment, and software

Annual investment per employed person

Current C$

Canada/US investment per worker

1981 68%

2006 54%

1981 97%

2006 82%

1981 90%

2006 71%
Canada’s Public Investment in Education Trails Health

Public expenditure in health and education
Canada and US, 1992–2007

Per capita expenditure (C$ 2006)

$3,250
$3,000
$2,750
$2,500
$2,250
$2,000
$1,750
$1,500
$1,250
$1,000
$750
$500
$250
$0


Canada health

Canada education
Public Spending on Education in Canada Lags
Canada Out Invests United States in Higher Education R&D

R&D expenditures as a percentage of GDP, Canada versus US, 1981–2006

% of GDP

Business

Higher education

Government

1981 | 2006

US

Canada

Canada

US

Canada

US

Institute for

Competitiveness & Prosperity

April 2008
Student-Faculty Ratios are Much Worse in Canada

![Bar chart showing student-faculty ratios in Canada and the United States.](chart)

**Student-faculty ratios**
Universities in Canada and 4-year degree granting institutions in US

- **Canada**
  - 1993: 18.8
  - 2005: 24.4

- **United States**
  - **Public**
    - 1993: 15.2
    - 2005: 14.8
  - **Combined**
    - 1993: 14.1
    - 2005: 13.6
  - **Private**
    - 1993: 12.4
    - 2005: 12.2
Tax Rates on Business Investment in Canada are Among the World’s Highest

Marginal effective tax rate on business investment (% 2007)

Total tax receipts (% of GDP), 2004
Smart Tax Reform is a High Priority for Canada’s Prosperity

- Reduce statutory rates on corporate profits
- Convert provincial sales taxes to value added tax (GST)
- Eliminate the capital tax
- Eliminate disparities in taxation of manufacturing and service sectors
- Align Capital Cost Allowance rates with economic life of assets
- Eliminate tax credits for Labour Sponsored Investment Funds
- Reduce Marginal Effective Tax Rates for low-income Canadians
Specialized Support and Competitive Pressure Drive Firms’ Innovation

Firm actions

Specialized support

Competitive pressure

General support
Venture Capital Returns in Canada have been Dismal

3-year venture capital annualized returns
2001–2007

- Canada
- United States

2001
2002
2003
2004
2005
2006
2007 (as of June)

-9.6
-9.1
-12.8
-17.2
-6.8
-3.8
-1.8
7.8
9.3
0.7
1.1
10.5

50.1%
15.7%
Canada Had 15 Billion-Dollar Global Leaders in 1985

1985
15 Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Departure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abitibi-Price</td>
<td>Hiram Walker</td>
</tr>
<tr>
<td>Alcan</td>
<td>Inco</td>
</tr>
<tr>
<td>AMCA</td>
<td>Lavalin</td>
</tr>
<tr>
<td>Atco</td>
<td>McCain</td>
</tr>
<tr>
<td>Bombardier</td>
<td>Moore</td>
</tr>
<tr>
<td>CCL Industries</td>
<td>Northern</td>
</tr>
<tr>
<td>Cominco</td>
<td>Telecom (Nortel)</td>
</tr>
<tr>
<td>Falconbridge</td>
<td>Seagram Co.</td>
</tr>
</tbody>
</table>

Departures between 1985 and 2003
Canada Created 24 Net New Billion$ Global Leaders, 1985-2003

### 1985
15 Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Departures between 1985 and 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abitibi-Price</td>
<td>Hiram Walker</td>
</tr>
<tr>
<td>Alcan</td>
<td>Inco</td>
</tr>
<tr>
<td>AMCA</td>
<td>Lavalin</td>
</tr>
<tr>
<td>Atco</td>
<td>McCain</td>
</tr>
<tr>
<td>Bombardier</td>
<td>Moore</td>
</tr>
<tr>
<td>CCL Industries</td>
<td>Northern</td>
</tr>
<tr>
<td>Cominco</td>
<td>Telecom (Nortel)</td>
</tr>
<tr>
<td>Falconbridge</td>
<td>Seagram Co.</td>
</tr>
</tbody>
</table>

### 2003
39 Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Departures since 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abitibi-Price</td>
<td>Magna</td>
</tr>
<tr>
<td>Agrium</td>
<td>Manulife</td>
</tr>
<tr>
<td>Alcan</td>
<td>Financial</td>
</tr>
<tr>
<td>Atco</td>
<td>Masonite International</td>
</tr>
<tr>
<td>ATI Technologies</td>
<td>McCain</td>
</tr>
<tr>
<td>Barrick Gold</td>
<td>MDS</td>
</tr>
<tr>
<td>Bombardier</td>
<td>Methanex</td>
</tr>
<tr>
<td>CAE</td>
<td>Moore</td>
</tr>
<tr>
<td>Canfor</td>
<td>Nexfor (Norbord)</td>
</tr>
<tr>
<td>CCL Industries</td>
<td>Nortel</td>
</tr>
<tr>
<td>Celestica</td>
<td>NOVA</td>
</tr>
<tr>
<td>CGI</td>
<td>Chemicals</td>
</tr>
<tr>
<td>CN Rail</td>
<td>Placer Dome</td>
</tr>
<tr>
<td>Cott</td>
<td>PotashCorp</td>
</tr>
<tr>
<td>Couche-Tard</td>
<td>Quebecor</td>
</tr>
<tr>
<td>Domtar</td>
<td>World</td>
</tr>
<tr>
<td>Falconbridge</td>
<td>SNC-Lavalin</td>
</tr>
<tr>
<td>Finning</td>
<td>Teck-Cominco</td>
</tr>
<tr>
<td>International</td>
<td>Tembec</td>
</tr>
<tr>
<td>Inco</td>
<td>Thomson</td>
</tr>
<tr>
<td>Intrawest</td>
<td>Weston Foods</td>
</tr>
<tr>
<td>Linamar</td>
<td></td>
</tr>
</tbody>
</table>

*Departures since 2003*
Canada Has 40 Billion$ Global Leaders Currently

<table>
<thead>
<tr>
<th>1985</th>
<th>15 Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abitibi-Price</td>
<td>Hiram Walker</td>
</tr>
<tr>
<td>Alcan</td>
<td>Inco</td>
</tr>
<tr>
<td>AMCA</td>
<td>Lavalin</td>
</tr>
<tr>
<td>Atco</td>
<td>McCain</td>
</tr>
<tr>
<td>Bombardier</td>
<td>Moore</td>
</tr>
<tr>
<td>CCL Industries</td>
<td>Northern</td>
</tr>
<tr>
<td>Cominco</td>
<td>Telecom (Nortel)</td>
</tr>
<tr>
<td>Falconbridge</td>
<td>Seagram Co.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2003</th>
<th>39 Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abitibi-Price</td>
<td>Magna</td>
</tr>
<tr>
<td>Agrium</td>
<td>Manulife</td>
</tr>
<tr>
<td>Alcan</td>
<td>Financial</td>
</tr>
<tr>
<td>Atco</td>
<td>Masonite</td>
</tr>
<tr>
<td>ATI</td>
<td>International</td>
</tr>
<tr>
<td>Technologies</td>
<td>McCain</td>
</tr>
<tr>
<td>Barrick Gold</td>
<td>MDS</td>
</tr>
<tr>
<td>Bombardier</td>
<td>Methanex</td>
</tr>
<tr>
<td>CAE</td>
<td>Moore</td>
</tr>
<tr>
<td>Canfor</td>
<td>Nexfor (Norbord)</td>
</tr>
<tr>
<td>CCL Industries</td>
<td>Norbord</td>
</tr>
<tr>
<td>Celestica</td>
<td>Nova</td>
</tr>
<tr>
<td>CGI</td>
<td>Chemicals</td>
</tr>
<tr>
<td>CN Rail</td>
<td>Placer Dome</td>
</tr>
<tr>
<td>Cott</td>
<td>PotashCorp</td>
</tr>
<tr>
<td>Couche-Tard</td>
<td>Quebecor</td>
</tr>
<tr>
<td>Domtar</td>
<td>World</td>
</tr>
<tr>
<td>Falconbridge</td>
<td>SNC-Lavalin</td>
</tr>
<tr>
<td>Finning</td>
<td>Teck-Cominco</td>
</tr>
<tr>
<td>International</td>
<td>Tembec</td>
</tr>
<tr>
<td>Inco</td>
<td>Thomson</td>
</tr>
<tr>
<td>Intrawest</td>
<td>Weston Foods</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>March 2008</th>
<th>40 Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>AbitibiBowater</td>
<td>Linamar</td>
</tr>
<tr>
<td>Agrium</td>
<td>Magna</td>
</tr>
<tr>
<td>Atco</td>
<td>Manulife</td>
</tr>
<tr>
<td>Barrick Gold</td>
<td>McCain</td>
</tr>
<tr>
<td>Bombardier</td>
<td>MDS</td>
</tr>
<tr>
<td>CAE</td>
<td>Methanex</td>
</tr>
<tr>
<td>Cameco</td>
<td>Norbord</td>
</tr>
<tr>
<td>Canfor</td>
<td>Nova</td>
</tr>
<tr>
<td>CCL Industries</td>
<td>Chemicals</td>
</tr>
<tr>
<td>Celestica</td>
<td>NOVA</td>
</tr>
<tr>
<td>CGI</td>
<td>PotashCorp</td>
</tr>
<tr>
<td>CHC Helicopters*</td>
<td>Quebecor</td>
</tr>
<tr>
<td>Cinram</td>
<td>World</td>
</tr>
<tr>
<td>CN Rail</td>
<td>Research in Motion</td>
</tr>
<tr>
<td>Connors Bros.</td>
<td>Shawcor</td>
</tr>
<tr>
<td>Cott</td>
<td>SNC-Lavalin</td>
</tr>
<tr>
<td>Couche-Tard</td>
<td>TD Waterhouse</td>
</tr>
<tr>
<td>Finning</td>
<td>Teck-Cominco</td>
</tr>
<tr>
<td>International</td>
<td>Tembec</td>
</tr>
<tr>
<td>Fording (Elk Valley Coal)</td>
<td>Thomson</td>
</tr>
<tr>
<td>Goldcorp</td>
<td>Transat A.T.</td>
</tr>
<tr>
<td>Linamar</td>
<td>Weston Foods</td>
</tr>
</tbody>
</table>

*Foreign acquisition of CHC Helicopters is expected to be complete by mid-2008.

Departures between 1985 and 2003

Departures since 2003

Arrivals since 2003
Setting Our Sights on Canada’s 2020 Prosperity Agenda

• Canada’s 2020 Prosperity Agenda

• Productivity and Canada’s Prosperity Potential

• AIMS and the 2020 Prosperity Agenda

• Staying on Track
Attitudes

Accept the challenge; overcome complacency

We urge the Prime Minister and Premiers and business, labour, and community leaders to turn up the volume on the importance of prosperity and productivity
Setting Our Sights on Canada’s 2020 Prosperity Agenda

Investment

Focus on people and technology

- Invest in focused and innovative ways to attack poverty
- Raise awareness among all Canadians of the benefits of education
- Continue investments in post secondary education
- Assess the tradeoff between university research and teaching
- Step up investments in information and communication technology
Motivations

Pursue smarter taxation

- Remove the capital tax immediately
- Reduce statutory corporate tax rates
- Institute value added provincial taxes, harmonized with the federal GST
- Continue attacking high marginal tax rates for lower income Canadians
- Eliminate disparities in taxation of manufacturing and service sectors
- Align Capital Cost Allowance rates with economic life of assets
Setting Our Sights on Canada’s 2020 Prosperity Agenda

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 2020 Challenge: Agenda for Canada’s Prosperity

<table>
<thead>
<tr>
<th>THE GOAL</th>
<th>Current</th>
<th>Target 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close the prosperity gap</td>
<td>$8,800 behind the United States in GDP per capita</td>
<td>Cut the prosperity gap to $3,000</td>
</tr>
<tr>
<td>Attitudes</td>
<td>Collective complacency</td>
<td>Shared determination to close the gap</td>
</tr>
<tr>
<td>Investment</td>
<td>Consume today</td>
<td>Invest for tomorrow’s prosperity</td>
</tr>
<tr>
<td>Motivations</td>
<td>Unwise taxation</td>
<td>Smart taxation</td>
</tr>
<tr>
<td>Structures</td>
<td>Preserve status quo</td>
<td>Encourage creativity and growth</td>
</tr>
</tbody>
</table>
Setting our sights on Canada’s 2020 Prosperity Agenda

Report on Canada 2008

Presentation to Conference on Canada’s Prosperity Challenge

Roger L. Martin

April 1, 2008