

## CANADA

- GDP per capita is 8% below the average of the advanced OECD countries, similar to the gap over the past quarter century. However, the gap in hourly labour productivity is much greater, having widened markedly until 2010. Average trend GDP per capita growth since the crisis has been less than hourly labour productivity growth, reflecting a declining labour force participation rate.
- Income inequality has edged up, in contrast to the OECD average, which has remained unchanged. The Gini coefficient increased at an average annual rate of 0.1 percentage point between 2008 and 2013. The poorest 20% of society has lost ground, with a 0.1 percentage point annual decline over the same period.
- The auctioning of additional mobile spectrum in 2015 has raised competitive pressures in mobile phone services. Access to post-secondary education has been improved through the Apprenticeship Loan, increased Canada Student Grants for students from low- and middle-income families and an increase in thresholds for repayment of student debt. To increase apprenticeship completion rates and mobility, steps have been made towards greater recognition and harmonisation of provincial training and certification requirements. Supports for some innovative firms to scale up and for the development of networks and clusters are being increased.
- Reducing barriers to product market competition is key to raising productivity. Lower FDI restrictions in network sectors and licensing requirements in retail sectors and less discrimination against foreign suppliers in professional services, air and road transport would increase competition and speed up the adoption of new technologies. Rolling back non-tariff barriers to internal trade would facilitate economies of scale. Provincial apprenticeship training and certification requirements need to be harmonised to increase apprenticeship completion rates and inter-provincial mobility. Rebalancing taxation from sources with high efficiency costs, such as corporate and personal income taxes, towards those with low efficiency costs, such as GST and environmental taxes, and reducing unwarranted tax expenditures would improve resource allocation and hence, productivity. Increasing reliance on environmental taxes, which are low, would also improve environmental outcomes cost-effectively.

### Going for Growth 2017 priorities

**Reduce barriers to entry for both domestic and foreign suppliers and enhance competition in network and service sectors.** Regulatory barriers to competition in network and service sectors weaken pressures to innovate and adopt new technologies.

**Actions taken:** An additional commercial mobile spectrum in telecoms was auctioned in 2015.

**Recommendations:** Reduce foreign ownership restrictions in telecoms and broadcasting, and, on a reciprocal basis in air transportation. Move towards more integrated and competitive electricity markets. Privatised Canada Post and eliminate its legally protected monopoly. Ease entry regulations and reduce discrimination against foreign suppliers in professional services, air and road transport. Reduce licensing requirements in retail trade.

**\*Reduce barriers to internal trade.\*<sup>1</sup>** Non-tariff interprovincial barriers lower efficiency, particularly by reducing the scale of production.

**Recommendations:** Make the sectoral coverage of the Canadian Free Trade Agreement (CFTA), which was agreed in principle by provincial premiers in July 2016 to replace the

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “\*”.

## CANADA

## Growth performance and inequality indicators

## A. Growth

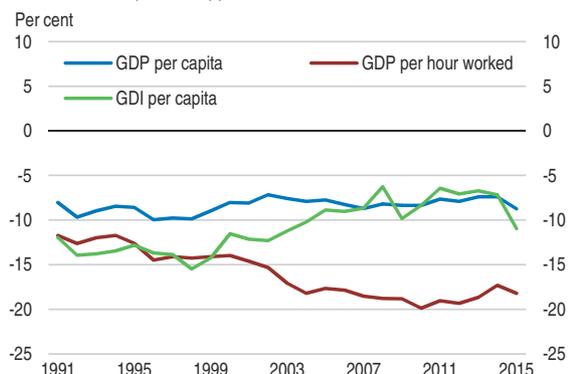
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.5	1.2
Labour utilisation	-0.2	0.1
of which: Labour force participation rate	-0.1	-0.2
Employment rate <sup>1</sup>	-0.1	0.3
Employment coefficient <sup>2</sup>	0.0	0.0
Labour productivity	0.4	1.1
of which: Capital deepening	0.7	0.1
Total factor productivity	-0.3	1.0
Dependency ratio	0.3	0.0

## B. Inequality

	Annual variation (percentage points)	
	2013	2008-13
Gini coefficient <sup>3</sup>	32.2 (31.7)*	0.1 (0)*
Share of national disposable income held by the poorest 20%	7.2 (7.7)*	-0.1 (0)*

\* OECD average

## C. The gap in labour productivity persists

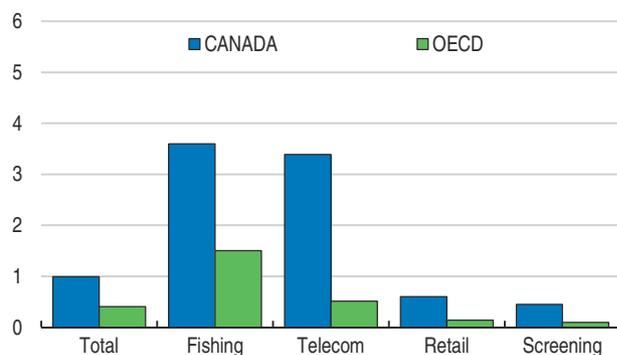
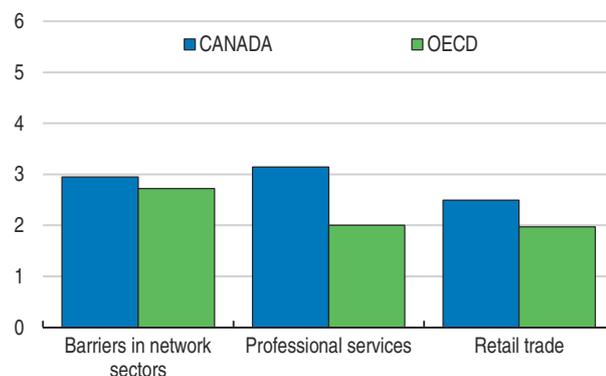
Gap to the upper half of OECD countries<sup>4</sup>

1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

StatLink <http://dx.doi.org/10.1787/888933454952>

## Policy indicators

A. Barriers to FDI are comparatively high  
Index scale of 0-6 from least to most restrictive, 2015B. There remains room for lowering barriers to competition in network services  
Index scale of 0-6 from least to most restrictive, 2013

Source: Panel A: OECD, *FDI Regulatory Restrictiveness Index Database*; Panel B: OECD, *Product Market Regulation Database*.

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## CANADA

Agreement on Internal Trade, as broad as possible, notably by including energy. In the CFTA, prohibit agricultural supply management regimes, which are highly distortionary. Reconcile remaining regulatory differences (possibly via mutual recognition). Establish a pan-Canadian regulatory co-operation council to harmonise legislation, standards and regulations. Expedite dispute resolution and raise monetary penalties for non-compliance.

**Enhance access to post-secondary education and its responsiveness to skills demand.**

Better access to post-secondary education for disadvantaged groups and the acquisition of skills in demand would boost incomes and reduce inequalities.

**Actions taken:** The Provincial-Territorial Apprentice Mobility Agreement, which came into effect in September 2015, is being implemented. It provides apprentices with greater recognition of their training, work experience and examination results when moving between provinces or territories. Apprenticeship training requirements were harmonised in 10 Red Seal trades from January 2016. The Canada Apprentice Loan was introduced in January 2015. Canada Student Grants for students from low- and middle-income families and part-time students and repayment thresholds for student debt were increased in the 2016 federal budget. The Job Vacancy and Wage Survey, which provides regional information on occupational demand and wages, began in January 2016.

**Recommendations:** Work with provinces and territories to harmonise training and certification requirements for all apprenticeship programmes, thereby facilitating access to post-secondary qualifications for disadvantaged groups. Publish data on student labour market outcomes by tertiary education institution.

**Improve the innovation framework.** Focussing innovation measures on correcting market failures would strengthen the innovation framework and hence, productivity growth.

**Actions taken:** A new federal programme that helps high-impact innovative firms to scale up was announced in the 2016 federal budget. Support for innovation networks and clusters is to be increased from 2017. A new Innovation Agenda is being developed. Federal tax credits for provincial Labour-Sponsored Venture Capital Corporations (LSVCCs) were restored in the 2016 federal budget, despite poor performance.

**Recommendations:** Evaluate R&D subsidies to determine whether the substantially enhanced R&D tax credit for small companies and heavy reliance on indirect measures are efficient, and adjust subsidies accordingly. Phase out federal tax credits for provincial LSVCCs and explore whether to make greater use of funds that operate like private, independent, limited partnership venture capital funds.

**Reform the tax system.** Reliance on taxes with high efficiency costs and the maintenance of unwarranted tax expenditures distort resource allocation, reducing productivity.

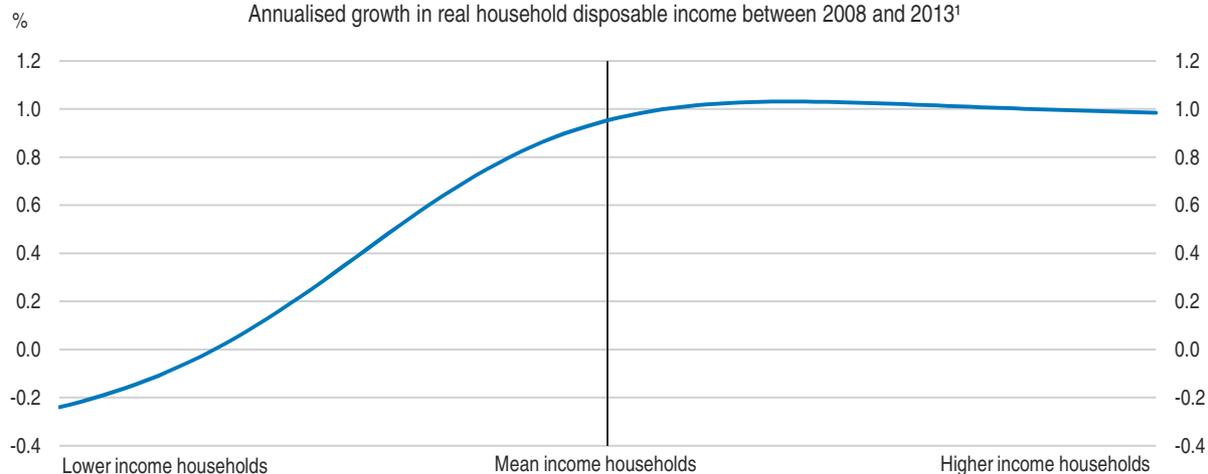
**Actions taken:** The 2016 federal budget confirmed a scheduled half percentage point reduction in the preferential small company income tax rate, increasing efficiency costs of tax expenditures. However, the budget also announced that further scheduled reductions in the rate had been deferred. The budget also promised a review of tax expenditures.

**Recommendations:** Increase environmental and value-added taxes, which are low, and reduce taxes with high efficiency costs, notably corporate and personal income tax rates. Review tax expenditures, including for small businesses, and eliminate those not warranted either by clear market failures or by equity objectives.

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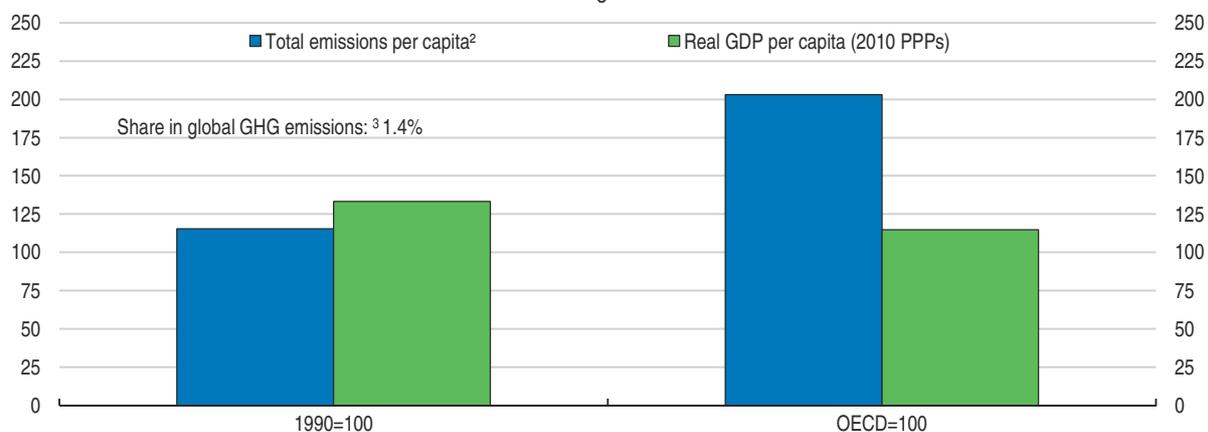
## Beyond GDP per capita: Other policy objectives

## A. Income fell for poor households while increased for those in the upper part of the distribution

Annualised growth in real household disposable income between 2008 and 2013<sup>1</sup>

## B. Emissions per capita are well above OECD average

Average 2010-14



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO<sub>2</sub> equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

StatLink  <http://dx.doi.org/10.1787/888933455870>