

CANADA

Despite a pick-up in trend productivity growth since the mid-1990s and strong increases in GDP per capita by international standards, the income gap vis-à-vis the United States remains large.

Policy priorities

Reduce work disincentives in the income support system

Challenge and recommendations: Provincial social assistance systems create welfare traps, and the federal Employment Insurance (EI) system reduces labour mobility and cross-subsidises firms heavily reliant on seasonal workers. Reducing the “welfare wall” and shifting the focus of the EI system towards its insurance objective were recommended.

Actions taken: In Autumn 2005, the government announced, as part of an income-tax reduction package, the introduction in 2008 of an earned-income tax credit to reduce the welfare wall.

Reduce barriers to foreign ownership

Challenge and recommendations: Canada has the most widespread foreign ownership restrictions among the G7 countries, mainly in key sectors such as telecoms, broadcasting and airlines. Eliminating ownership restrictions and, for example, using content rules instead to safeguard Canadian culture were recommended.

Actions taken: The government has appointed an expert group with a mandate to review current foreign ownership limits in telecommunications, as part of a broader assessment of the policy and regulatory framework in that sector.

Further liberalise services

Challenge and recommendations: Removal of obstacles to inter-provincial trade in professional services and full implementation of the *Agreement on Internal Trade* have been slow, and it was recommended that remaining barriers to inter-provincial trade be dismantled. Also, it was recommended that electricity markets, where competition remains almost non-existent, be opened up.

Actions taken: Some progress has been achieved under the guidance of the Premiers’ Council of the Federation, including increased coverage of Crown corporation procurement and new measures to facilitate decision-making under the *Agreement* and to strengthen dispute settlement provisions.

Restrain growth in public health costs

Challenge and recommendations: To cope with forthcoming ageing pressures, it was recommended that the efficiency of the healthcare system be enhanced by introducing a mixed remuneration system for primary-care providers and that output-based hospital funding and more contracting out be allowed.

Actions taken: A 10-year action plan on health, signed in September 2004, is being implemented. Federal funding to provinces and territories has been increased, and actions are being taken to improve access to care and reduce waiting times.

Reduce effective taxation on capital income

Challenge and recommendations: Although declining, effective taxes on capital remain relatively high. It was recommended that capital cost allowances be modified and provincial capital taxes and sales taxes on capital goods be removed so as to help boost capital deepening.

Actions taken: The 2005 federal budget changed capital cost allowances for certain assets to better align them with useful life. It also proposed to reduce the general corporate income tax rate by 2 percentage points to 19 per cent by 2010 and to eliminate the corporate surtax in 2008. The government also announced a reduction in personal taxes on dividend income received from large corporations. Some provinces have announced plans to reduce their capital taxes but there remains additional scope for action in this area.