CANADA

A small gap in GDP per capita relative to the upper half of OECD countries persists, entirely the result of relatively low labour productivity. This performance shortfall could be addressed by making further progress in the priority areas below. In other fields, the federal government is pursuing a free-trade agreement with the European Union, and provinces are making headway in pricing carbon emissions.

Priorities supported by indicators

Reduce barriers to competition

Productivity-reducing barriers to competition remain in network industries, retail and professional services.

Actions taken: There has been little progress in integrating regional/provincial electricity markets and opening them up to competition, and no progress in liberalising postal services. In 2009, Canadian governments revised the Labour Mobility Chapter of the Agreement on Internal Trade.

Recommendations: Move towards more integrated and competitive electricity markets. Eliminate Canada Post's legally protected monopoly. Take steps to apply the renegotiated Labour Mobility Chapter as broadly as possible, and review aspects of the regulation of professions and skilled trades that still hinder interprovincial mobility and competition.

Reduce barriers to foreign direct investment

Restrictions on foreign direct investment, remain higher than in the majority of OECD countries, discouraging productivity-enhancing capital deepening.

Actions taken: An agreement to provide airlines unlimited freedom to operate direct services between any point in Canada and the 27 European Union countries was signed in December 2009. In 2010 the existing restrictions on foreign ownership of Canadian satellites were removed.

Recommendations: Open up the telecommunications sector to foreign competition. Relax foreign ownership restrictions in the air transport sector to unlock the full potential benefits of the recent Canada-EU agreement, including cabotage.

Shift taxation towards consumption

The corporate income tax rate is being reduced but the overall tax mix could be made more growth-friendly.

Actions taken: The federal corporate income tax rate began decreasing in 2008 and further reductions are planned at the federal level and in various provinces through July 2013. Provincial capital taxes are being eliminated. Provincial retail sales taxes have been harmonised with the federal GST (value-added tax) in Ontario and British Columbia.

Recommendations: Implement all planned reductions in corporate tax rates. Raise value-added tax rates and offset the impacts with further personal income tax cuts. Harmonise sales taxes with the GST in provinces that still retain their own retail sales taxes (Prince Edward Island, Manitoba and Saskatchewan).

Other key priorities

Improve R&D support policies

The Canadian business sector has a low propensity to innovate relative to other OECD countries and a poor record at the commercialisation of technical advances, hurting productivity growth.

Actions taken: In 2010 the federal government stepped up funding for a number of programmes that support business innovation and commercialisation, removed impediments to international venture capital and announced a comprehensive review of all federal support for R&D to improve its contribution to innovation and economic opportunities for business.

Recommendations: Carry out full cost-benefit analyses of current R&D support programmes as part of the review and use the results to re-focus government funding toward those programmes that have the highest returns.

Reform the unemployment insurance system

Automatic variation of Employment Insurance (EI) parameters depending on regional labour-market conditions hinders labour mobility and entrenches high unemployment in some regions.

Actions taken: No action taken.

Recommendations: Introduce employer experience rating into EI or scale back access to it for seasonal and temporary workers in high unemployment regions.

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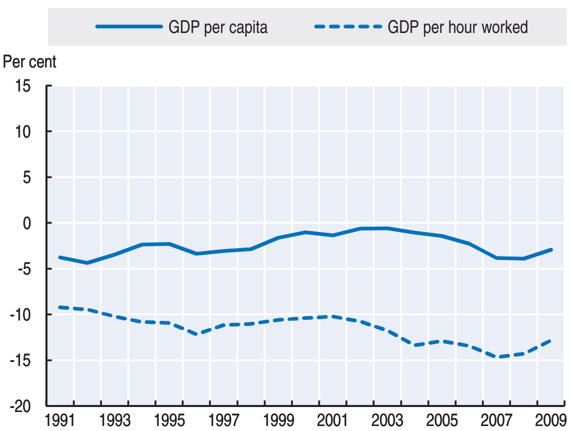
Structural indicators

Average annual trend growth rates, per cent

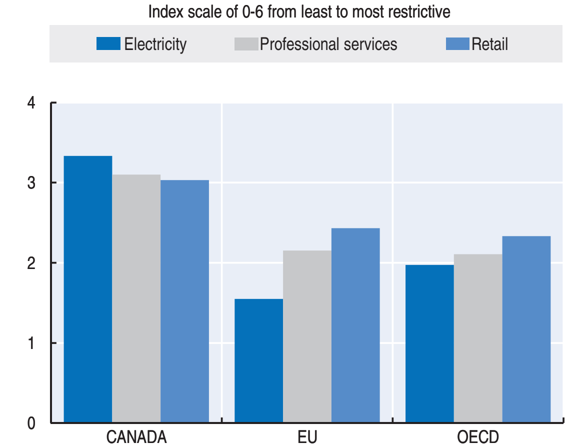
		1999-2009	1999-2004	2004-09
GDP per capita		1.6	2.0	1.3
Labour utilisation		0.5	0.7	0.4
of which:	Employment rate	0.7	0.9	0.5
	Average hours	–0.2	–0.2	–0.1
Labour productivity		1.1	1.3	0.9
of which:	Capital intensity	0.9	0.9	1.0
	Multifactor productivity	0.2	0.4	–0.1

Source: Estimates based on OECD (2010), *OECD Economic Outlook* No. 88: *Statistics and Projections Database.*

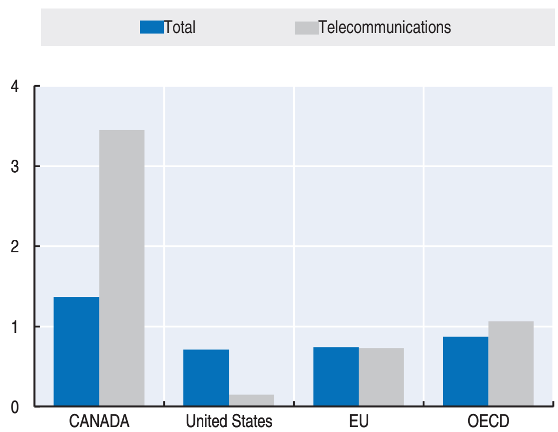
A. The small gap in living standards persists
Gap to the upper half of OECD countries[1]



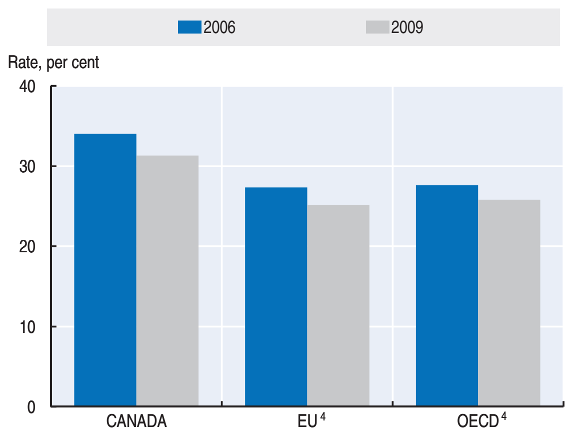
B. Significant barriers to competiton remain in several sectors, 2008
Index scale of 0-6 from least to most restrictive



C. Barriers to foreign direct investment are relatively high, 2006[2]
Index scale of 0-6 from least to most restrictive



D. The corporate income tax rate has been reduced and will be cut further[3]



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. The FDI regulation index looks only at statutory restrictions and does not assess the manner in which they are implemented.
3. Combined central and sub-central (statutory) corporate income tax rate.
4. Average of European countries in the OECD. EU and OECD averages exclude Estonia in 2006 and 2009, Israel and Slovenia in 2006.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook* No. 88 *Databases*; Charts B: OECD, *Product Market Regulation Database*; Chart C: Koyama, T. and S. S. Golub (2006), "OECD's FDI Regulatory Restrictiveness Index: Revision and Extension to More Economies", *OECD Economics Department Working Papers*, No. 525; Chart D: OECD, *Tax Database.*

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