

CANADA

The GDP-per-capita gap with the United States has not narrowed in recent years and remains significant, reflecting weak labour productivity performance.

Policy priorities

Further reduce barriers to competition in professional services

Challenge and recommendations: To strengthen competition in professional services, it was recommended that the remaining obstacles to inter-provincial trade be dismantled and the number of “regulated occupations” be reduced.

Actions taken: At a meeting of the Council of the Federation in August 2007, provincial premiers reiterated their commitment to remove all remaining barriers to labour mobility in regulated occupations by April 2009. Premiers further agreed to consider legislative action to ensure full compliance, should some occupational groups fail to meet the deadline.

Further reduce barriers to foreign ownership

Challenge and recommendations: To ease restrictions on foreign direct investment (FDI), which remain higher than in the majority of OECD countries, it was recommended that ownership restrictions in telecommunications and transport be eliminated and a majority of board members be allowed to be non-residents in sectors where this is currently prohibited.

Actions taken: The federal government has established an independent panel to review key elements of competition and investment policies, including sectoral restrictions on FDI and the screening mechanism under the Investment Canada Act. The parliament also passed a bill, in April 2007, which relaxed the residency requirements for directors of Canadian financial institutions from two-thirds to a majority.

Liberalise provincial electricity markets

Challenge and recommendations: Electricity markets are exposed to only limited competition in most provinces, suppliers are often vertically integrated and public ownership is prevalent. To increase competition, it was recommended that full retail markets be developed, price regulation in the retail market be removed and inter-connection among both provincial and North American markets be increased.

Actions taken: No action taken.

Reduce inefficiency in the employment insurance system

Challenge and recommendations: The current parameters of the employment insurance system have led to persistent cross-subsidies between businesses, with firms engaged in temporary or seasonal work benefiting from the system. To end cross-subsidies and encourage further labour mobility, it was recommended that a firm-level employer experience rating be introduced or benefit entitlements for temporary or seasonal workers be scaled back.

Actions taken: The introduction of the Working Income Tax Benefit in Budget 2007 increased work incentives for low-income earners and reduced the need to provide special support for low-skilled unemployed in Eastern provinces.

Improve the efficiency of the tax system

Challenge and recommendations: To further reduce effective taxes on capital, it was recommended that provincial taxes on firms’ ownership of capital be abolished, provincial retail sales taxes be switched to value-added taxes and the corporate tax base be broadened while treating all business sizes equally.

Actions taken: The federal government eliminated its capital tax, will eliminate the corporate surtax in 2008 and will reduce the general corporate income tax. It has also been increasing capital cost allowance rates to better reflect the useful life of assets, and recently improved tax fairness by evening the playing field between income trusts and corporations. It has also encouraged provinces to eliminate their capital taxes and has re-iterated its commitment to work with provinces that would like to eliminate their retail sales taxes and move to a harmonised value added tax system.