SENATE SÉNAT

CANADA

FALLING BEHIND: ANSWERING THE WAKE-UP CALL

WHAT CAN BE DONE TO IMPROVE CANADA'S PRODUCTIVITY PERFORMANCE?

Report of the
Standing Senate Committee on
Banking, Trade and Commerce

The Honourable Jerahmiel S. (Jerry) Grafstein, Q.C., Chair
The Honourable W. David Angus, Q.C., Deputy Chair

and the Honourable Senators

Michel Biron
D. Ross Fitzpatrick
Mac Harb
Céline Hervieux-Payette, P.C.
James F. Kelleher, Q.C, P.C.
Paul J. Massicotte
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Wilfred P. Moore, Q.C.
Donald H. Oliver, Q.C.
Madeleine Plamondon
David Tkachuk

June 2005

Ce document est disponible en français.

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and

The Honourable Senators:

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The Committee's thanks are extended to the assistants that advised Senators during the course of the study:

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Robin Hay
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David Schneider
Michael Sirko
James Williams

ORDER OF REFERENCE

Extract from the *Journals of the Senate*, Tuesday, November 23, 2004.

The Honourable Senator Grafstein moved, seconded by the Honourable Senator Banks:

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to examine and report on issues dealing with productivity, in particular the rate of productivity in Canada and in relation to our major trading partners (especially the United States); the extent to which the rate of productivity is limiting economic growth and the well-being of Canadians; and federal and other measures that could be taken to enhance Canada's rate of productivity growth and competitiveness; and

That the Committee submit its final report no later than June 30, 2005.

After debate,

The question being put on the motion, it was adopted.

Paul C. Bélisle

Clerk of the Senate

RECOMMENDATIONS

Recommendation 1:

Industry Canada develop a "productivity prism" through which existing and future federal policies and programs would be assessed to determine their impact on productivity in Canada. The department should report its findings on any productivity effects to the proposed Forum on Productivity. (page 32)

Recommendation 2:

Relevant federal departments implement a comprehensive plan designed to enhance productivity and competitiveness in Canada. The plan, which should be fully implemented by 30 June 2006 with the exception of the proposed tax changes, should contain the following elements:

- **changes to the corporate tax system, including a reduction in the general corporate tax rate, the immediate elimination of the federal capital tax, and an alignment of capital cost allowance rates that is at least consistent with the useful life of assets;**

- **changes to the personal tax system, including reduced income tax rates for middle- and upper-income earners, increased thresholds at which these rates are paid, and a modified capital gains tax system to ensure consistency with the United States;**

- **an examination of foreign investment restrictions, with a view to eliminating unnecessary restrictions and to adopting measures to increase foreign direct investment;**

- **additional measures to ensure access to financing, at reasonable cost, for all Canadian businesses, but particularly for small and medium-sized businesses;**

- **continued pursuit of international trade agreements that enhance the ability of Canadian businesses to compete in the global marketplace;**

- **continued actions toward the elimination of internal barriers to trade with a view to making the domestic marketplace more competitive; and**

- **the development of international dispute settlement mechanisms that will facilitate long-term solutions to trade irritants. (pages 36-37)**

The Committee realizes that there are federal budgetary constraints, and supports the priorities of balanced budgets and debt reduction. Tax changes have federal revenue consequences, and fiscal planning is required. Consequently, we would urge that the tax changes be phased in over time, as resources permit, with priority given to the corporate tax changes. The tax changes should, in our view, be fully implemented within a five-year period. We also believe that the Department of Finance should study the relative effects of consumption taxes and income taxes on economic behaviour.

Recommendation 3:

The federal government create a Forum on Productivity. The Forum should be comprised of no more than twelve representatives of business, organized labour, the academic community, privately funded public policy organizations, Industry Canada, the Department of Finance Canada, the Bank of Canada and Statistics Canada. Each representative should be appointed for a four-year term. The Forum should be supported by a small coordinating secretariat.

The Forum should have two responsibilities: ongoing and timely reporting on, and measurement of, productivity performance; and an assessment of the combined productivity effects of federal initiatives that influence productivity performance. The Forum should report to Parliament annually on its findings in each of its areas of responsibility.

The Forum should be established for an initial four-year period. The Forum's mandate should be renewed if a Parliamentary review concludes that it has been effective in fulfilling its responsibilities. (pages 38-39)

FALLING BEHIND: ANSWERING THE WAKE-UP CALL

WHAT CAN BE DONE TO IMPROVE CANADA'S PRODUCTIVITY PERFORMANCE?

CHAPTER 1: INTRODUCTION

On 11-12 May 2005, the Standing Senate Committee on Banking, Trade and Commerce convened a Roundtable discussion on the key topic of productivity. The Committee, like many Canadians and Canadian businesses, is concerned about Canada's productivity performance and our performance relative to other industrialized countries, particularly the United States.

The Canadian economy has generally performed well since the mid-1990s. The federal government has realized eight consecutive balanced budgets and the federal net-debt-to-GDP ratio is falling. Inflation is low and stable, employment growth is the highest in the Group of Seven countries and real Gross Domestic Product growth is solid. The Committee, nevertheless, is concerned about Canada's "lagging" productivity performance, its impact on the Canadian economy and its implications for the standard of living of Canadians.

In convening the Roundtable discussion, one of the Committee's goals was to determine if there is a consensus about the principal determinants of Canada's productivity performance. With that information, we are better positioned to recommend federal actions to improve Canada's productivity performance and enhance our international competitiveness. Appendix A identifies a range of federal and Parliamentary initiatives and reviews related to productivity issues.

In the current study, the Committee's Order of Reference authorized us to examine and report on:

- issues dealing with productivity, in particular the rate of productivity growth in Canada and in relation to our major trading partners (especially the United States);
- the extent to which the rate of productivity growth is limiting economic growth and the well-being of Canadians; and
- federal and other measures that could be taken to enhance Canada's rate of productivity growth and competitiveness.

With this goal in mind – and in an effort to understand better the nature of, and possible improvements to, Canada's productivity performance – the Committee heard from a representative group of academics, federal government officials, public policy organizations, the business community and organized labour.

This report summarizes the main themes and proposals identified by the participants, and presents our conclusions as to appropriate public policy initiatives that we hope will better focus the attention of governments, businesses and employees on the measures needed to maximize Canada's productivity performance and enhance international competitiveness for the benefit of all Canadians and Canadian businesses.

CHAPTER 2: WHAT IS PRODUCTIVITY AND WHY SHOULD CANADIANS BE CONCERNED ABOUT PRODUCTIVITY GROWTH?

Productivity measures how efficiently production inputs, such as labour and capital, are transformed into final goods and services. It is a measure of output per unit of input in the production process. The effectiveness with which this production process occurs is related, in part, to the quality of the inputs.

In turn, the quality of the inputs depends on such factors as the education levels of employees, incentives and disincentives to work in the labour market, the ability and willingness of employees to move to other workplaces and to other regions, risk-taking behaviour, entrepreneurial activity and managerial capacity.

Productivity and output are linked, and there are a number of ways to increase total output in the economy, such as:

- businesses can employ more workers, have existing workers work longer hours, or employ more highly skilled or better trained workers;
- businesses can use more capital equipment or more technologically advanced capital equipment, thereby providing employees with more, and hopefully better, tools to do their work; and
- businesses can organize and manage labour and capital more efficiently.

As businesses undertake actions to increase total output, it is important that leadership be exercised to increase productivity growth and competitiveness. This type of leadership and corporate culture must be cultivated among those who undertake management training and education.

The desire to increase output gives rise to consideration of a number of areas of government policy, not all of which are within the exclusive jurisdiction of the federal

government. Incentives must be such that "the best and the brightest" remain in Canada. Important policy areas include:

- parental leave and the incentives and disincentives to enter/re-enter the workforce;
- immigration policies;
- wage rates and tax rates that affect the choice between work and leisure and the country within which to work;
- incentives and disincentives in Canada's social support systems;
- incentives to encourage lifelong learning;
- health care;
- incentives for the purchase and use of new machinery, equipment and information and communications technology;
- domestic and international trade and economic policy;
- tax and other measures that affect business choices about the relative use of labour and capital in their production process;
- influences on labour-management relations; and
- the movement of labour and capital among workplaces, industries and regions.

It should be noted that productivity growth can have negative consequences in the short term, as greater output per employee may mean that fewer employees are required. Positive consequences may exist in the longer term, however, as greater productivity growth results in a higher standard of living, as well as enhanced competitiveness in the global marketplace.

Productivity may be measured in a number of ways. The narrow measure focuses on labour productivity, or output produced per employee or per hour worked. It measures how "hard" employees are working to produce goods and services.

A broader measure is total factor – or multifactor – productivity, which assesses how combinations of labour and capital contribute to economic growth. It measures how "smart" the economy works.

The Statistics Canada representative told the Committee that, at present, productivity is measured narrowly, and there are a number of other factors that could be considered when evaluating the success of an economy, including the extent to which wealth is being created, the amount of leisure time that is available, and the health and well-being of citizens.

Statistics Canada also indicated that while the labour productivity measure may receive the most attention, most statistical agencies worldwide have moved beyond this narrow measure and are trying to take into account such other factors as the amount of capital that is being used, and the "quality" of the workforce in terms of levels of skills and education.

Regardless of the productivity measure that is used – and Roundtable participants shared a variety of views about which measure is preferred, and why, as well as the relatively greater difficulties they encounter in measuring productivity in the service as opposed to the manufacturing sector – productivity growth generally is critically important if Canadians are to enjoy an enhanced standard of living in the future.

The Organization for Economic Cooperation and Development (OECD) – which regularly reviews the Canadian economy – in its October 2004 *Economic Survey of Canada, 2004* stated that raising living standards is a key challenge for Canada. The Committee was told that, without rising real incomes, it will be difficult to address future fiscal and social pressures, some of which are linked to the aging population, such as health care and pension payments. Moreover, the C.D. Howe Institute remarked that aging of the population may limit the future rate of productivity growth, and may negatively affect the rate of capital accumulation through its effect on savings.

Statistical evidence indicates a clear and positive relationship between a country's productivity performance and its standard of living. Some have suggested that productivity is perhaps the single most important factor influencing a nation's long-term economic growth potential. According to the Centre for the Study of Living Standards, our nation's economic destiny lies in our productivity performance. The Centre told the Committee that an annual productivity growth rate of 1% will lead to a doubling of living standards in 70 years; an annual growth rate of 3% would double living standards in 24 years.

Statistics Canada noted that the influence of productivity growth on living standards accumulates slowly over long periods of time, with its effect becoming apparent only over decades. In the Committee's view, the appropriate public policies to stimulate productivity growth must be implemented today in order that Canadians may enjoy a higher standard of living into the future. Decisions made today in this area are crucial for success tomorrow.

It should be noted that while the Canadian Auto Workers supported the notion of productivity growth, the Union suggested that an increase in productivity does not necessarily or automatically result in improved living standards. Moreover, in the Union's view, it is possible to improve living standards without increasing productivity.

CHAPTER 3: WHAT FACTORS INFLUENCE PRODUCTIVITY PERFORMANCE?

In an economy such as ours, investment decisions by businesses are typically influenced by the political, economic and social environments in the countries being considered for such investments. Since a higher rate of increase in the capital stock – which includes building construction, engineering construction, and machinery and equipment used in the production process – generally results in higher labour productivity, domestic policy decisions that affect these environments must ensure that Canada is seen as a desirable location for capital investment. The importance of making the appropriate policy decisions within Canada is particularly critical given the very limited role that Canada plays in affecting the political, economic and social environments in other countries.

Roundtable participants informed the Committee about a number of factors that influence productivity performance. Some of these factors are related to the labour force. For example, the extent of self-employment is important, since self-employed persons tend to have both relatively lower earnings and levels of productivity. As well, the composition of the employed labour force, and growth in educational and skill attainment – or human capital investments – among employees, affect productivity growth.

Factors related to the economic environment are also important. Governments can play a critical role in encouraging high levels of business investment, high rates of productivity growth and appropriate rewards for the risks taken. As well, growth in demand and output can be important, since periods of strong demand and output growth tend to be correlated with strong productivity growth. Moreover, the strength of competitive forces in the marketplace are affected by competition, trade and tax policies, costs and technology, while economic adjustments may lead to capital-labour reallocation.

Comments were also made about innovation, technological change and commercialization. Participants indicated that governments can influence productivity growth through their role as a lead user at the early stages of commercialization of innovation. Moreover, productivity performance in Canada is affected by the extent to which new technology is adopted and diffused as well as by the pace of technological change and innovation.

It must be recognized that the pace of this technological change and innovation in Canada is determined not only by domestic research and development activities, but also by technological developments and research expenditures in other countries, particularly the United States. Foreign direct investment flows are important from the perspectives of physical investments as well as the transfer of new technology and management practices, since foreign-owned businesses tend to have relatively higher productivity levels than domestically owned firms.

Finally, participants commented on such other factors as:

- the proportion of Canadian businesses that are small and medium-sized, since large firms tend to have relatively higher levels of productivity;
- the amount of capital equipment available to each employee or for each hour worked;
- the corporate, personal and investment tax regime; and
- the level of business investment.

All of these factors, as well as others, can affect Canada's productivity performance. Consequently, all factors that affect productivity growth should be considered in identifying measures that will enhance productivity performance in the future. In today's environment, a range of measures will be needed for success, and governments must make appropriate policy decisions in the areas over which they have jurisdiction and influence. It is also important that governments, businesses and employees take a

proactive approach in fostering the attitudes and culture that make productivity growth and competitiveness a priority.

CHAPTER 4: WHAT IS CANADA'S PRODUCTIVITY PERFORMANCE AND HOW DOES IT COMPARE TO OTHER COUNTRIES?

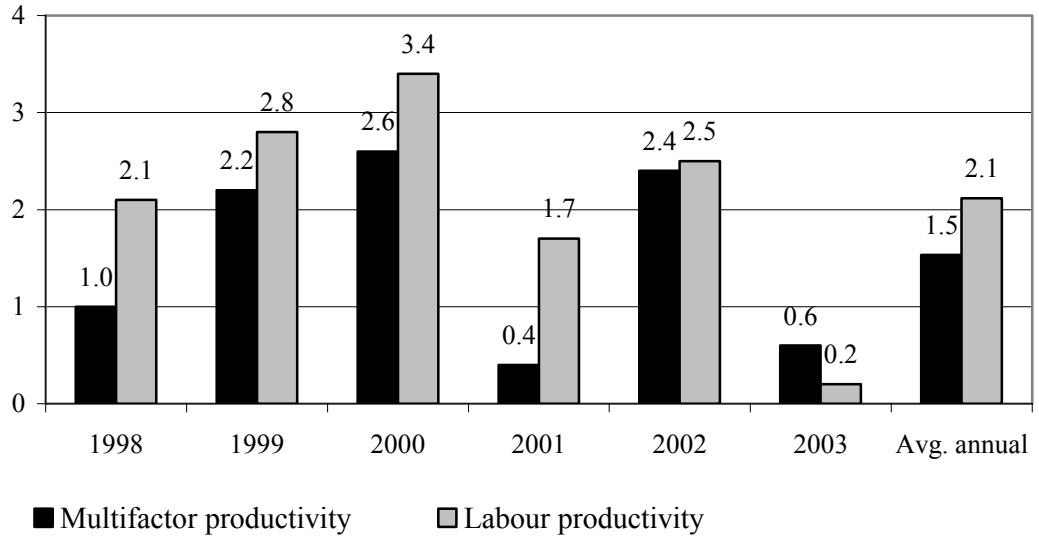
A. Canada's Productivity Performance

The Centre for the Study of Living Standards indicated that, in Canada, the growth in output per hour in the business sector – which excludes the public sector where productivity is typically more difficult to measure – has declined significantly since 2000. Over the 1996-2000 period, this growth averaged 2.73% per year, a figure that fell to 1.08% annually over the 2000-2004 period. In the last two years, Canada's business sector as a whole has had negligible productivity growth when measured in output per hour.

Business sector output growth in Canada averaged 5.92% per year over the 1996-2000 period, but fell to an average of 2.49% annually over the 2000-2004 period. Hours worked increased at an average annual rate of 3.10% over the 1996-2000 period, a figure that declined to 1.39% annually over the 2000-2004 period. Business sector employment growth also declined over time. The average annual rate growth rate was 3.01% over the 1996-2000 period, falling to 1.69% per year over the 2000-2004 period.

Figure 1 presents annual productivity growth in the Canadian business sector over the 1998-2003 period, while Figures 2 and 3 present average annual multifactor and labour productivity growth respectively, by sector, over the 1998-2003 period.

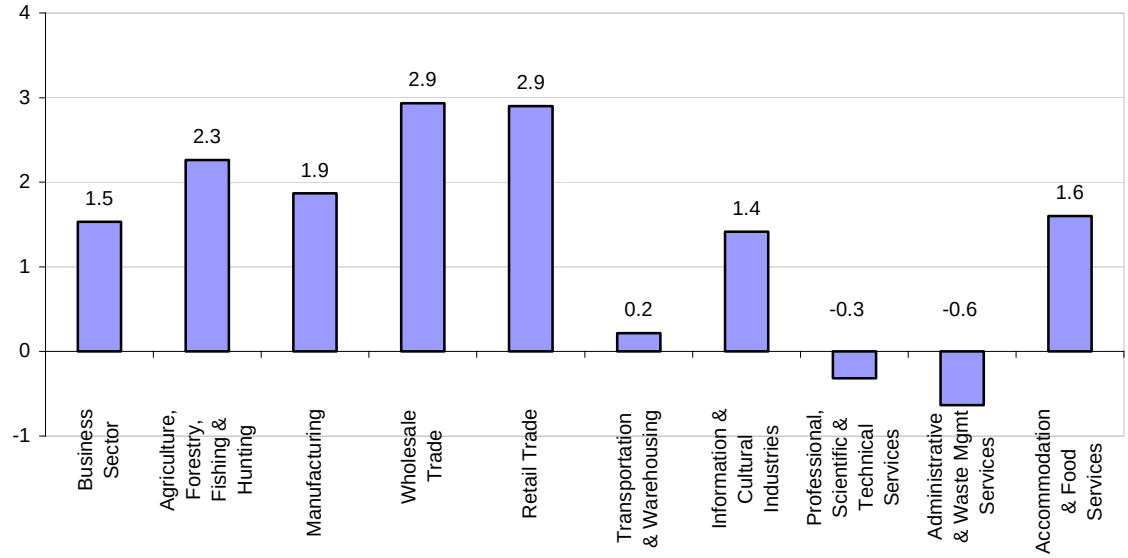
Figure 1: Annual Productivity Growth in the Canadian Business Sector, 1998-2003 %)



Note: The "business sector" excludes the public sector, in which productivity is typically more difficult to measure.

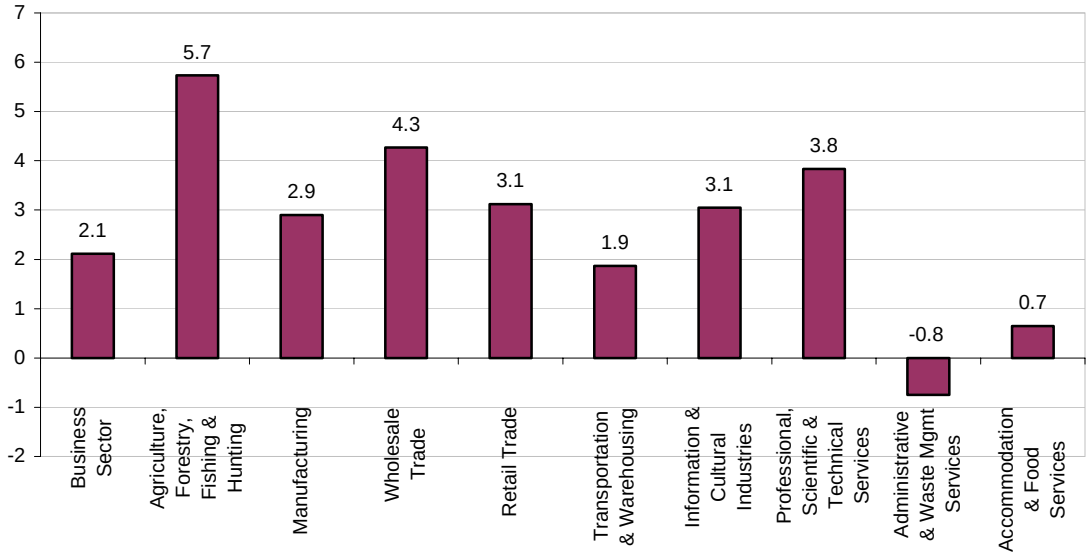
Source: *The Canadian Productivity Accounts - 2003 Revised Data*, Statistics Canada, April 2005.

Figure 2: Average Annual Growth in Multifactor Productivity, Canada, By Sector, 1998-2003 (%)



Source: *The Canadian Productivity Accounts - 2003 Revised Data*, Statistics Canada, April 2005.

Figure 3: Average Annual Growth in Labour Productivity, Canada, By Sector, 1998-2003 (%)



Source: *The Canadian Productivity Accounts - 2003 Revised Data*, Statistics Canada, April 2005.

B. Canada's Productivity Performance Relative to the United States

The Centre for the Study of Living Standards referred to the "puzzling" divergence in productivity growth between Canada and the United States, given the Centre's belief that the conditions that affect productivity appear to be similar in both countries. The Centre also noted that while labour productivity in both countries appeared to be on the same growth path over the 1996-2000 period, there has been a divergence in their paths since that time.

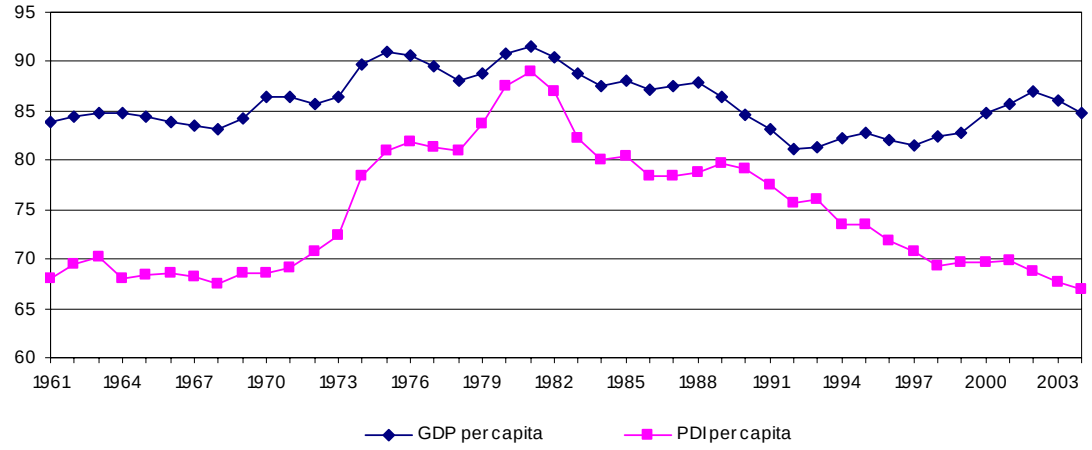
In the United States, aggregate labour productivity grew significantly over time. Over the 1996-2000 period, growth in business sector output per hour was 2.61% annually, a figure which rose to 3.81% per year over the 2000-2004 period; growth was at least 4% in each of 2003 and 2004. Business sector output growth averaged 2.77% annually since 2000.

Statistics Canada told the Committee that Canadians have continuously worked fewer hours than is the case in the United States. As well, the C.D. Howe Institute indicated that

business sector investment in machinery and equipment is $1,800 less per worker per year in Canada compared to the United States.

Figure 4 shows Canadian income as a percentage of income in the United States over the 1961-2004 period.

Figure 4: Canadian Income as a Percentage of United States Income, 1961-2004



Note: GDP is Gross Domestic Product. PDI is personal disposable income. Nominal GDP and PDI figures have been used in the calculations. Currency adjustments have been made.

Source: Centre for the Study of Living Standards, Income and Productivity Data, Last updated: 30 March 2005, Table 3.

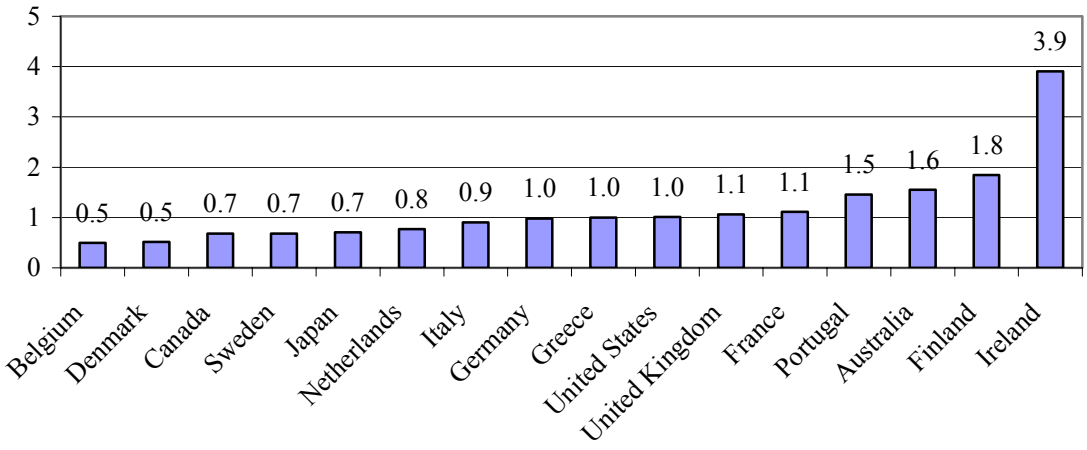
C. Canada's Productivity Performance Relative to Other Countries

While a focus on any productivity gap between Canada and the United States is important, it should also be noted that Canada's labour productivity growth also lags other countries. The Committee was informed that Canada's average annual growth in productivity over the 1995-2004 period was 1.6%, giving Canada a ranking of 18 among 24 industrialized countries. In 2004, Canada ranked 18th among 23 OECD countries in terms of the level of GDP per hour worked; in 1950, Canada ranked 5th in this category.

The Atlantic Institute for Market Studies remarked that, without at least matching the output per worker of competitor nations, the economic foundation of Canada's social contract is in jeopardy.

Figure 5 presents average annual multifactor productivity growth for selected OECD countries over the 1990-2001 period. Canada's average annual growth rate, at 0.7%, mirrored that of Sweden and Japan; it was higher than Belgium and Denmark, which had a rate of 0.5%. The average annual multifactor productivity growth rate of the OECD countries shown is much lower than the 3.9% rate experienced in Ireland; Finland had the next highest rate, at 1.8%.

Figure 5: Average Annual Multifactor Productivity Growth for OECD Countries, 1990-2001 (%)

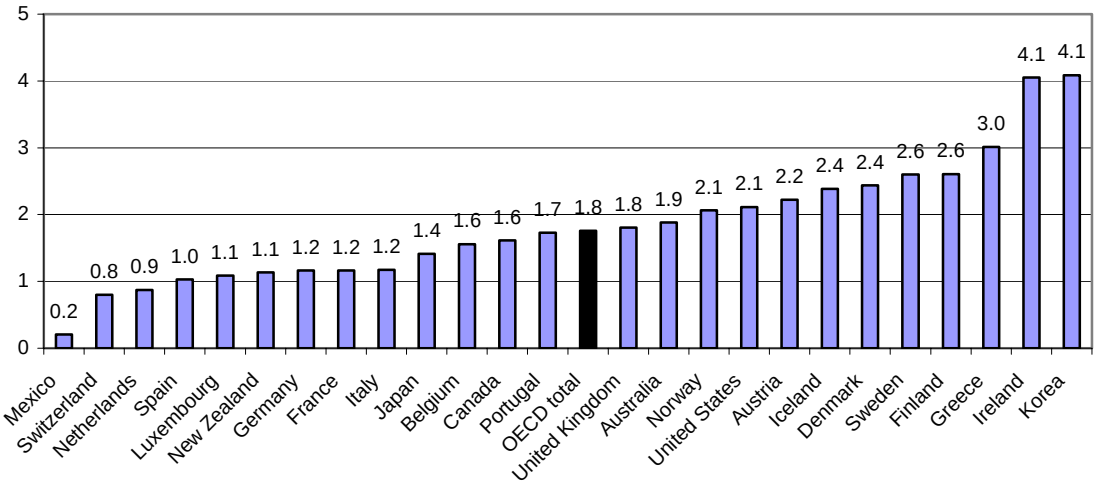


Source: *OECD Factbook 2005*, http://ceres.sourceoecd.org/vl=4748840/cl=163/nw=1/rpsv/factbook/.

Figure 6 presents average annual labour productivity growth in the business sector for OECD countries over the 1994-2003 period. Canada's average annual labour productivity growth rate in the business sector, at 1.6% over the period, was the same as Belgium and relatively close to the average annual OECD rate of 1.8%. Several European countries had a rate lower than that of Canada, including the Netherlands, Germany, France and Italy. Canada's rate was surpassed by that in a number of other countries, including our

major trading partner, the United States. Ireland and Korea had the highest average labour productivity growth rate over the period, at 4.1%.

Figure 6: Average Annual Labour Productivity Growth in the Business Sector for OECD Countries, 1994-2003 (%)



Note: The "business sector" excludes the public sector, in which productivity is typically more difficult to measure.

Source: *OECD Factbook 2005*, http://ceres.sourceoecd.org/vl=4748840/cl=163/nw=1/rpsv/factbook/.

CHAPTER 5: WHAT DID ROUNDTABLE PARTICIPANTS RECOMMEND TO ENHANCE CANADA'S PRODUCTIVITY PERFORMANCE?

Given the sentiment among the Committee's Roundtable participants that Canada must improve its rate of productivity growth if Canadians are to enjoy an increased and sustainable standard of living in the future, they proposed a range of recommendations to enhance Canada's productivity performance.

In addition to a general recommendation advocating measures that encourage business, governments and individuals to work together to realize better Canada's prosperity potential, participants recommended more specific measures with respect to corporate and personal taxation, capital investment and regulatory policy, trade policy, business financing, the labour force and employment, regional development and other issues.

A. Tax Policy

In general, a country's tax regime affects the level of business investment, the willingness of entrepreneurs to risk their capital in new and uncertain ventures, and the extent to which individuals will engage in paid employment rather than leisure and will invest in lifelong learning. A number of the participants suggested that elements of Canada's tax system provide disincentives to invest and to work.

Table 1 shows various sources of tax revenues as a percentage of total taxation in the G-7 countries for 2002.

Table 1: Tax Revenues as a Percentage of Total Taxation for G-7 Countries, 2002

	Income and profits	Social security	Property	Goods and services	Other
Canada	**46.2**	**15.2**	**9.8**	**26.3**	**2.5**
France	23.9	37.0	7.5	25.4	6.2
Germany	28.0	40.3	2.3	29.2	0.2
Italy	32.5	29.4	5.1	26.9	6.1
Japan	30.6	38.3	10.8	20.1	0.2
United Kingdom	37.8	17.0	12.0	32.7	0.5
United States	44.4	26.1	11.9	17.6	-
OECD average	35.3	25.4	5.5	31.9	1.9

Note: "Other" includes payroll taxes and rounding adjustments.
Source: Organization for Economic Cooperation and Development, *Revenue Statistics*, 2004, p. 70.

Some participants suggested that reduced corporate taxes would stimulate the investment needed to enhance productivity growth. They advocated immediate elimination of the federal corporate capital tax and the corporate surtax, as well as a reduced corporate income tax rate – perhaps 12% to match the federal small business tax rate. The C.D. Howe Institute has estimated that each percentage point decrease in the statutory corporate income tax rate could increase the inflow of foreign investment in Canada by more than $1 billion annually. The Fraser Institute suggested that the corporate capital tax is one of the most damaging taxes in Canada.

Table 2 shows marginal effective tax rates on capital investments, for 2004, in a number of countries. Capital investments include building construction, engineering construction, and machinery and equipment used in the production process.

Table 2: Marginal Effective Tax Rates on Capital Investments, by Country, 2004 (%)

Hong Kong	5.7
Singapore	7.6
Sweden	11.2
Ireland	11.5
Mexico	12.8
Denmark	16.5
Russia	17.6
Australia	17.8
UK	18.7
Netherlands	19.2
Finland	19.9
India	22.5
US	23.0
Italy	26.0
France	27.8
Brazil	29.2
Japan	29.8
Canada	**31.3**
Germany	32.7
China	37.7

Source: Duanjie Chen and Jack M. Mintz, "How to Become Seductive: Make Canada More Investment-Friendly," C.D. Howe Institute, 19 January 2005, p. 2.

Participants also recommended an increase in the level of the small business tax rate threshold, adjustments to capital cost allowance rates to reflect better the useful life of assets and a reduction in the effective tax rate on business investment. According to the Fraser Institute, the current level of the small business tax rate threshold is a barrier to growth.

The Fraser Institute also suggested that business taxes impose significantly higher economic costs than do sales, payroll and personal income taxes, and remarked that it costs the economy $1.55 in lost output to raise $1 in revenue from corporate income taxes. In the Institute's view, Canada makes the highest use of what it considers to be the most damaging taxes: those on income and profit. In 2002, Canada collected 46.2% of its total revenue from these taxes, compared to an average of 35.3% among industrialized countries. It also told the Committee that Canada has the third highest effective marginal tax rate on capital investments among industrialized countries, behind China and Germany.

These participants concluded that the current system of corporate taxation is having a variety of detrimental effects. It limits the ability of organizations to finance needed investments in the capital equipment and new technology that make employees more productive. As well, they contend that it limits their ability to give wage increases that could enhance labour productivity and finance the acquisition of more skills by employees. Moreover, jurisdictions with high levels of corporate taxation effectively reduce the after-tax rate of return on investment, thereby lowering the incentive to invest in capital.

Providing a different perspective, the Canadian Auto Workers suggested that the "very substantial" corporate tax cuts that have occurred federally and provincially since 2001 – which have reduced the tax burden on business by about 25% – have not had a measurable positive impact on business investment spending or on productivity growth.

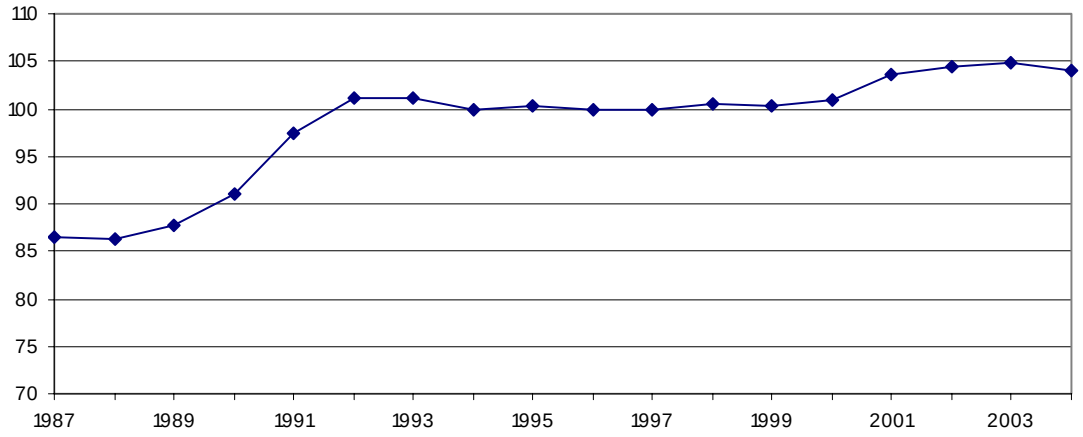
Two changes to personal income taxation were recommended to enhance Canada's productivity performance: a reduction in the income tax rates for middle- and upper-income earners, and an increase in the level of the thresholds at which these tax rates apply. It is expected that these changes would improve the ability of Canadian employers to retain skilled workers, halt the brain drain, enhance incentives for entrepreneurial activity, and foster savings and investment.

B. Capital Investment and Regulatory Policy

As noted above, there is a clear link between business investment – particularly in machinery, equipment and technology – and enhanced productivity. Participants provided the Committee with a number of recommendations about investment. The Canadian Auto Workers advocated increased fixed investments, including through the use of such policy tools as monetary policy, the tax system and revitalized public investment. The Union also urged that investments be made in the "right" sectors, with a federal focus on targeted investment measures, sectoral economic planning, sectoral regional investment structures, and trade and foreign investment policies. Moreover, the Union supported tools to ensure that foreign investors respect Canadian priorities and social benefits.

Figure 7 shows the capital stock per hour worked in the Canadian business sector over the 1987-2004 period. Capital stock typically includes building construction, such as plants and offices, engineering construction, such as roads and dams, and machinery and equipment used in the production process.

Figure 7: Capital Stock per Hour Worked in the Canadian Business Sector, 1987-2004 (1997=100)



Source: Centre for the Study of Living Standards, "The Puzzling Behaviour of Recent Labour Productivity Growth in Canada," Submission to the Standing Senate Committee on Banking, Trade and Commerce, 11 May 2005, Table 5.

In addition to enhanced domestic investment, participants also identified the need to improve incentives for higher rates of capital investment, remove restrictions on foreign investment – such as foreign ownership restrictions and screening requirements – and facilitate investment by U.S. and other foreign multi-nationals in Canada.

According to these participants, investments – including in machinery and equipment as well as in new technology – are needed to ensure that employees have the best tools available in order to enhance their productivity. As well, the introduction of new technology in the workplace often requires that employees acquire new skills, and a more skilled workforce is generally more productive. Moreover, the introduction of new capital equipment and new technology could lead to a realignment of capital and labour, which may enhance productivity.

Highlighting the importance of investment in information and communications technology, the Information Technology Association of Canada remarked that Canada must avoid a "vicious" downward economic spiral of underinvestment, and reduced productivity and capacity to invest.

Proposing that the adoption and diffusion of new technology contributes to enhanced productivity, participants advocated the removal of regulatory and policy barriers to the adoption of new technology, and increased assistance in its diffusion. They suggested that Canada's small and medium-sized businesses (SMEs) are underutilizing new technology and that their productivity growth is particularly important given their importance to Canada's economy. Tax incentives for SMEs to increase the adoption of new technology were proposed.

As well, believing that Canada has great potential to benefit from R&D technology and knowledge transfers from the United States, participants supported measures to facilitate such transfers. For example, since foreign technology affects Canada through foreign

direct investment, measures to facilitate investment by U.S. and other foreign-owned multi-nationals in Canada might be considered.

These participants felt that new technology – particularly information and communications technology – has been, and may continue to be, an important driver of productivity improvement. According to the Information Technology Association of Canada, productivity in today's economy is driven by investments in, and the use of, information and communications technology. The Association is concerned about the relatively low rate of adoption of such technology among Canada's small and medium-sized enterprises, and noted the presence of more favourable incentives in the United Kingdom and Japan. Statistics Canada also noted that productivity gains occur to a relatively greater extent in large plants than in small plants.

The C.D. Howe Institute indicated that despite Canada's relatively generous system of tax assistance for R&D, such spending by businesses as a proportion of GDP is ranked in the middle of OECD member countries. Potential explanations for this ranking include the relative openness and small scale of the Canadian market relative to the United States, the concentration of private sector R&D activities within North America, and the state of bilateral economic integration, which has not yet been extended to include the U.S. innovation system. Since the United States has a natural advantage in attracting R&D activities within North America, it may be more beneficial to focus on facilitating R&D knowledge and technologies transfers from the United States. In the Institute's view, R&D spending in the United States is significantly more important for Canadian productivity growth than is Canada's own R&D spending.

C. Trade Policy

A country's trade policy – the extent to which goods and services move fairly and freely both within and outside its borders – affects its productivity performance. From this perspective, some participants argued that Canada's productivity growth rate could be

enhanced through greater liberalization of trade and measures to foster competitive markets. In their view, trade liberalization and enhanced global competition provide an incentive to look for efficiencies within the organization, and to take measures that will enhance productivity in order to be more competitive. Consequently, they advocated the negotiation of additional trade agreements and measures to reduce non-tariff barriers to trade, such as rules of origin and border delays.

According to the Conference Board of Canada, Canada has relatively higher trade barriers than does the United States, and these barriers may enable Canadian firms to operate with higher costs than their competitors, since they are able to "hide behind" the barriers.

Statistics Canada told the Committee that trade liberalization has allowed plants to become more specialized, and has resulted in technology investments and enhanced productivity. It also informed us that businesses that export have increased their productivity as they entered export markets, grew much more rapidly after doing so, and introduced new technologies more quickly.

The Canadian Auto Workers suggested that eliminating trade barriers will not necessarily enhance productivity. The Union argued that while trade barriers can protect unproductive practices, implementing measures to allow greater international competition does not necessarily increase productivity. Although it supported the lowering of trade barriers, the Conference Board of Canada suggested that while substantial gains in productivity were expected after the signing of the free trade agreement, data indicate that these gains do not seem to have been realized. For the Conference Board, this situation raises the question of what Canadian productivity would have been had Canada not signed the agreement.

D. Business Financing Policy

The extent to which businesses are able to access reasonably priced capital is a key influence on the extent to which they can make productivity-enhancing investments. Access to capital is particularly important for Canada's small and medium-sized businesses. Participants made a variety of recommendations about access to financing for businesses: ensuring timely access to financing at a reasonable cost; re-evaluating, with a view to abolishing, the federal government's contribution to labour-sponsored funds; using back-end, rather than up-front, credits; focusing on regulatory and tax arrangements that have overall positive effects on the development of a private financing market; and focusing on programs that target start-up companies.

According to Professor Suret of Laval University, ensuring timely access to reasonably priced financing is an essential factor in corporate competitiveness. In his view, while there may be an abundant supply of capital, financing negotiations are lengthy and costly for new businesses, and efforts should be made to reduce the costs of this process; however, this goal cannot be achieved simply by increasing the supply of funding available.

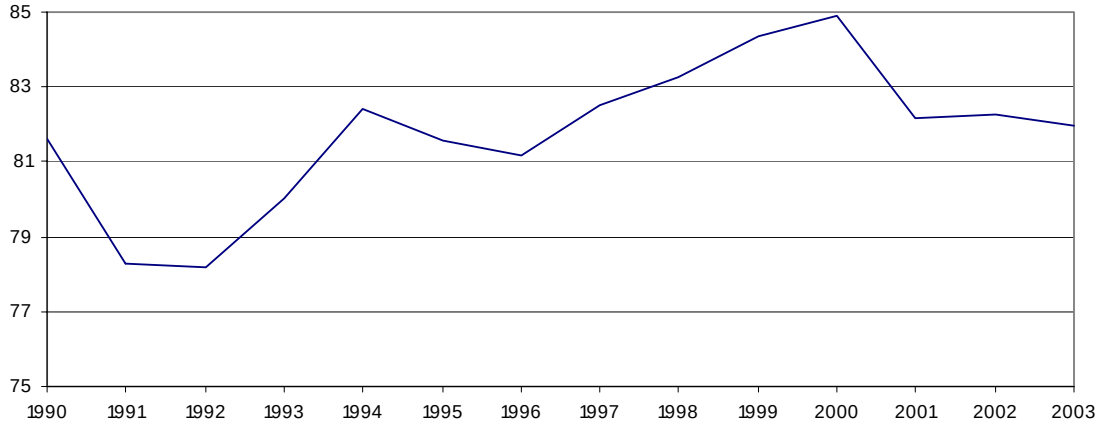
E. Labour and Employment Policy

There is a positive relationship between a highly educated workforce and a productive workforce. Participants recommended measures to encourage investments in human capital, including through greater spending on post-secondary education and funding for research and development in universities. A better educated workforce benefits employers through greater staffing flexibility and higher productivity, while relatively more educated – and hopefully more productive – employees may receive higher levels of compensation, which improves their standard of living, contributes to economic growth and enables investments in lifelong learning.

According to the Canadian Auto Workers, while education and skills development are important, Canada's poor productivity performance cannot be explained by a lack of skills. In the Union's view, a significant proportion of the Canadian workforce is underutilized, although there are a small number of specialized areas where additional skilled workers are needed, including trade apprentices. The Conference Board of Canada told the Committee that while Canada has very high rates of post-secondary education, high rates are not observed in engineering science or technical trades.

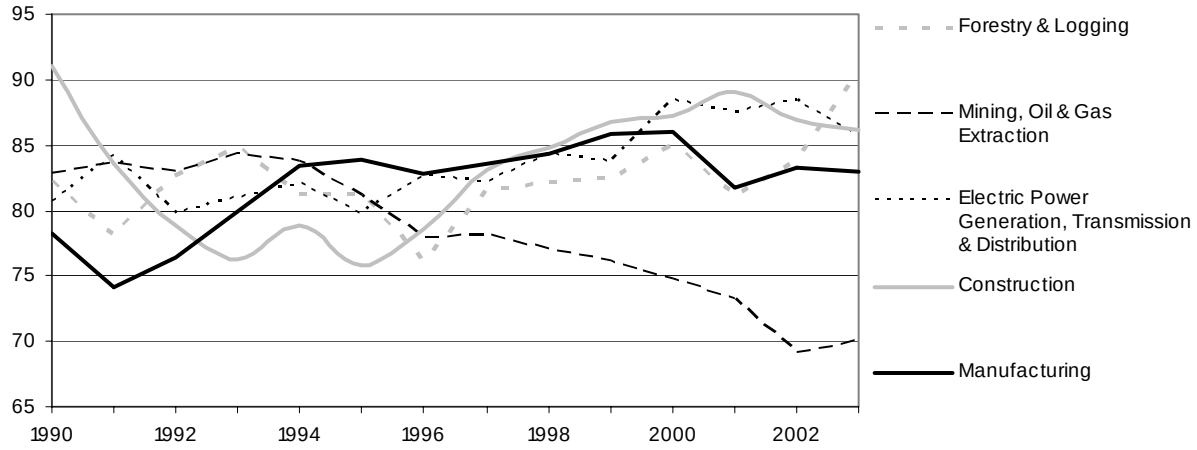
Full employment, as well as policies that promote longer vacations and more holidays, were recommended by the Centre for the Study of Living Standards. The Centre suggested that, in a full employment environment, there is no slack in the system; rather, there are economies, more opportunities to learn by doing and fewer inefficiencies. From that perspective, the Centre advocated a monetary policy that results in a low rate of unemployment compatible with stable inflation and low interest rates. Figure 8, which presents the average annual capacity utilization rate in the Canadian industrial sector over the 1990-2003 period, shows that there is slack in that sector overall. Figure 9, which presents the average annual capacity utilization rate by sector over the same period, shows the degree to which there is slack in the different sectors.

Figure 8: Average Annual Capacity Utilization in the Industrial Sector, Canada, 1990-2003 (%)



Source: Statistics Canada, CANSIM Table 028-0002.

Figure 9: Average Annual Capacity Utilization, Canada, By Sector, 1990-2003 (%)



Source: Statistics Canada, CANSIM Table 028-0002.

Moreover, the Centre for the Study of Living Standards stated that longer vacations and more holidays could enhance labour productivity as workers are better rested; while total output may decline, output per hour worked could rise.

F. Regional Development Policy

Recommendations specific to Atlantic Canada were also made by participants. The Atlantic Institute for Market Studies argued that public policy barriers to greater prosperity in Atlantic Canada should be removed. In the Institute's view, removal of these barriers would require changes to the Equalization program, regional subsidies and supports, and the Employment Insurance program. The Institute argued that the Equalization program results in most recipient provinces having higher rates of taxation, which hampers productivity improvements. Moreover, the Institute suggested that regional subsidies and supports, such as the Atlantic Canada Opportunities Agency (ACOA), have a number of negative effects. They may crowd out other investors who are unable to compete with the Agency's terms, with the result that organizations face fewer options when securing private capital investment. As well, they may prop up

unresponsive and uncompetitive organizations. Finally, the Institute asserted that such aspects of labour policy as the incentives in the Employment Insurance program could result in labour shortages, which discourage business investment.

Given high rates of taxation, the crowding out of private financing because of such programs as the ACOA and labour shortages, the Atlantic Institute for Market Studies argued that employers lack an incentive to undertake investment. The Institute advocated lower capital taxes or regionally specific capital tax exemptions and/or regionally specific general tax reductions as alternatives to regional subsidies.

The Minister of the Atlantic Canada Opportunities Agency provided the Committee with information that reached different conclusions about certain issues. The Committee was informed about a September 2004 report by the Atlantic Provinces Economic Council which concluded that companies in Atlantic Canada are below the national average in terms of their level of government subsidies. The Council's work revealed that, over the 1998-2000 period, total business subsidies per capita in Atlantic Canada averaged $301, a figure that was 11% lower than the national average of $337 per capita; these subsidies have been below the national average since the mid-1980s. The conclusion that can be reached is that businesses in Atlantic Canada are not systematically subsidized at a significantly higher rate than elsewhere in Canada.

Moreover, the report by the Atlantic Provinces Economic Council found that chartered banks had significantly rationalized their business banking services during the past decade and had moved decision-making processes about lending to regional centres. The report also suggested that the ACOA was well-positioned to work with Community Business Development Corporations and credit unions in Atlantic Canada to address issues about access to capital, and noted that the ACOA has played an advocacy role in this area. As well, the Agency has supported several venture capital funds since the 1990s.

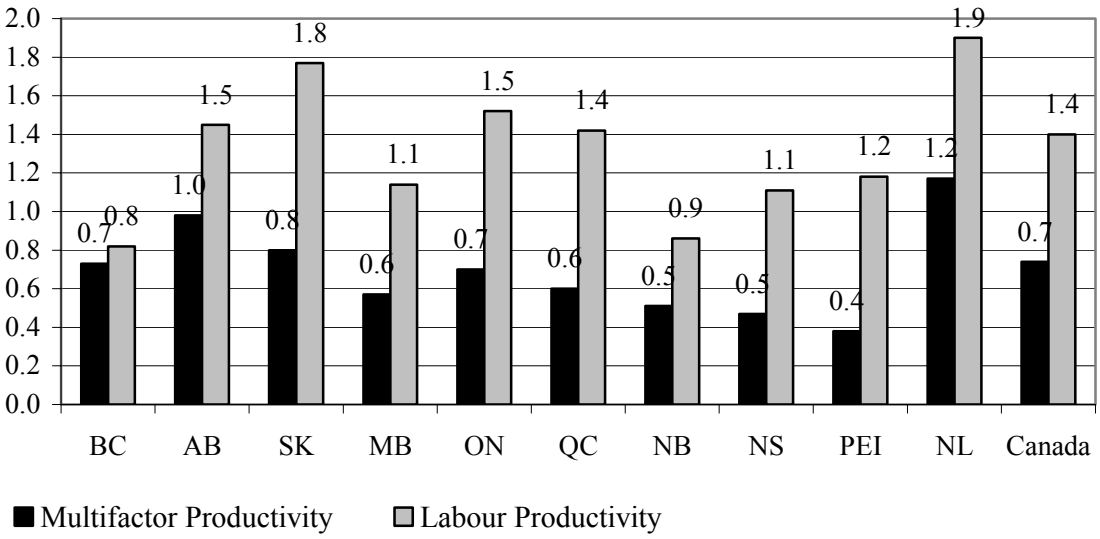
Over the February 1995 to March 2005 period, the Atlantic Canada Opportunities Agency invested more than $774 million in about 6,000 repayable projects under its Business Development Program. Some of these projects, which have stimulated the Atlantic economy and created thousands of jobs, might be considered to be of a higher risk than those which commercial lenders are prepared to take on. Despite the higher risk, business start-ups supported by the Agency have had twice the five-year survival rate of other new businesses in the region. Over the past two years, the average annual combined default and write-off rate under the Business Development Program was 3.47%, and the Agency collected 90% of repayable amounts.

The Committee is aware of the Atlantic Innovation Fund, which is a component of the federal initiative designed to help Atlantic Canadians compete in the global, knowledge-based economy. The Fund's objective is to increase the capacity for, and commercialization of, research and development in Atlantic Canada. As well, we are aware of the positive contribution made by the Atlantic Research Commercial Network.

Conflicting advice with respect to low-productivity regions was presented by participants. The Centre for the Study of Living Standards argued that policies should be implemented to promote the movement of resources from low- to high-productivity regions and sectors through mobility grants, better labour market information and other types of incentives. Professor Rankaduwa of the University of Prince Edward Island suggested that policies should focus on increasing productivity in low-productivity regions and provinces.

Figure 10 presents average annual labour and multifactor productivity growth, by province and for Canada, over the 1987-2003 period.

Figure 10: Average Annual Productivity Growth by Province, 1987-2003 (%)



Source: "Labour, Capital and Total Factor Productivity by Industry for Canada and the 10 Provinces," Canadian Centre for Living Standards, Updated: 17 June 2004.

With respect to Prince Edward Island, Professor Rankaduwa proposed that the province's investment gap in R&D, smaller proportion of workers with higher levels of education, and gap in the capital stock per worker be addressed through public-private partnerships. He noted that the province has had a persistent standard of living gap relative to the rest of Canada. In his view, the relative productivity gap is the largest contributor to the relative standard of living gap. Professor Rankaduwa urged a regional focus in policy making, in part because ensuring high rates of growth in regional productivity will contribute to high rates of national productivity growth.

G. Other Issues

Comments were also made by participants about property rights and certain provincial/territorial policies. For example, within the context of fishing and aquaculture, the Atlantic Institute for Market Studies recommended that a favourable intellectual and physical property rights regime be fostered. In one of its publications, the Institute has commented on such issues as transferring ownership and control of the fishery to those who make their living from it, making fish quotas fully transferable and tradeable, and a National Aquaculture Act that creates strong property rights. According to the Institute, a favourable property rights regime would be beneficial for businesses and would lead to increased investments. In the Institute's view, if businesses are not assured of high-quality property rights protection, it is difficult to go forward with certain types of innovations.

A number of the recommendations made by participants addressed policies of provincial/territorial governments. They advocated more fiscally responsible policies, the elimination of provincial capital taxes, and the harmonization of sales taxes in order to avoid levying sales taxes on business inputs.

CHAPTER 6: WHAT ACTIONS ARE NEEDED TO ENHANCE CANADA'S PRODUCTIVITY PERFORMANCE?

The Committee, like our Roundtable participants, is convinced that Canada's productivity performance must be improved if Canada is going to grow and prosper in the global marketplace, and is going to be able to meet the challenges posed by future fiscal and social pressures.

Clearly, actions are needed now to enhance productivity and innovation in order that Canadians can enjoy the high standard of living and quality of life that they both desire and deserve. It is vitally important that the public policy framework contain the appropriate incentives: for domestic businesses, for foreign investors and for Canadians.

In the Committee's view, there is no single measure – program, tax or spending – that will "fix" Canada's poor productivity performance, and there is no "quick fix." Instead, what is needed is a broader view and a range of federal actions to enhance productivity performance and competitiveness in this country. We believe that the federal government should have a greater focus on those decisions, programs and policies that affect productivity performance and the incentive to undertake research and development. This approach seems to have worked with the federal "rural lens" within the Rural Secretariat of Agriculture and Agri-Food Canada, and we feel that a similar mechanism would be beneficial in enhancing the focus on productivity performance and competitiveness.

The Committee is aware of the valuable contributions made by the Micro-Economic Policy Analysis Branch of Industry Canada in helping to ensure a focus on productivity and a range of other issues, but we believe that a greater focus is required, particularly within other federal departments and agencies that make policy decisions that affect Canada's productivity performance, albeit perhaps in a less direct manner. It is for this reason that the Committee recommends that:

Industry Canada develop a "productivity prism" through which existing and future federal policies and programs would be assessed to determine their impact on productivity in Canada. The department should report its findings on any productivity effects to the proposed Forum on Productivity.

In terms of specific measures that could be implemented by the federal government – and through which an assessment would occur with the adoption of a productivity prism – the Committee supports a federal plan with a number of components:

- incentives to encourage businesses to invest in capital equipment, to undertake research and development, to implement technological innovations and to upgrade the skills of their employees;
- measures to encourage individuals to engage in labour market activity, to invest, and to engage in lifelong learning and skills development;
- policies to increase foreign direct investment in Canada; and
- actions to ensure that all sectors, regions and provinces/territories most effectively contribute to national productivity growth.

The Committee is aware that the federal government currently has a range of tax, spending and other measures designed to stimulate productivity growth as well as to encourage research and development. We are convinced, however, that more must be done. Current initiatives have not had the desired result, and productivity performance must improve in Canada if we are to meet the challenges that lie ahead.

The Committee believes that a key component of a federal plan to enhance productivity performance is a comprehensive review of the corporate and personal income tax systems to ensure that the incentives inherent in those systems result in the desired outcomes.

The Committee continues to support a reduced corporate tax burden. We also advocate, at a minimum, the alignment of capital cost allowance rates with the useful life of assets.

We believe that reduced corporate taxes – including a reduction in the general corporate tax rate and the immediate elimination, rather than phase out, of the federal capital tax – would lead to high levels of investment in machinery and equipment as well as in research and development, and we support the elimination of the corporate surtax. Moreover, we continue to believe the conclusions and recommendations reached in our May 2000 report *The Taxation of Capital Gains*, and advocate further reductions in the capital gains tax in order to be consistent with our major trading partners.

Since provincial/territorial corporate tax policies also affect the incentives to invest and to adopt new technology, a review by provincial/territorial governments of their corporate tax systems – particularly their capital taxes – and the incentives inherent in their systems is also needed. Consequently, the Committee urges the federal government to convene a meeting with provincial/territorial governments to undertake such a review. It is important that all orders of government work toward the same goal: improved productivity performance in Canada.

The Committee also believes that other actions are needed within the business community. In our view, business organizations in Canada should place the highest possible priority on entrepreneurial behaviour and on rewarding employees for the contributions they make to productivity growth within their workplace. We feel that it is the appropriate corporate culture, in conjunction with the appropriate incentives, that will lead to the attainment of our productivity goals.

Moreover, the Committee also supports changes to the personal income tax system that will give Canadians higher levels of disposable income that can be invested, including in education and training throughout their lifetime. Since the tax system affects the incentive to engage in labour market activity, and to invest in some undertakings rather than others, it is important that desirable incentives be supported. We also believe that personal income tax changes are one tool that can be used to combat the brain drain.

As well, other measures to encourage human capital investment are needed. The federal government must, on a priority basis, examine the extent to which literacy and numeracy problems among Canadians are limiting their potential in society and at their workplaces, and the potential of our country. During our current study, the Committee learned about 2003 survey results which concluded that many adults have difficulty with unfamiliar literacy and numeracy demands of modern life and the modern workplace. Moreover, the survey found that the parents' level of education had a significant effect on the literacy scores of their children, and that literacy skills have a large impact on earnings.

Although policies that promote longer vacations and more holidays were recommended to us, the Committee believes that such policies have created conflicts among European countries. Consequently, we do not make any recommendation in this area at this time.

Earlier, the importance of foreign direct investment was noted. The Committee believes that while domestic investment is critically important, foreign direct investment has a number of unique advantages. For example, this type of investment often involves the introduction of technological innovation as well as advanced managerial practices. Canada must remove all unnecessary restrictions on foreign direct investment and ensure that policies and practices encourage such investment. We also feel that a study is needed to determine whether high levels of foreign direct investment in Asia are detrimentally affecting investment in Canada, and thereby Canada's productivity performance.

As we have done for a number of years – most recently in our September 2002 report *An Environment for Prosperity: Facilitating the Growth of Small and Medium-Sized Businesses in Canada* – the Committee advocates access to reasonably priced financing for Canadian businesses, particularly for the small and medium-sized businesses that we believe are the engines of growth and the creators of jobs in this country. We believe that a study should be undertaken to determine the extent to which Canadian small and medium-sized businesses, particularly start-up companies, have timely access to reasonably priced financing, with any needed corrective actions taken.

The productivity enhancements that the Committee hopes occur within our small and medium-sized businesses must not be limited because of inadequate access to reasonably priced capital. As well, we feel that Canadian attitudes toward entrepreneurship and venture capital financing – particularly regarding timeliness, amount and a commitment to ongoing support – must be like those in other countries if we are to be productive and prosper.

The Committee also believes that trade liberalization, trade diversification and trade agreements – and ongoing efforts to ensure that our trading partners abide by these agreements – are important means by which our businesses can prosper in the global marketplace. Moreover, it is important that businesses also be as competitive as possible domestically. Recognizing that internal trade barriers may play a role in this regard and should be minimized – if not eliminated – we will be convening a Roundtable discussion on the topic of internal barriers to trade. Ultimately, global and domestic competitiveness may give businesses the incentive to maximize their productivity performance.

The Committee also feels that all sectors of the economy and all regions of Canada must have the opportunity to contribute to our national productivity performance. In a federation such as ours, it is important that every sector and region – with its unique qualities and attributes – be supported in order that it can contribute most effectively to its own, and the nation's, prosperity.

One of the measures needed to ensure productivity in all sectors of the economy is "smart regulation," and we are aware of recent World Bank reports – *Doing Business in 2004: Understanding Regulation* and *Doing Business in 2005: Removing Obstacles to Growth* – from which lessons might be learned for Canada. We are also aware of the work of the External Advisory Committee on Smart Regulation and know that the President of the Treasury Board, in his capacity as the Minister responsible for the Government of Canada

Regulatory Policy, has been asked to lead the development of a regulatory government framework for this century.

Some participants referred to Canada's monetary policy in relation to this country's productivity performance. The Committee believes that this issue should be carefully studied by the Bank of Canada to determine if any changes are needed to Canada's monetary policy.

There is no one simple solution to Canada's "lagging" productivity performance. There is no "quick fix." What is needed for success are coherent actions that will enhance productivity performance, research and development, and innovation in Canada. From this perspective, the Committee recommends that:

Relevant federal departments implement a comprehensive plan designed to enhance productivity and competitiveness in Canada. The plan, which should be fully implemented by 30 June 2006 with the exception of the proposed tax changes, should contain the following elements:

- **changes to the corporate tax system, including a reduction in the general corporate tax rate, the immediate elimination of the federal capital tax, and an alignment of capital cost allowance rates that is at least consistent with the useful life of assets;**

- **changes to the personal tax system, including reduced income tax rates for middle- and upper-income earners, increased thresholds at which these rates are paid, and a modified capital gains tax system to ensure consistency with the United States;**

- **an examination of foreign investment restrictions, with a view to eliminating unnecessary restrictions and to adopting measures to increase foreign direct investment;**

- **additional measures to ensure access to financing, at reasonable cost, for all Canadian businesses, but particularly for small and medium-sized businesses;**

- **continued pursuit of international trade agreements that enhance the ability of Canadian businesses to compete in the global marketplace;**

- **continued actions toward the elimination of internal barriers to trade with a view to making the domestic marketplace more competitive; and**

- **the development of international dispute settlement mechanisms that will facilitate long-term solutions to trade irritants.**

The Committee realizes that there are federal budgetary constraints, and supports the priorities of balanced budgets and debt reduction. Tax changes have federal revenue consequences, and fiscal planning is required. Consequently, we would urge that the tax changes be phased in over time, as resources permit, with priority given to the corporate tax changes. The tax changes should, in our view, be fully implemented within a five-year period. We also believe that the Department of Finance should study the relative effects of consumption taxes and income taxes on economic behaviour.

While the Committee does not make specific recommendations about the importance of efficient regulatory systems and quality infrastructure for high productivity performance in all regions, we support them as key components of a federal plan for productivity and competitiveness in Canada.

In various reports and over a number of years, the Committee has consistently supported efficient regulation as a contributor to economic growth. We feel that smart, streamlined federal regulation, and speedier adjudication and resolution of commercial disputes, must become a priority. We believe that there are a number of regulatory regimes – including, for example, Canada's dairy quota system – that may have productivity-limiting effects. We would support a review of such regimes to determine their effects on productivity and competitiveness.

Once a federal plan for productivity is fully implemented, Canadians and Canadian businesses must be able to assess the progress that is being made in achieving the goal of high productivity performance. While we are aware that a number of agencies and organizations – both governmental and private sector – already measure productivity growth in Canada, the Committee believes that a single agency must exist whose focus is the measurement of productivity in Canada and an assessment of the combined productivity effects of federal initiatives on productivity performance. For this reason, the Committee recommends that:

> **The federal government create a Forum on Productivity. The Forum should be comprised of no more than twelve representatives of business, organized labour, the academic community, privately funded public policy organizations, Industry Canada, the Department of Finance Canada, the Bank of Canada and Statistics Canada. Each representative should be appointed for a four-year term. The Forum should be supported by a small coordinating secretariat.**
>
> **The Forum should have two responsibilities: ongoing and timely reporting on, and measurement of, productivity performance; and an assessment of the combined productivity effects of federal initiatives that influence productivity performance. The Forum should report to Parliament annually on its findings in each of its areas of responsibility.**

The Forum should be established for an initial four-year period. The Forum's mandate should be renewed if a Parliamentary review concludes that it has been effective in fulfilling its responsibilities.

The Committee believes that the full and timely implementation of these recommendations will lead to the enhanced productivity, innovation, research and development that will help improve our standard of living and prosperity as a nation in the decades ahead. But we caution: full implementation of these measures is needed, and action must occur now. The impact of improved productivity performance on living standards accumulates slowly. Canada's productivity problem is real. The solutions are at hand. The time for endless discussion and study has long passed. We must answer the wake-up call now.

APPENDIX A: FEDERAL AND PARLIAMENTARY INITIATIVES AND REVIEWS

A range of federal policy initiatives – including tax measures, direct program spending, and funding for specialized agencies and universities – encourage the research and innovation that should lead to enhanced productivity. For example, in February 2002, the federal government announced the Innovation Strategy which committed Canada, by 2010, to:

- rank among the top five countries in the world in terms of research and development (R&D) performance;
- at least double the federal government's then-current investment in R&D;
- rank among the world leaders in the share of private sector sales attributable to new innovations; and
- raise venture capital investments per capita to prevailing U.S. levels.

In addition, federal support for basic research occurs through a number of federal granting councils and research agencies. These include the Canada Foundation for Innovation, Genome Canada, the Canada Research Chairs, National Research Council Canada, Technology Partnerships Canada, the Canadian Institute for Advanced Research, the Canadian Institutes of Health Research, the Social Sciences and Humanities Research Council of Canada, and the Natural Sciences and Engineering Research Council of Canada.

As well, the federal government provides funding for the indirect costs of research, offers the Scientific Research and Experimental Development (SR&ED) investment tax credit, and supports commercialization through, for example, the federal granting councils, pilot programs and enhanced access to venture capital financing for companies turning research into new products and services.

Prime Minister Martin is advised by the National Science Advisor appointed in April 2004 and the Advisory Council on Science and Technology created in July 1996. The Minister of Industry recently established an Expert Panel on Commercialization and the Advisory Committee on Paperwork Burden Reduction. Recent speeches by Prime Minister Martin, the Minister of Industry and the Minister of Finance frequently stress the importance of productivity growth and the policies needed to facilitate this growth.

The Committee's Roundtable discussion is the latest in a number of Parliamentary examinations of productivity issues. Productivity is routinely mentioned by the House of Commons Standing Committee on Finance in its pre-budget consultation reports and by the House of Commons Standing Committee on Industry, Science and Technology. This latter Committee has examined productivity, innovation, and research and development issues in no fewer than four reports since 1997. Productivity issues will also be examined by the House of Commons Standing Committee on Foreign Affairs and International Trade when it reviews Canada's International Policy Statement, which was released in April 2005 and notes the importance of competitiveness and productivity performance.

Parliament's examination of, and recommendations about, productivity can also be guided by advice from external experts, such as by the 1992 report of the Steering Group on Prosperity, *Inventing Our Future: An Action Plan for Canada's Prosperity*. This report, which identified 54 action items, identified the need to develop and implement consumer education programs, reduce government deficits through reduced spending rather than increased taxes and pursue trading rights aggressively through vigorous use of dispute settlement procedures. Since the report's release, changes have been made in a number of the areas identified; no action has been, taken, however, regarding a relatively significant number of the other action items.

APPENDIX B: ROUNDTABLE PARTICIPANTS

Name of Organization	Name of Participant	Date of Appearance
As an individual	Jean-Marc Suret, Director, School of Accountancy, Laval University and Fellow CIRANO	May 11, 2005
Atlantic Institute for Market Studies	Bruce Winchester, Director of Research Services	May 11, 2005
Centre for the Study of Living Standards	Andrew Sharpe, Executive Director	May 11, 2005
Information Technology Association of Canada	Bernard Courtois, President and Chief Executive Officer	May 11, 2005
The Fraser Institute	Niels Veldhuis, Senior Research Economist	May 11, 2005
As an individual	Wimal Rankaduwa, Associate Professor, Department of Economics, University of Prince Edward Island	May 12, 2005
CAW Canada	Jim Stanford, Economist	May 12, 2005
The Conference Board of Canada	Paul Darby, Vice-President and Chief Economist	May 12, 2005
C.D. Howe Institute	Yvan Guillemette, Policy Analyst	May 12, 2005
Statistics Canada	John R. Baldwin, Director, Micro Economic Studies and Analysis Division	May 12, 2005