



Canada-U.S. Competitiveness: Addressing the Canadian Contradiction

The Canada Institute
September 24, 2007

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Context

From a macro perspective, Canada is a top performer:

- Stable growth, although uneven across regions
- Low and stable inflation, unemployment
- Fiscal balance or surpluses everywhere
- Strong currency, trade surplus with the U.S.

But problems lurking beneath the surface

- A trailing performer on productivity
- FTA has run its course – no more dynamic energy



Real GDP Growth Rate

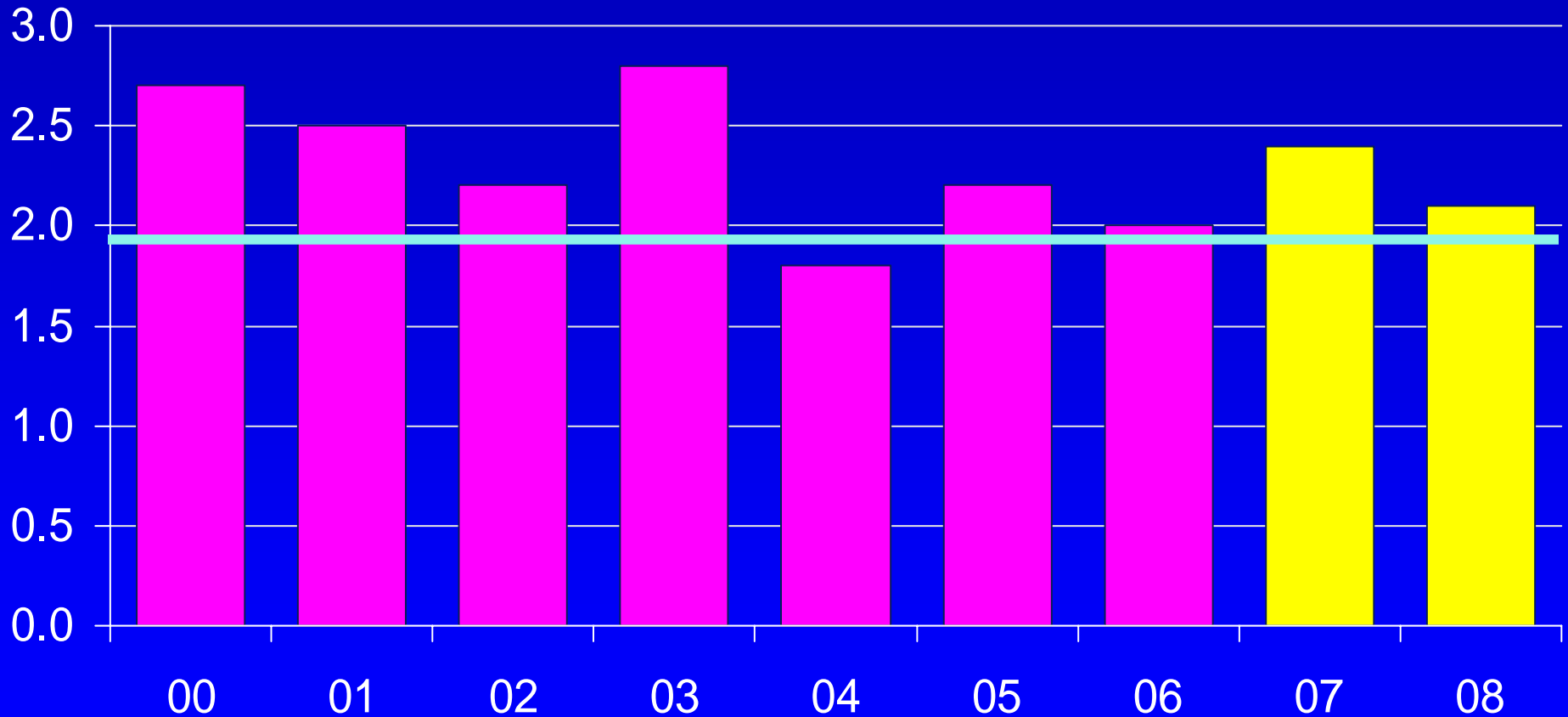
Canada 2000–08



Sources: The Conference Board of Canada; Statistics Canada.

Consumer Price Inflation

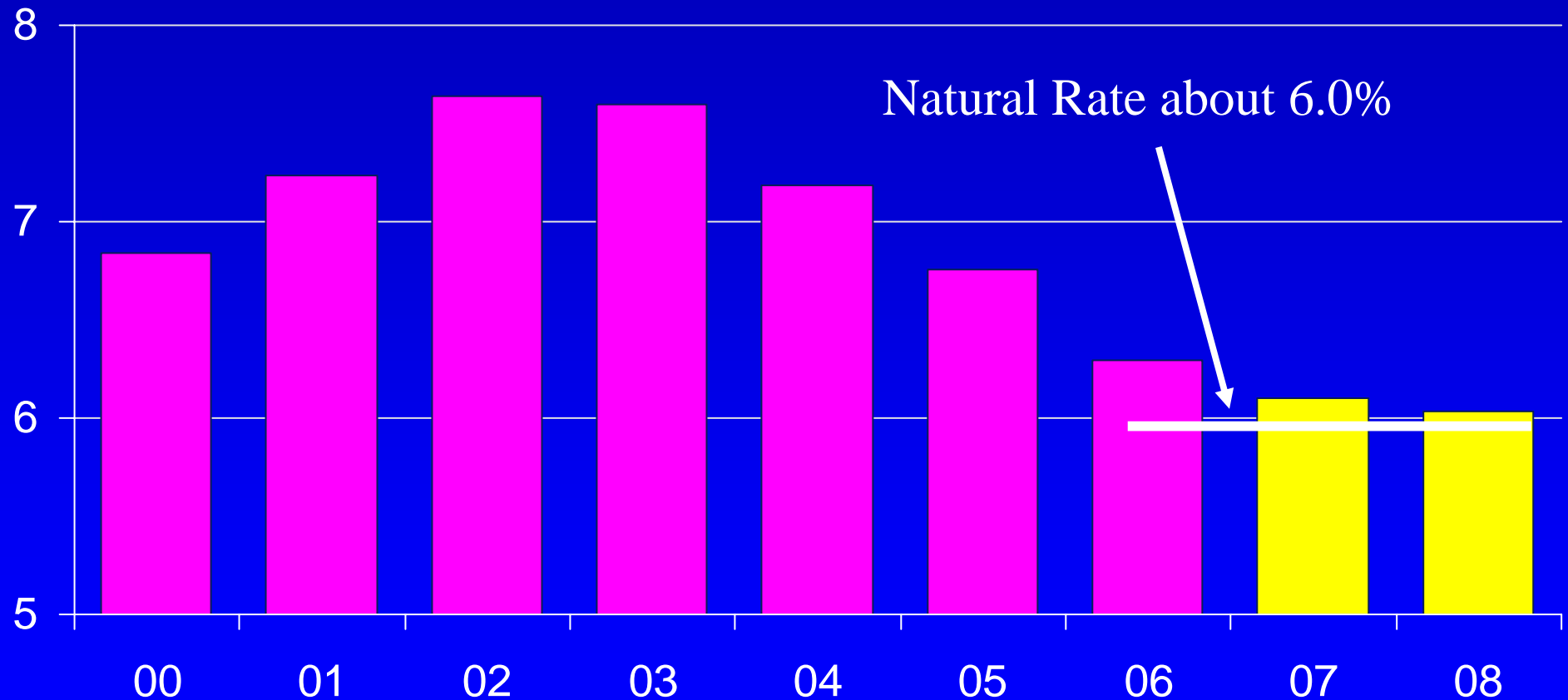
Canada 2000–08



Sources: The Conference Board of Canada; Statistics Canada.

Unemployment Rate

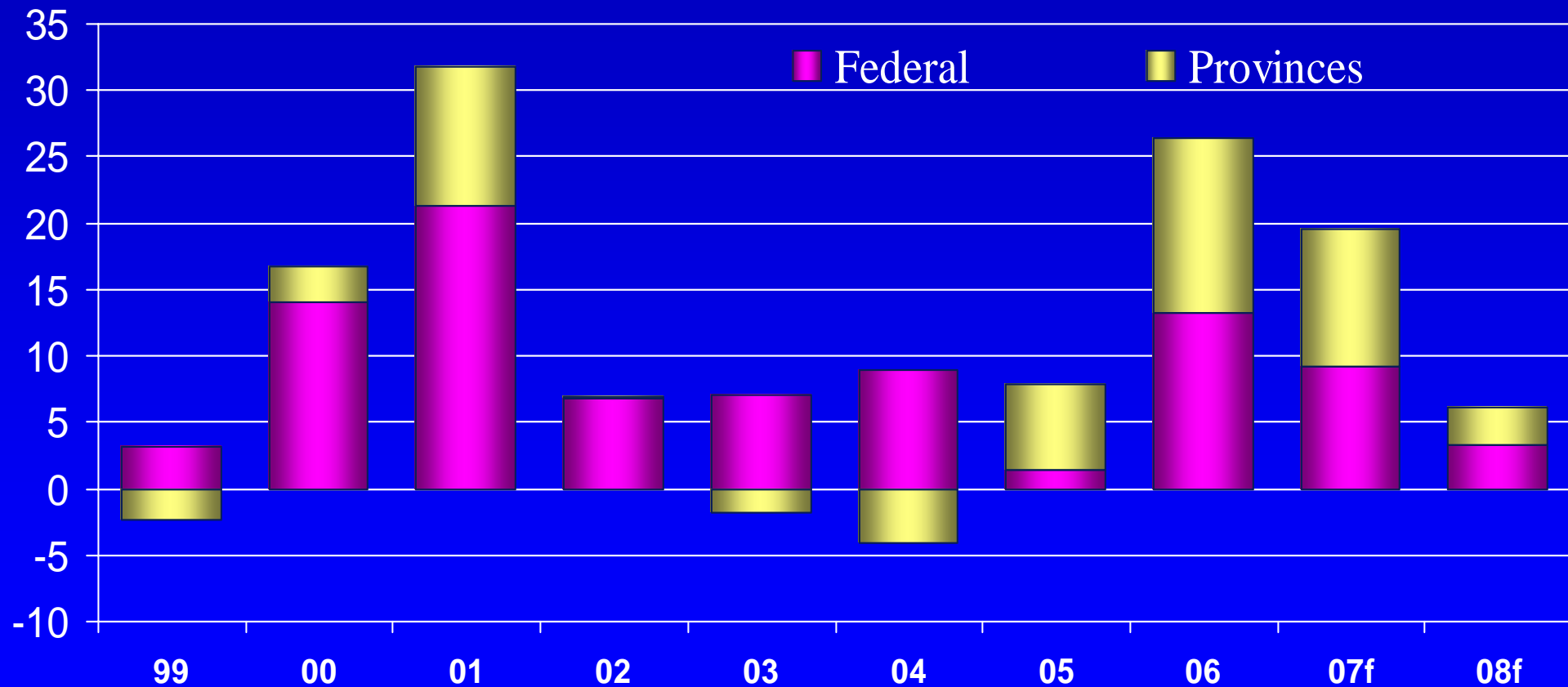
Canada 2000–08



Sources: The Conference Board of Canada; Statistics Canada.

Federal and Provincial Gov't Balances

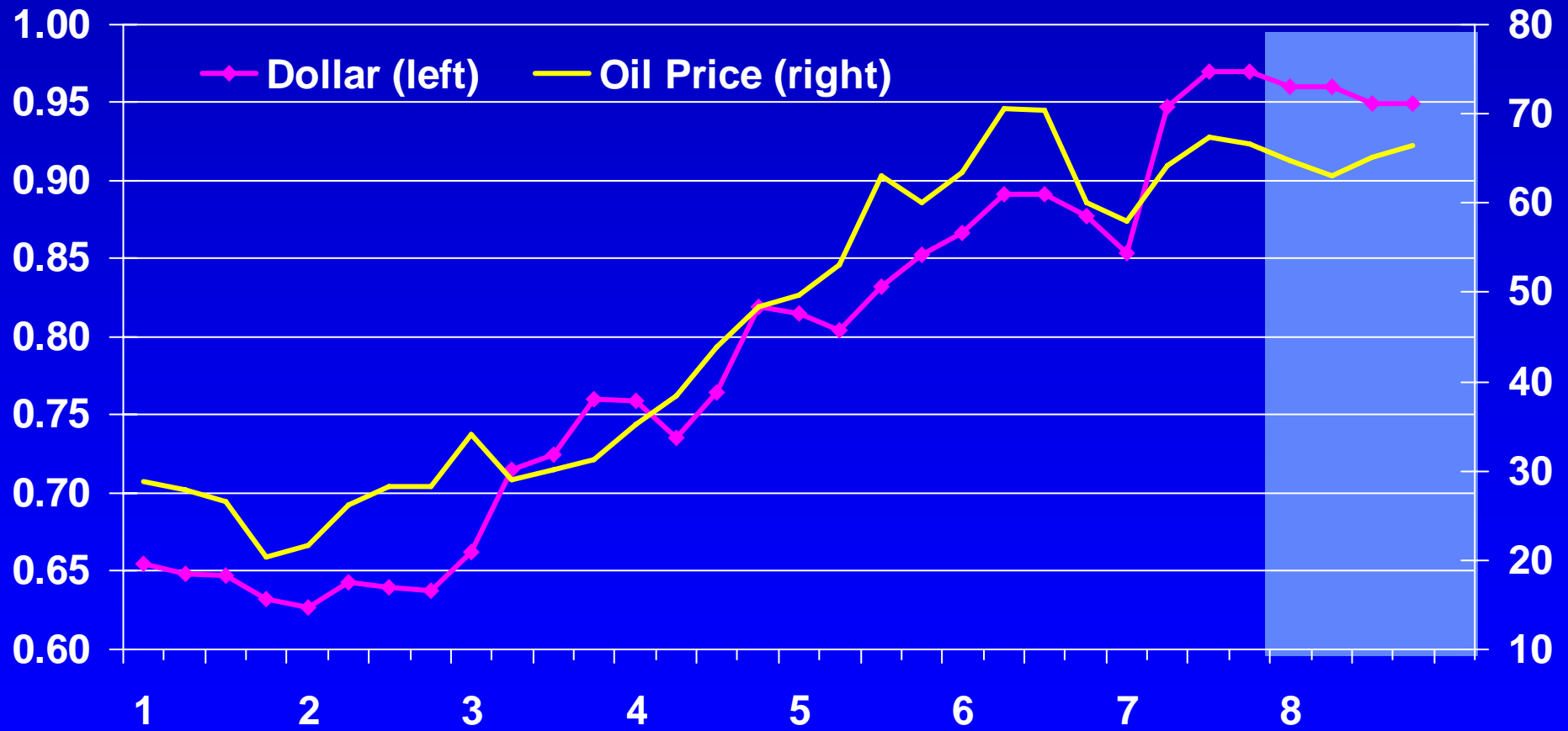
(Public Accounts Basis, fiscal year ending, \$billions)



Sources: The Conference Board of Canada; Statistics Canada; various government budgets.

The Loonie and Oil Prices

(WTI \$US, \$US/\$C)



Sources: The Conference Board of Canada; U.S. Energy Information Administration; Statistics Canada.

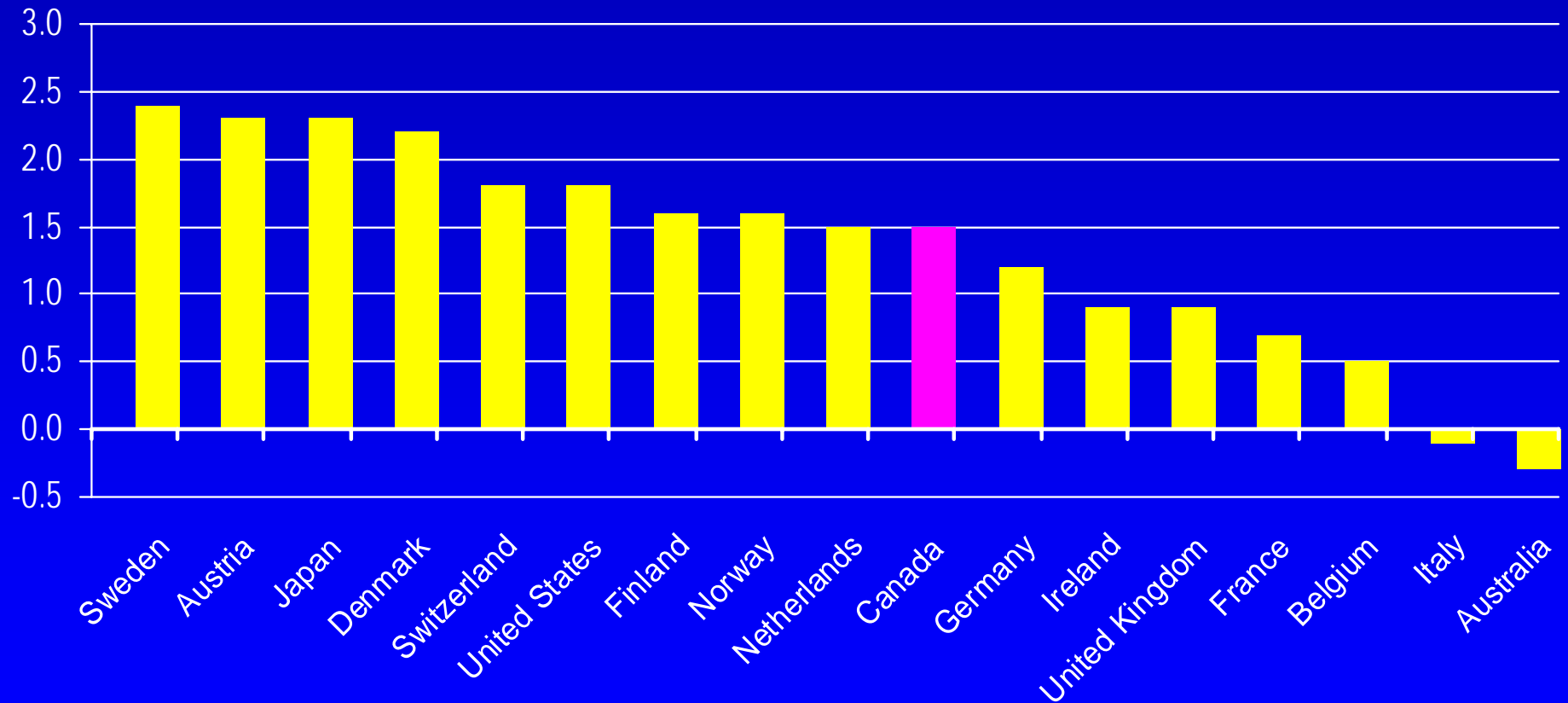
The Canadian Contradiction

- Notwithstanding very favourable macroeconomic environment, Canada is under-performing on productivity
- This affects our international competitiveness, especially with evidence of Dutch Disease and/or the China Syndrome
- Moreover, aging labour force will mean declining growth potential, unless there is a significant improvement to productivity performance



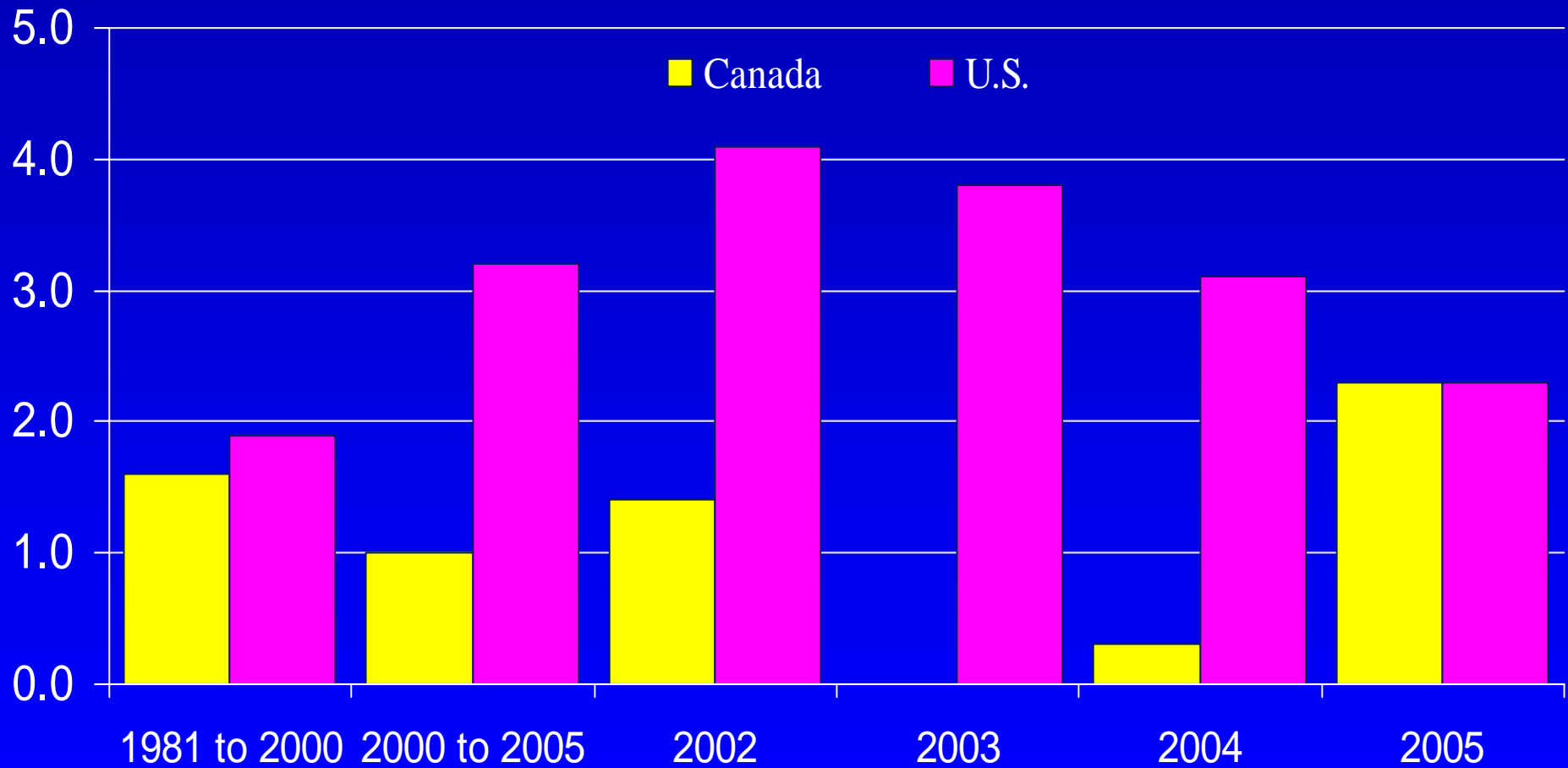
Growth in Labour Productivity Among OECD Countries, 2000–2005

(average annual growth rate, per cent)



Source: OECD.

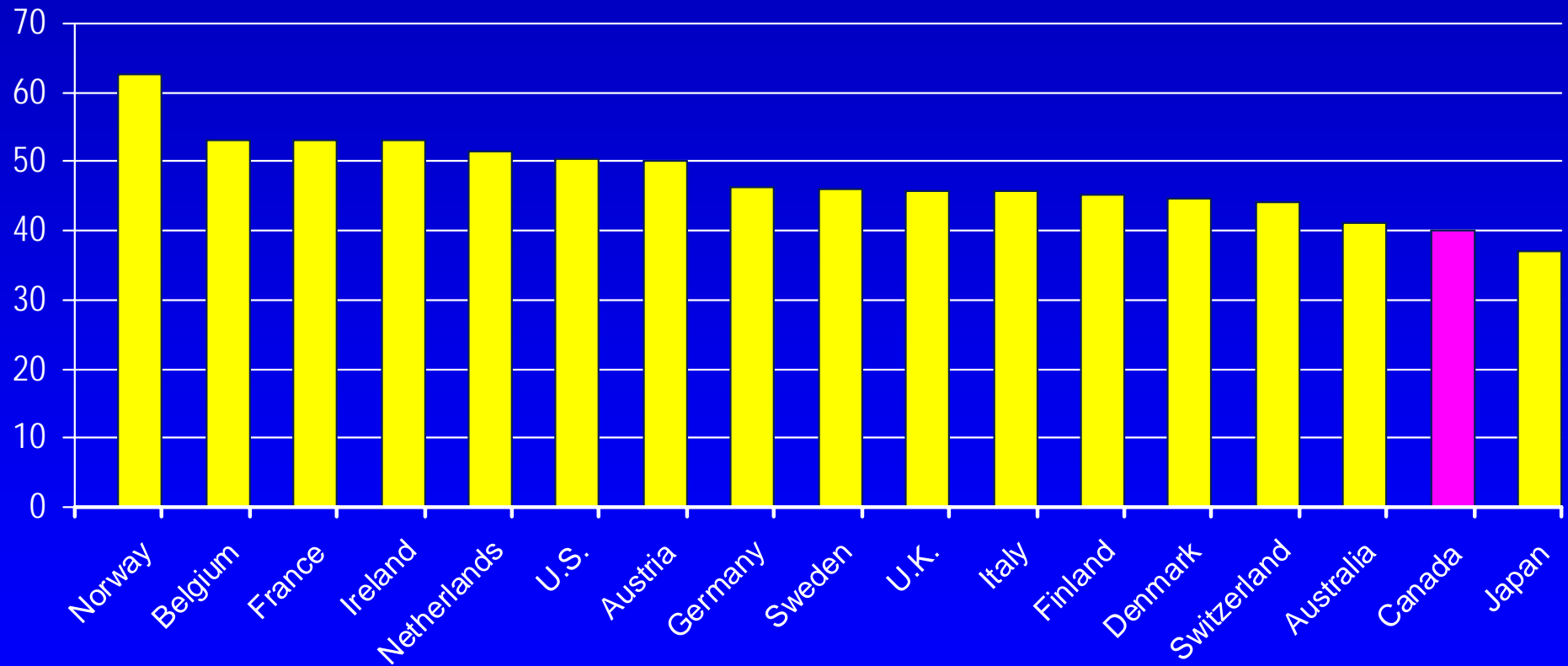
Average Annual Productivity Growth (per cent)



Sources: Statistics Canada; U.S. Bureau of Labor Statistics.

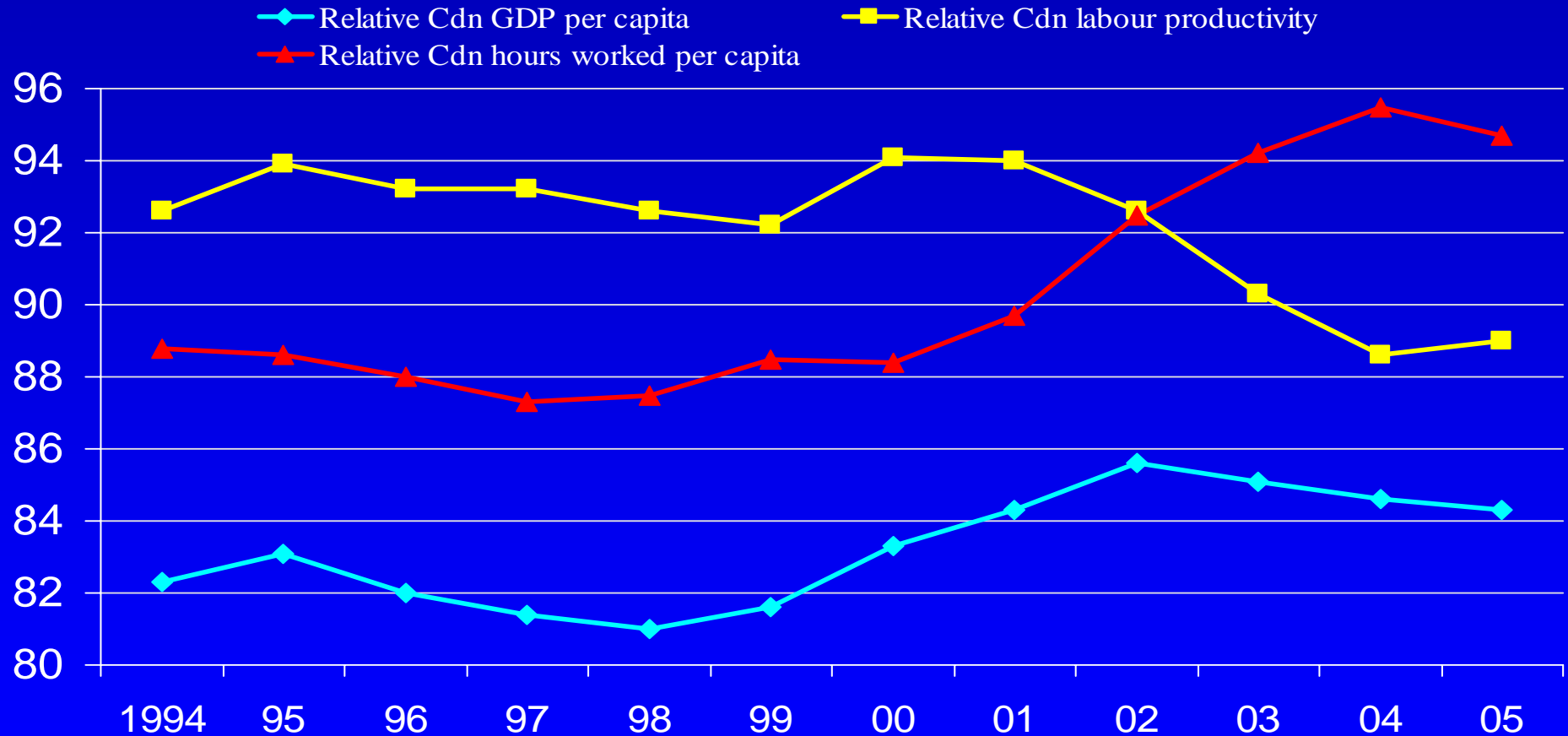
Labour Productivity, 2006

(US\$; GDP per hour worked)



Source: Groningen Growth and Development Centre.

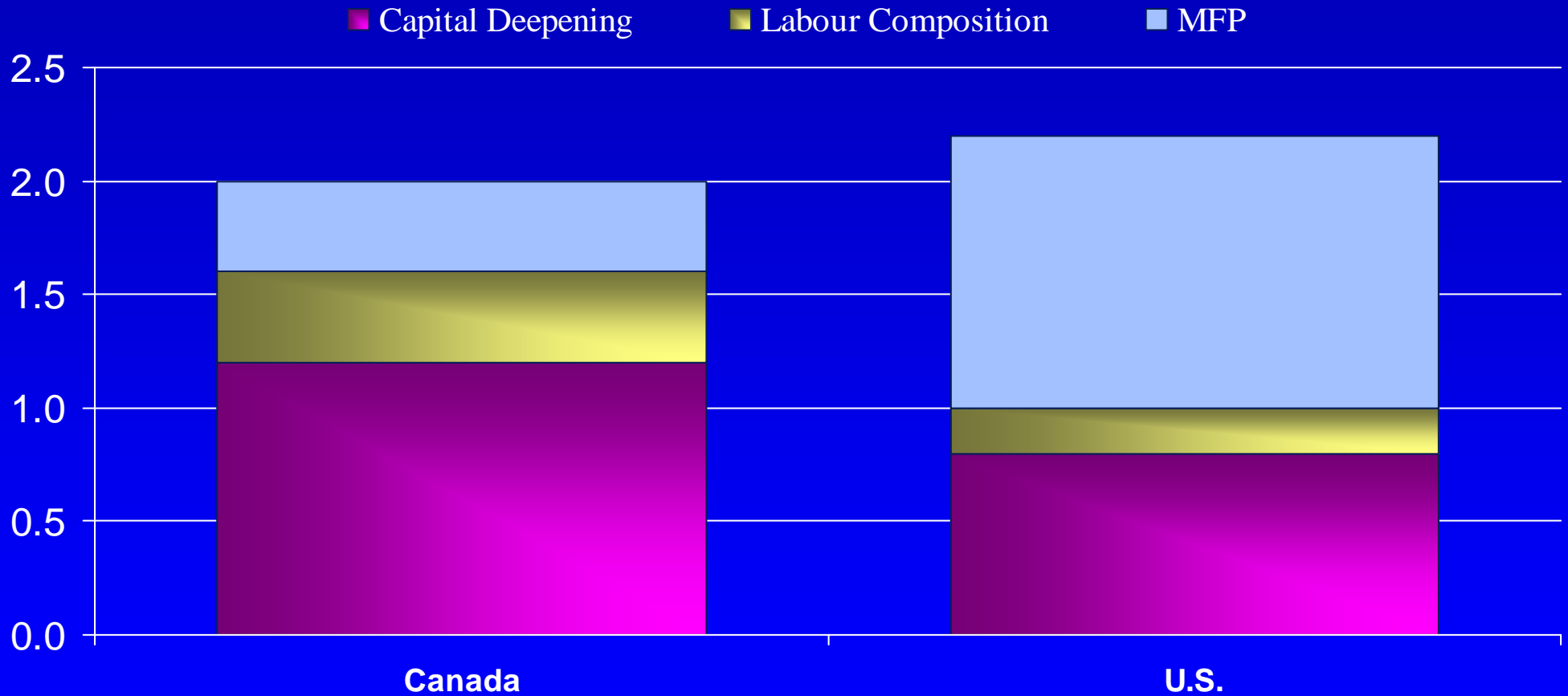
Canada-U.S: Income, Productivity and Hours Worked (U.S. = 100)



Note: Canada as a percentage of United States (United States = 100)

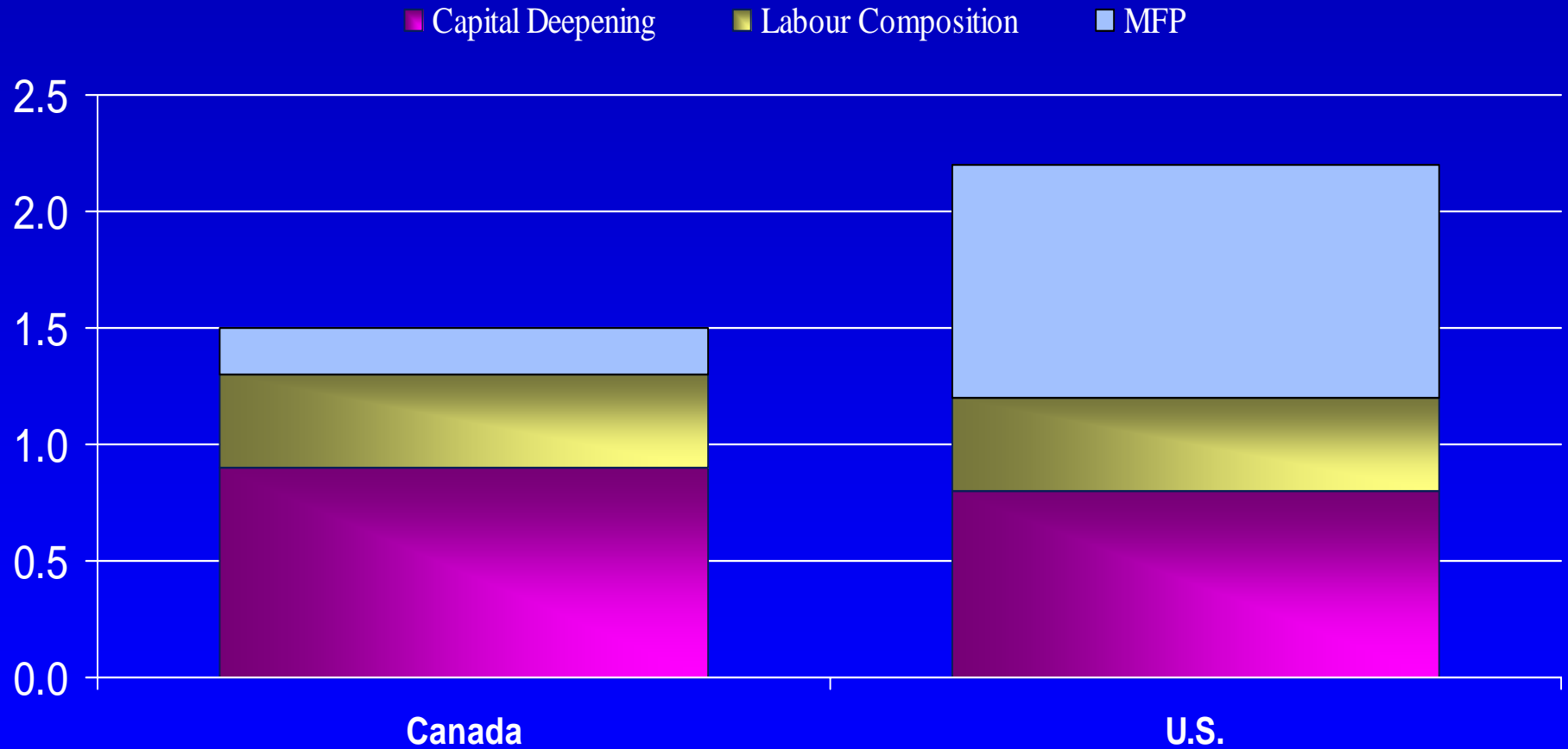
Sources: Statistics Canada; Canadian Productivity Accounts; Bureau of Labor Statistics; Bureau of Economic Analysis; and Bureau of the Census.

1961–2006 Labour Productivity Growth (% avg. annual growth)



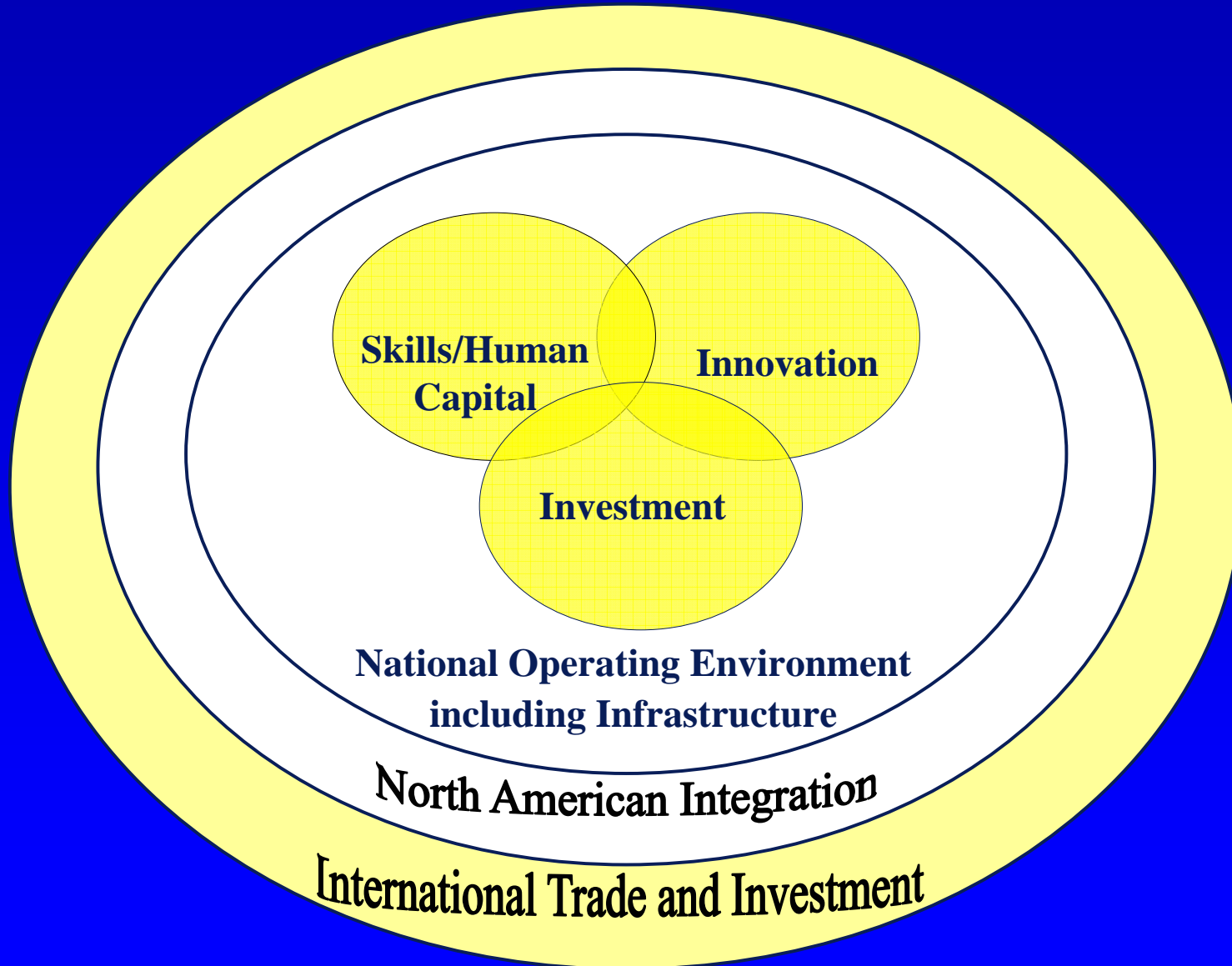
Sources: The Conference Board of Canada; Statistics Canada.

1980–2006 Labour Productivity Growth (% av. annual growth)



Sources: The Conference Board of Canada; Statistics Canada.

Productivity: A Conceptual Policy Framework



Making Canada More Competitive: the U.S. Dimension

- Accelerate Canadian domestic reform – reduce regulation and improve competition
- Take Canada-U.S. free trade to another level
- Examine a Canada-U.S. common front on free trade with third parties



Accelerate domestic reform: Create a single Canadian market

- Reduce barriers between provinces -- TILMA agreement between B.C. and Alberta a strong step forward
- Reduce barriers to competition
- Improve fed-prov regulatory alignment, e.g. a single national securities regulator
- Cut/eliminate capital taxes



Take Canada-U.S. free trade to another level

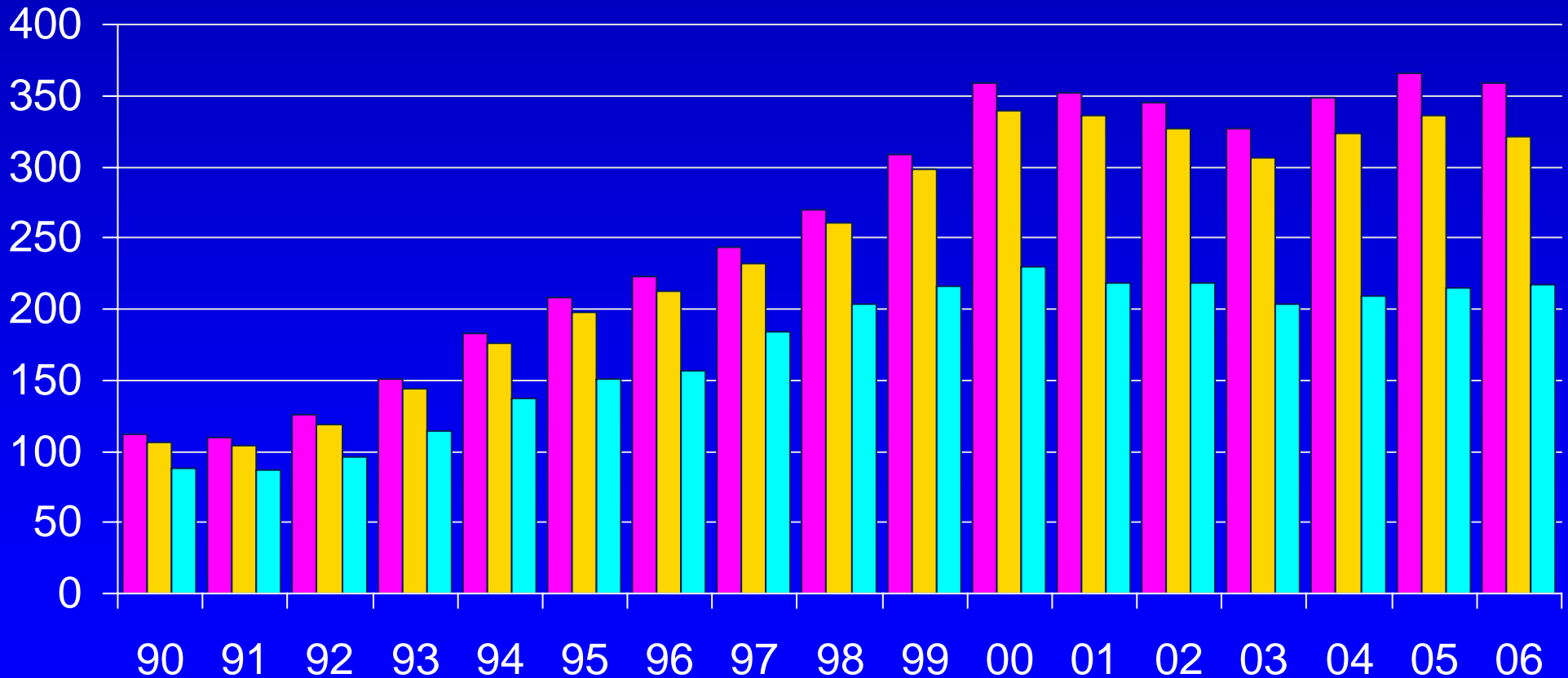
- Free Trade Agreement with the United States is fully implemented – no more structural changes by business
- What is required for FTA II?
 - Major investments in and improved alignment at the Canada-U.S. border
 - Address non-tariff barriers, without sacrificing national policy objectives
 - Elimination of remaining Canada-U.S. tariff differences
 - Simplification or elimination of rules-of-origin requirements
 - Liberalization and integration of trade-related services, with transportation a top priority



Canada-U.S. Merchandise Trade, 1990–2006

(billions C\$)

■ Total Exports ■ Total Exports excl. Oil Products ■ Imports



Sources: The Conference Board of Canada; Statistics Canada.

A common Canada-U.S. approach with third parties?

- Canada has signed four bilateral agreements since NAFTA -- the U.S. has signed 14
- Time for Canada to consider the advantages of a more common, regional approach with the United States vis-à-vis third parties
- No doubt there will be political and economic challenges in trying to advance this approach
- Nevertheless, the absence of Canadian progress bilaterally is a clear signal that we need to do things differently



Conclusion

- Canada's stellar macro-economic performance is masking under-performance on productivity growth
- Enhancing Canada's economic relationship with the United States is an important part of boosting Canadian productivity growth
- Action in three areas:
 - Accelerate Canadian domestic reform – reduce regulation and improve competition
 - Take Canada-U.S. free trade to another level – FTA II
 - Examine a Canada-U.S. common approach to free trade with third parties

