Intelligence MEMOS

From: Don Drummond

To: Finance Minister Chrystia Freeland

Date: February 26, 2021

Re: **FOR A CANADIAN EQUITABLE GROWTH INSTITUTE**

Canada's weak economic growth prospects threaten the well-being of Canadians and preclude the introduction of the Liberal government's spending initiatives without undue fiscal risk or much higher tax rates.

The fall fiscal statement estimated Canada's potential growth rate to be just 1.4 percent from 2020 to 2025, down from the still modest pre-pandemic pace of 1.8 percent. Growth could be worse still as, in **research done** for the Council of the Federation in 2015, I estimated the growth potential to be just slightly more than 1.5 percent, without pandemic effects.

The main reasons for such low growth are the aging population, slowing labour force growth and a continuation of a long trend of modest productivity gains. Canada looks especially bad from the international perspective as our level of output per capita in 2019 was 3.4 percent below the OECD average, 11.4 percent below the Eurozone and 26.6 percent below the United States. We can and must do better.

Advisory bodies have been asked to opine on Canada's growth problem before and some measures have been taken. The most recent **effort** was by the Advisory Council on Economic Growth, chaired by Dominic Barton and reporting to the Minister of Finance.

The council provided sound ideas, but Canada's economic challenges require a deeper, broader and longer-lasting initiative – to do more extensive research, to consult more and speak with Canadians in the hope of building a consensus on our economic future.

As part of their attempts to strengthen economic growth, several other countries have created permanent research bodies on productivity or economic growth more broadly. Canada should follow suit by creating an institute focused on strengthening economic growth in an environmentally sustainable manner with the benefits more evenly distributed among the population.

A Canadian Equitable Growth Institute could be a federal agency. It would only be effective if the government recognizes there is an economic problem and is committed to finding solutions. That would require some foresight because the benefits tend to flow over a long period, whereas controversy can arise in the nearer term. For example, such bodies tend to recommend more competition and better regulation but those with vested interests in protected markets resist.

The structure of such an institute is also of critical importance. It must have sufficient independence to challenge the status quo without the government feeling the need to be defensive. But it must be sufficiently connected to government that it has internal champions and is taken seriously.

It should be headed by someone with credibility in economic and policy matters. There should be an internal research staff, but it should also connect and foster existing research networks and create new ones where needed. Such connections should include other government entities including the new Future Skills Council, the Labour Market Information Council and the Canadian Institute for Climate Choices.

Much of the economy is under the influence of provinces and territories, and they should be involved, too. Formal representation may make the governance unwieldly, but there could be an advisory body to the institute with members connected to the other levels of government as well as business, labour and other stakeholders, including those dedicated to equity and sustainability of growth. The advisory body could also have direct discussions with the government.

There would be some cost associated but the bar seems low for realizing a net gain. Raising the rate of productivity growth just 0.1 percentage points a year over the next 10 years, such as in elevating growth from 1.5 percent to 1.6 percent, would raise the level of output in 2030 by $23 billion and the cumulative output over the decade by $121 billion. Between 30 percent and 40 percent of that gain would flow to the total government sector through existing tax provisions.

Those revenues are desperately needed by Canadian governments given the battering their fiscal positions have taken because of COVID-19 as well as future pressures on healthcare and pensions from the aging population. The federal government will need such a revenue injection for many years if it is to proceed with the remaining unfunded initiatives it included in its 2015 and 2019 election campaigns, and the 2020 Speech from the Throne, while returning eventually to a sensible fiscal anchor.

A Canadian Equitable Growth Institute could be announced in the 2021 federal budget expected in March or April with work to constitute it beginning immediately thereafter.

Don Drummond is the Stauffer-Dunning Fellow in Global Public Policy and Adjunct Professor at the School of Policy Studies at Queen's University and a Senior Fellow at the C.D. Howe Institute.

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