

A Plan for Growth and Prosperity

Summary

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Department of Finance
Canada

Ministère des Finances
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By virtually every measure, over the past decade the Canadian economy has been one of the most successful in the world. Since 1997 our country has posted the longest string of federal budget surpluses in our history and our records of growth in living standards, job creation and debt reduction are unmatched by any other major country.

With more and better jobs, rising incomes and lower interest rates, Canadians have been able to invest in our families, skills, homes and businesses. Over the same period, the federal government has reinvested in our social foundations including health care, child care and education. These combined investments have improved our standard of living and secured our common future.

This success was no accident. In 1994 the Government set out a bold economic agenda. With the support and sacrifice of Canadians, the Government consistently implemented that plan over the past decade. It has worked, delivering huge social and economic dividends to Canadians.

To build on that progress and to maintain a quality of life second to none, our country must now focus on the opportunities and challenges that will shape the world over the next two decades, in particular:

- the rapid growth of new economic giants such as China and India, as well as the widespread adoption of new ways of producing and delivering goods and services around the world; and
- the challenge posed to our future standard of living as the baby boom generation retires and the relative number of working-age Canadians begins to shrink.

The time has come for a new economic plan to update priorities, set core policy directions and guide future budget decisions.

A NEW PLAN

At its core the new Plan is about Canadians—our quality of life, the kind of communities in which we live, the kind of retirement we can expect to enjoy, and the kind of opportunities our children will have in the coming decades. This Plan will foster our shared goals of a sustainable environment, safe and creative communities, and high-quality public health care.

The new Plan anticipates the profound reordering of the global economy and outlines Canada's response.

It recognizes that future increases in our standard of living will depend in large measure on further improvements in the productivity of our economy.

The Plan recognizes that our economic growth must be sustainable, guided by an ongoing commitment to environmental stewardship.

It acknowledges that the Government of Canada alone cannot achieve the goals of greater jobs, growth and sustainable prosperity, but rather that all orders of government, private firms, labour unions, non-profit agencies and individual Canadians will play important roles in building the Canada we want and our children deserve.

Above all, the new Plan responds to the challenge of building a successful and sustainable 21st century economy by investing in people, promoting innovation and facilitating the freer flow of people, goods, services and capital within our borders and across our borders.

It proposes action on four fronts:

- Creating opportunities for all Canadians.
- Advancing an innovative economy.
- Positioning Canada at the centre of global commerce and networks.
- Building the right investment environment.

CREATING OPPORTUNITIES FOR ALL CANADIANS

In a world of accelerating technological change, there is a greater premium than ever on the skills, knowledge and innovative spirit of Canadians. Every region of our country can benefit from the new globally networked economy and its rapidly growing consumer class. To realize this potential and for fundamental reasons of fairness, the single most important investments we as a country can make are those that ensure all Canadians have the opportunity to acquire the skills, training and education they need to succeed in the 21st century workplace.

The Plan focuses on the following fields of action:

Early learning: Early learning and child care to help ensure children arrive at school ready to learn is the foundation of a world-class workforce. The Government has already taken important steps including a series of early learning and childhood development agreements with provinces. It will do more, and this Plan reaffirms its long-term commitment.

Post-secondary education: Canadians are among the most highly educated people in the world. This not only enriches our lives, but also gives us a competitive advantage in developing and applying new ideas and processes. Despite this success, there remains room for further improvement. For example, we have relatively fewer university graduates with science and business degrees or with combinations of both skill sets. As a nation, we have underinvested in graduate education. Most fundamentally, we must remain vigilant to ensure that barriers to post-secondary education are minimized.

Skilled work: Despite our high rates of post-secondary education, a relatively large number of Canadian workers have low skill levels. We also appear to have a lower rate of workplace training investment by employers than countries like the United States. Business, labour and all levels of government must work together to significantly improve this performance. The Government will continue to work with Canadians to improve their literacy skills, which are necessary to participate in and to benefit from the knowledge economy. Otherwise, Canadian workers could eventually find themselves at a disadvantage in an increasingly competitive global economy.

Inclusiveness: Improving opportunities to participate in the labour force can help compensate for our demographic challenge. Certain groups—older workers, persons with disabilities and recent immigrants—currently experience lower employment rates than our overall population. The Plan sets out initiatives to help close these gaps and to create opportunities for all Canadians.

Aboriginal opportunities: The Government has given particular priority to closing the gap in living standards and life choices between Aboriginal and non-Aboriginal Canadians. The first ever First Ministers' Meeting (FMM) with Aboriginal leaders and devoted to Aboriginal issues provides an important opportunity to transform approaches to health, housing, economic development and, above all, education. It can also launch a new relationship built on mutual respect, recognition of rights, and a commitment to the principle of good governance.

**To help create better opportunities for Canadians,
the Government of Canada will work to:**

Enhance Canada's World-Class Workforce

- ✓ Achieve excellence in post-secondary education by continuing to minimize barriers to access by expanding grant programs and ensuring that student financial assistance programs continue to meet the needs of students.
- ✓ Encourage international education opportunities.
- ✓ Encourage graduate study opportunities, especially in the sciences and management.
- ✓ Promote a culture of lifelong learning and skills upgrading by working with business, labour and provincial partners to enhance workplace-based skills development—including literacy, essential skills and apprenticeships.

Meet the Demographic Challenge

- ✓ Increase workplace participation of under-represented groups such as older Canadians and people with disabilities by removing barriers to participation and improving incentives.
- ✓ Increase immigration of skilled and educated workers.
- ✓ Improve immigrant processing, settlement and integration.
- ✓ Partner with provinces, business and professional associations to better match immigrants with skill requirements, broaden the regional distribution of immigrants and improve foreign credential recognition.

Create Aboriginal Opportunities

- ✓ Agree on effective partnerships and transformative approaches to health, housing, economic development and education at the upcoming FMM.

Improve Labour Mobility and Labour Market Efficiency

- ✓ Reduce barriers to labour mobility across the country, working with provinces, territories and stakeholders.
- ✓ Improve the quality and timeliness of labour market information.
- ✓ Ensure that the Employment Insurance Program, on an ongoing basis, effectively meets the changing needs of the workforce and the economy.

ADVANCING AN INNOVATIVE ECONOMY

A successful 21st century economy creates and quickly adopts leading-edge technology. An innovative economy rests on the foundation of knowledge created in its universities, the level of excellence it attains in new discoveries and its success in training people with advanced skills. Our country must constantly improve its capacity to generate the knowledge, innovation and research that lead to new products, services and methods of doing business in order to provide working Canadians with better jobs and incomes. Sustained, long-term economic growth also requires a comprehensive and innovative approach to environmental sustainability.

The Plan focuses on the following fields of action:

University-based research: Primary and applied research by universities—including participating in international research projects—are a key source of the new ideas and innovation our country needs. Research-intensive universities also train highly skilled graduates that businesses increasingly need to develop and adopt new technologies. Canadians can be justifiably proud of the progress we have made in this area over the past decade. Canada now leads the Group of Seven (G7) industrial nations in university-based research and development (R&D), an advantage our country must maintain through further investment.

Private sector R&D and technology adoption: There are signs that the improved policy environment since 1994 has encouraged some sectors of the economy to increase their R&D investments. However, while some of Canada's industries have a strong R&D record, overall, our private sector R&D investment is still relatively low by international standards, especially vis-à-vis the U.S.

Commercializing new technologies: The ability to transform innovative ideas into new products and processes is an important source of economic growth. Canada can further capitalize on our leadership in university R&D. Although Canadian universities create about the same number of licences per research dollar as U.S. schools, they tend to receive less income for this intellectual property. In addition, Canadian companies report that new products and services make up a lower share of their sales than firms abroad.

**To help build a more innovative economy,
the Government of Canada will work to:**

Retain Leadership in University-Based Research

- ✓ Maintain Canada's G7 leadership in university-based research through increased investment.
- ✓ Make major ongoing investments to build world-leading equipment and facilities, attract the best researchers and support primary research.
- ✓ Improve its monitoring of investments and strengthen reporting of research success.

Strengthen International Research Networks

- ✓ Strengthen its support for universities and researchers to develop international networks and participate in research partnerships that improve Canada's access to leading-edge research.
- ✓ Make it easier for the best and the brightest researchers from around the world to work in Canada.
- ✓ Fulfill our commitment to devote 5 per cent of federal R&D to problems faced by the developing world, including in areas such as health and environmental technologies.

Encourage Private Sector R&D and Technology Adoption

- ✓ Build the right environment for private sector investment in R&D and technology.
- ✓ Introduce new programs to enhance existing support for technology development and adoption.

Accelerate the Commercialization of New Technologies

- ✓ Increase the commercialization capacity of established clusters of economic activity.
- ✓ Improve collaboration between university and private sector researchers.
- ✓ Strengthen the management and commercial capabilities of scientists and engineers.
- ✓ Implement new models for managing government laboratories to strengthen clusters of university and private sector research excellence.

POSITIONING CANADA AT THE CENTRE OF GLOBAL COMMERCE AND NETWORKS

Canada is a trading nation, with exports representing 40 per cent of our economy. That's more than any other G7 nation. But the global environment is continuing to change, with giants such as India and China becoming not only more important markets for our resources and goods, but also competitors in global supply chains. Canada must pursue an aggressive trade and investment strategy to help our companies—especially small and medium-sized firms—take greater advantage than ever of opportunities in global markets and position themselves in the high-end, value-added component of global supply chains.

The Plan focuses on the following fields of action:

Supporting open markets: Countries that are open to trade and investment are usually more innovative, productive and competitive than those that are not and they generally enjoy better economic growth, job creation and incomes. That is why Canada has been a long-time proponent of rules-based international trade in forums such as the World Trade Organization and through agreements such as the North American Free Trade Agreement. Among the nations of the world Canada has always been, and will continue to be, an ardent advocate for both free and fair trade.

Foreign direct investment: Canada is well on its way to becoming a net foreign investor for the first time in our history, making the protection of Canadian investors' interests in foreign markets more important than ever. At the same time, foreign investment in Canada will remain an important source of new technology, ideas and jobs.

Global business networks: Emerging economic giants offer dramatic market opportunities for Canadian firms from natural resources to environmental and other advanced technologies. To seize this potential, our firms, particularly small and medium-sized ones, will need export start-up help from government, including information on local business conditions, licensing, subcontracting and regulation.

World-class gateways: Countries are linked to their trading partners by “gateways” where land, marine and air transportation networks converge and, supported by advanced communications, connect centres of economic activity. The Windsor-Detroit corridor and key Pacific Coast transport facilities, among others, are essential to our future ability to expand trade with major markets. Another form of gateway—broadband communications networks—will be important in connecting all Canadians to new information and business opportunities anywhere in the world.

To help position our country at the centre of global commerce and networks, the Government of Canada will work to:

Open Canada to the World

- ✓ Review Canada’s tariff regime to improve competitiveness and attract investment—for example by reducing tariffs on manufacturing inputs—and pursue trade negotiations that open key international markets for Canadian business.
- ✓ Move forward on the Security and Prosperity Partnership of North America to make our societies safer and more secure, our businesses more competitive and our economies more resilient.
- ✓ Ramp up our Foreign Investment Promotion and Protection Agreement program to help our firms connect to global supply networks, especially with respect to priority markets such as India and China.
- ✓ Improve our trade and investment climate by concluding negotiations with the U.S. on tax treaty changes, reviewing Canada’s restrictions on foreign investment in the air transportation sector, and acting on the findings of the telecommunications review.

**To help position our country at the centre
of global commerce and networks, the Government
of Canada will work to: *(cont'd)***

Position Canada in Global Business Networks

- ✓ Develop a government-wide network of services and programs to identify opportunities in key emerging markets, showcase Canadian strengths and achieve results through successful commercial strategies.
- ✓ Increase trade promotion services, especially for small and medium-sized businesses.
- ✓ Further the integration of emerging economies into the global economy through bilateral initiatives and our leadership position in the G7 and G20.
- ✓ Work with Canadian businesses in emerging markets to promote issues of corporate social responsibility.
- ✓ Facilitate global market opportunities for Canadian companies to develop and deploy environmental technologies through the United Nations Framework Convention on Climate Change and other international processes.

Create World-Class Gateways

- ✓ Promote trade opportunities with emerging Asia-Pacific economies and the United States by supporting the further development of Canada's Pacific gateway and the Windsor-Detroit corridor through infrastructure investment and supporting policy initiatives.
- ✓ Explore further liberalization of Canada's air transport agreement with the United States and other countries.
- ✓ Improve access to global telecommunication networks by investing to better connect remote, rural and Aboriginal communities to broadband networks where private service is lacking.

BUILDING THE RIGHT INVESTMENT ENVIRONMENT

We live in a world where people and businesses are increasingly able to move to where they can obtain the greatest advantage. In this environment, the best way for government to support jobs, growth and prosperity is to create the right conditions for private investment and initiative.

The Plan focuses on the following fields of action:

Maintaining our fiscal advantage: Canada's dramatic fiscal turnaround—from 27 years of yearly federal deficits to 8 consecutive years of surplus—is no abstract achievement. It has helped hold our interest rates down to near historical lows, which, in turn, has led to increased private investment, greater economic activity and record job creation. With new challenges on the horizon, including increased spending pressures associated with an aging population, it is critical that the Government maintain its strong focus on fiscal discipline and debt reduction so that Canada has the flexibility to meet future needs.

Improving the competitiveness of our tax system: The tax system can have a direct and determining impact on incentives to work, save and invest. Canada needs to attract and retain the most highly skilled workers and to encourage all Canadians to take advantage of opportunities in the workplace to better their lives and those of their families. We must also encourage savings so that Canadians can aspire to home ownership, a comfortable retirement and higher education. Finally, in a global economy where capital is highly mobile, the tax system needs to be competitive to encourage the investments that create new economic activity, well-paying jobs and more productive and efficient business.

Promoting efficient regulations and financial markets: Regulations are essential to protect the health and safety of Canadians, support a clean environment and underpin a well-functioning market system that promotes saving and investment. They must also be constantly reviewed to ensure they are still serving the best interests of Canadians.

Strengthening Canada's economic union: The free movement of people, goods, services and capital across our country is vital to its economic strength and competitiveness. While progress has been made, there remain too many artificial barriers within our own borders to the mobility of our citizens and the movement of goods and services.

More work with the provinces and territories is required on a range of issues including the recognition of professional and trade qualifications and the more efficient regulation of securities.

Driving greater productivity in government: Getting government right is an important part of building the right environment for investment. The Government must constantly strive to make its programs and services as efficient and cost-effective as possible. It must also maintain the highest possible ethical standards and ensure that its operations are carried out in ways that enable Canadians to clearly see and assess what our government is doing and why.

Promoting energy efficiency and environmental sustainability: A sustainable economy depends on a sound environment. The Government of Canada has made substantial investments in support of a healthy environment and a competitive economy. Further measures consistent with the framework outlined in Budget 2005 will be implemented to promote energy efficiency, spur technological innovation and facilitate adaptation. Such measures will increase the efficiency, sustainability and international competitiveness of the Canadian economy.

**To help create the right environment for investment,
the Government of Canada will work to:**

Maintain Canada's Macroeconomic Advantage

- ✓ Maintain the Government's commitment to balanced budgets or better and its balanced approach to the allocation of surpluses—including unanticipated surpluses in excess of the Contingency Reserve—between debt reduction, tax relief and investments in key economic and social priorities.
- ✓ Keep the federal debt-to-GDP (gross domestic product) ratio on a downward track to create future fiscal flexibility to help deal with the pressures of an aging population, including setting a new objective of reducing that ratio to 20 per cent by 2020.
- ✓ Maintain low, stable and predictable inflation by extending the Government's inflation target agreement with the Bank of Canada for a further five years in 2006.

**To help create the right environment for investment,
the Government of Canada will work to: (cont'd)**

Improve the Competitiveness of Our Tax System

- ✓ Reduce personal income taxes at all income levels to make it more attractive for Canadians to join the workforce, to stay working and to save. In particular, the Government will focus on reducing marginal tax rates to improve incentives.
- ✓ Consult with provinces and territories to design and introduce an effective Working Income Tax Benefit to make work pay for low-income Canadians and help them achieve self-sufficiency.
- ✓ Ensure Canada has an internationally competitive corporate tax system. In particular, the Government's goal will be to reduce the impact of the tax system on investment; to establish a meaningful overall, or marginal effective tax rate advantage vis-à-vis the United States; and to make the tax system as neutral as possible with respect to business structure, financing and investment.
- ✓ Encourage Canadian investment abroad and foreign investment in Canada by, among other things, enhancing tax treaties with other countries and ensuring that those capital flows serve lawful and productive purposes.

Promote Regulatory and Financial Market Efficiency

- ✓ Reform the Government's regulatory system based on the principles of Smart Regulation.
- ✓ Reduce the paper burden on Canadian business by working with the private sector and other orders of government to minimize complexity and duplication.
- ✓ Ensure that the regulatory framework governing the financial sector, capital markets and pensions promotes soundness, efficiency and competitiveness, and serves the needs of individuals, businesses and the economy.
- ✓ Continue discussions with the provinces and territories on a single securities regulator and other approaches to achieve a new, enhanced system of securities regulation.

To help create the right environment for investment, the Government of Canada will work to: (cont'd)

Strengthen Canada's Economic Union

- ✓ Encourage provincial governments to implement tax reforms that enhance productivity, including eliminating provincial capital taxes and reforming retail sales taxes.
- ✓ Strengthen Canada's economic union through further development of the Agreement on Internal Trade with the provinces.
- ✓ With the provinces, enhance workplace-based skills development, including literacy, essential skills and apprenticeships.

Improve Productivity in Government

- ✓ Update the Government's expenditure management system to better link spending to achievements and improve the quality of information for Parliament.
- ✓ Further professionalize the public service by investing in learning.
- ✓ Strengthen internal audit and evaluation capacity across the public sector.
- ✓ Perform ongoing reviews of major portfolios to create a culture of expenditure review.

Promote Energy Efficiency and Environmental Sustainability

- ✓ Encourage the development and adoption of energy-efficient and environmentally sustainable technologies, situating Canada's industries at the forefront of a growing global market.
- ✓ Use market mechanisms to tap greenhouse gas reduction potential across the Canadian economy, spurring innovation at a national level.
- ✓ Encourage energy-efficiency improvements and other competitive structural changes for Canadian consumers, industry and governments.
- ✓ Use the Government of Canada's purchasing power to improve its environmental performance.
- ✓ Provide leadership in international fora to promote technology adoption, market development and international cooperation.
- ✓ Pursue other opportunities to use the tax system and other incentives to support environmental objectives.

THE WAY FORWARD

This Plan sets out a medium-term economic framework for action. There is no single initiative that can guarantee sustainable prosperity; it cannot be delivered in a single year or a single budget. Instead, just as with slaying the deficit, success will require a sustained effort, with an unremitting focus on results. As with the deficit, Canadians can be confident of success.

The federal government cannot do it alone. Success will require partnerships with the provinces, labour and business. The federal government is committed to working with the provinces across a wide range of initiatives that will affect Canadian prosperity.

Ultimately, Canadians will determine our success. And there are great reasons to be confident. Collectively, we have turned this country around since 1993 from laggard to leader among the major economies. We have unique strengths including our diverse and highly skilled population, openness to the world, immense natural resource potential and robust financial health. Most importantly, we retain the same adventurous spirit that built this great country and that can make this global opportunity our destiny.

The reward is clear: a quality of life second to none.