

Intelligence MEMOS



From: Peter Jarrett
To: All Canadians
Date: June 15, 2016
Re: **THE OECD'S ECONOMIC SURVEY OF CANADA:
BOOSTING PRODUCTIVITY AND INCLUSIVENESS**

In its latest Economic Survey, the Organisation for Economic Cooperation and Development (OECD) is optimistic about the short-term outlook for sustained economic growth with low inflation in Canada but is concerned about the financial stability risks emanating from the frothy Vancouver and Toronto housing markets, as well as the bloated size of the country's construction sector. The OECD urges policymakers to tighten macro-prudential measures further and to focus them on those two hotspot markets, as New Zealand did last year in similar circumstances in Auckland. The situation could be worse, however: the household sector's debt has almost stabilised relative to disposable income, balance sheets are in not-too-bad shape as assets have surged, and Canada's banking system has been prudent in its lending practices.

The Survey also supports the recent rebalancing in the macroeconomic policy mix towards greater reliance on fiscal policy, and less on monetary policy to boost demand in the current period of adjusting to lower resource prices and declining terms of trade, since the federal government is in a better position to take on more debt than households. The OECD also supports the thrust of how fiscal expansion is being implemented, with increased spending on physical infrastructure, social housing, education and innovation to help speed resource reallocation and promote longer-term growth and inclusiveness. The Survey applauds the greater efforts to make Canada's Indigenous Peoples full partners in the labour market and to share the fruits of growth with them. It points to the need to put an adequate price on carbon, given Canada's high emissions and its commitments to cut them by 30% by 2030, relative to 2005 levels.

Finally, it focuses on Canada's persistently weak productivity performance. While there are several potential explanations for this broad-based weakness, it is difficult to identify the most important. Among them are barriers to competition in some network sectors, a failure to achieve a fully integrated single market and a lack of small business dynamism. It recommends: reducing foreign ownership restrictions; expanding east-west electricity grid interconnections, and liberalising generation and distribution markets; reconciling remaining regulatory differences, including through reforming the Agreement on Internal Trade, to broaden its sectoral coverage and expedite its dispute resolution procedures; reviewing small business taxation, including the Small Business Deduction and the extra R&D tax credit; and, finally, phasing out remaining federal tax credits for Labour-Sponsored Venture Capital Corporations and instead potentially increasing investments in funds that operate like private limited partnership VC funds.

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