

The Advisory Council on Economic Growth — First Tranche Recommendations Spur Discussion

The Federal Finance Minister's *Advisory Council on Economic Growth* has released a series of recommendations aimed at increasing long-term economic prospects for Canada. This initial set of recommendations explored leveraging greater infrastructure expenditure, attracting foreign investment, and expanding immigration. The Council's four areas of focus are: (1) capital investment and infrastructure; (2) innovation; (3) talent and labour markets; and, (4) competitive markets, including trade. The Council plans to release additional recommendations related to these four areas before *Budget 2017*. In the Advisory Council's view, its first round of proposals plus its forthcoming suggestions could lead to an increase in real median household income of \$15,000 by 2030. In the absence of the measures yet to be announced, it is impossible to assess whether this goal is achievable. Nevertheless, as outlined below, this first set of recommendations represents far-reaching change for the federal Liberals to assess alongside their other commitments.

More and targeted infrastructure spending is recommended, recognizing the importance of leveraging institutional investors through the creation of a Canadian Infrastructure Development Bank (CIDB) as well as identifying commercializable types of infrastructure. Importantly, the Council recommends that infrastructure that is currently publicly owned be privatized if it is commercially viable in order for the funds raised to be recycled into new infrastructure projects. Equally important, the proposed CIDB would leverage up to \$160 billion in infrastructure funding from institutional investors on a suggested capital injection of \$40 billion from the Federal government, thereby generating \$200 billion in infrastructure spending over 10 years. Projects financed by the CIDB would be large, economically meaningful, and commercial.

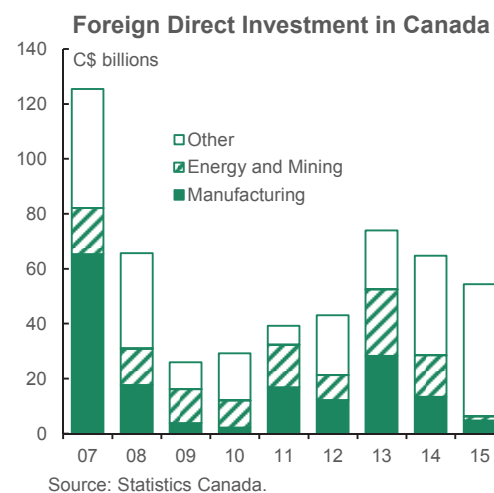
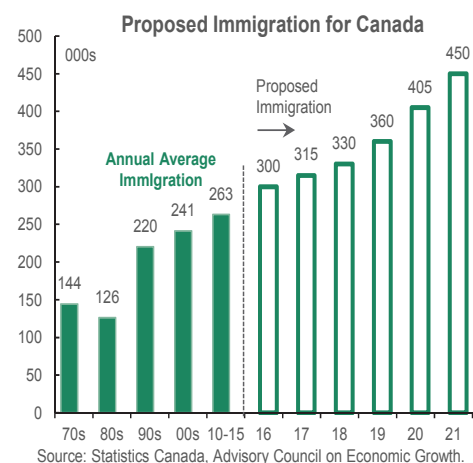
Bringing more foreign investment to Canada is urged, by developing a national FDI strategy to attract investments that boost innovation, help to commercialize new technologies, and expand our trading relationships. The Council urges the creation of an FDI agency that would focus disparate federal efforts to attract foreign capital and be accountable. As Canada's single point of contact for foreign investors, the agency must be supported with expertise on key target sectors and market opportunities, both nimble and focused on top FDI priorities during the initial years.

Attracting the talent Canada needs through increased and restructured immigration is proposed with four key recommendations: (1) raising annual permanent immigration from an estimated 300,000 in 2016 to 450,000 by 2021 with half the increase principal applicants, the other half family members; (2) facilitating seniority or specialized talents for the principal applicants to raise Canadian companies' global competitiveness; (3) qualifying more international students for permanent residency; and (4) improving national accreditation standards to help ensure that immigrants reach their economic potential, and to enhance mobility and choice for existing residents.

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These initiatives are well targeted to raising the two key elements of trend growth: productivity and population gains.

- Well-targeted and designed infrastructure projects can have significant economic payoffs with relatively limited fiscal impacts when leveraging private- sector financing. The CIDB proposal appears to have the potential to dramatically increase the funding available for large-scale and economically impactful projects in a budget-friendly manner. The Council's CIDB, however, is a considerably different proposal from the Liberal election initiative that focused on providing lower-cost funding for municipalities.
- Likewise, immigration has the potential to help close important skills gaps and mitigate the anticipated slowing in Canada's working-age population. The side benefits of a greater inflow of new workers also are significant, such as spurring bilateral trade between the immigrants' source countries and Canada.
- Increased foreign capital inflows have the documented advantages of introducing new technologies plus new management and process techniques and spurring greater international reciprocity.

Proposed Canadian Immigration Scenarios			
Annual immigration, 2021-30	450K	400K	350K
Annual population growth, %			
Baseline, 2016	0.90	0.90	0.90
Immigration impact	<u>0.27</u>	<u>0.18</u>	<u>0.09</u>
Revised population growth, 2021-30	1.17	1.08	0.99
Cumulative new residents by 2030, mn	1.7	1.2	0.6
Seniors' dependency ratio, Seniors as % of working-age population			
Baseline, prior forecast for 2030	37.30	37.30	37.30
Immigration impact	<u>-1.56</u>	<u>-1.06</u>	<u>-0.53</u>
Revised dependency ratio for 2030	35.74	36.24	36.77

Source: Advisory Council on Economic Growth, October 20, 2016.

The Council's proposals respond to current and future weaknesses in Canada's performance. For example, the Council cites the 2% growth in Canada's stock of foreign direct investment, compared with the OECD's 7% pace. Over the past five years, just over half of Canada's FDI deals have involved greenfield projects (as opposed to brownfield or takeover projects) compared with more than two-thirds in the nations identified by the Council as having best practice FDI agencies.

The underlying assumptions behind the Council's recommendations are ambitious. A national FDI strategy is premised on provincial and municipal collaboration, subjugating existing individual economic development strategies and promoting national rather than specific regional targets. As new national FDI structures are developed, redundant assets would be removed. The recommendations reverse some recent practices, such as the Trudeau government's greater attention to refugees and overseas family members. On infrastructure, the Council's agenda for major projects must be melded with Trudeau's election promise of three pillars: public transit, social infrastructure and green infrastructure.

The considerable time and effort to effectively implement far-reaching recommendations are recognized. The suggested ramp-up in Canada's immigration is just 15,000 annually in 2017 and again in 2018 to accommodate the required institutional changes. As governments and Canadians discuss the Council's proposals, Ottawa's *Economic and Fiscal Update* on November 1 is expected to offer an update on the government's initiatives and discussion of the path forward alongside updated five-year economic and fiscal estimates. Specific policy announcements in the *Update* are probable.

The Council's recommendations join the government's other initiatives, plus its election promises, on the drawing board for *Budget 2017*. True to its mandate to provide a bold vision, the Council's far reaching proposals, their impact and their synergy with the federal Liberals' existing commitments, now must be assessed. The scope of the Council's proposals add other issues to the table that require prioritization, such as a corporate tax review that levels the playing field between goods producers and services. Some longstanding hindrances, such as interprovincial trade barriers, demand attention for the full benefit of the Council's new initiatives to be realized.

As national discussion proceeds, the buy-in of Canada's business community to the Council's vision is critical. Businesses across Canada will be key in securing these changes to achieve stronger growth, and the expansion envisioned by the Council is not 'business as usual'.

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