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The Canadian Chamber is committed to fostering a strong, competitive, and profitable economic environment that benefits all Canadians. This compilation is made up of executive summaries from a series of independent research reports written by Tina Kremmidas, Chief Economist at the Canadian Chamber of Commerce on key public policy issues facing Canada today.

We hope these analyses will raise public understanding and help decision-makers make informed choices. The papers are designed not to recommend specific policy solutions, but to stimulate public discussion and debate about the nation's challenges. The full reports are available at chamber.ca

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Introduction

There is general agreement in the international scientific community that reducing the buildup of greenhouse gas (GHGs) emissions in the atmosphere is fundamental to mitigating climate change. As the 2012 expiration date of the Kyoto Protocol draws near, formal negotiations on a successor agreement have started under the auspices of the United Nations Framework Convention on Climate Change and its Kyoto Protocol.

Canada is fully committed to advancing the international effort to address climate change. Total GHG emissions in Canada increased from 596 million tonnes in 1990 to 747 million tonnes in 2005 (the last year for which figures are available) – a 25.3 percent increase. Carbon dioxide (CO₂) is by far the most common GHG emitted (accounting for 78 percent of greenhouse gas emissions in Canada), followed by methane (15 percent) and nitrous oxide (six percent). In 2005, Canada's carbon intensity – the amount of CO₂ emitted per unit of economic output (GDP) – was among the highest in the OECD (see Figure 1). Canada is also among the top ten OECD countries in terms of per capita emissions of CO₂ (see Figure 2).¹

Canada has traditionally used a regulatory approach to achieve environmental objectives. This approach favours the use of emissions standards or technology-based standards. At the heart of the current debate are two alternative, market-based (price) mechanisms – a 'carbon tax' and 'cap-and-trade' system. This paper analyzes each from an economic policy perspective. It does not analyze any specific proposals put forward by political parties.

The paper concludes that market-based mechanisms achieve environmental goals in a more efficient and effective manner than traditional regulation. The reason: they create incentives for emissions reductions – by making it more costly to emit GHGs and air pollutants, they discourage the burning of fossil fuels (like coal, oil, and natural gas) and encourage use and development of clean, renewable energy (like wind, solar and geothermal power). Consumers and producers have a greater incentive to use

energy more efficiently.

With a carbon tax, the government establishes a direct price on carbon emissions and allows the market to determine the resulting quantity of emissions.² A carbon tax has the advantage of providing predictable long-term pricing and; therefore, greater certainty regarding costs, making business planning and decision-making easier (price certainty is a better driver for innovation and investment than price uncertainty). A carbon tax can be implemented quickly utilizing the existing tax collection and administrative infrastructure. However, there is uncertainty about the quantity of total emissions.

With a cap-and-trade system, the government establishes a target quantity of emissions and issues tradable permits to firms (the total of which matches the target) allowing the market to determine the price for permits. This approach is more politically attractive (it's not a new tax); however, price uncertainty can make business planning difficult. Prices for emissions permits can be unstable and unpredictable. Transaction costs are higher compared to a carbon tax reflecting the need to develop and put in place a new institutional infrastructure, including an extensive tracking/administrative system, along with rigorous and consistent penalties for enforcement of fraud or noncompliance.

Revenues generated from a carbon tax or a cap-and-trade system (if emissions permits are initially auctioned by government and not distributed free of charge) should be returned to taxpayers through reductions in personal and corporate income taxes. This revenue-neutral policy would shift taxation away from work, savings, investment and corporate earnings toward environmentally harmful activities. It would enhance the overall efficiency of Canada's tax system. Moreover, it would help ensure that Canada remains competitive in the absence of similar climate change initiatives in other countries.

1 Playing a role are the large size of the country, low population density, high energy demand imposed by the climate, a resource-based economy, and the high volume of goods exported. (Source: Statistics Canada. 2008. Catalogue no. 16-201-X. April).

2 Since carbon dioxide (CO₂) is the most abundant GHG, reducing carbon emissions is a central objective.



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Immigration: The Changing Face of Canada

Policy Brief, February 2009

Introduction

Canada is an immigrant-rich nation. Immigrants have contributed greatly to the development and cultural fabric of our country. With an aging population and a declining birth rate, Canada (like most of the developed world) is increasingly relying on immigration to enhance and grow its workforce. Immigration now accounts for more than 70 percent of net growth in the labour force and Statistics Canada projects that by 2011 it will account for 100 percent of that growth. The mix of our nation's skills, education and productivity is increasingly determined by the attributes of foreign-born individuals.

According to the most recent census, the number of immigrants in Canada reached almost 6.2 million in 2006 and constituted 19.8 percent of the population. The ethnocultural diversity of our nation is reflected in the over 200 ethnic groups present in our country. Once a country dominated by migration from European nations, today the most significant flows come from Asia, including the Middle East. A demographic and ethnocultural revolution is taking place in Canada.

Ethnic networks – family and friends – largely determine where immigrants settle. Large metropolitan areas like Toronto, Montréal and Vancouver are magnets for newcomers. More recent arrivals¹ are also heading for a new set of 'emerging gateways' – smaller metropolitan areas. Immigrants are also settling in the outlying suburban areas, a decided shift from past preferences for the urban core. In short, immigration is bringing change to communities and is putting considerable stress on our cities' social and physical infrastructure, including public transit, education services, and housing. Meeting the needs of an increasingly diverse population presents significant challenges for many of Canada's cities.

Immigrants look to Canada for opportunities to gainfully employ their skills and talents to achieve a better future for themselves and their families. If

they are unable to utilize their skills and contribute productively, both their expectations and those of the host country are not fully realized. In light of this, there is considerable concern regarding the deteriorating economic situation of recent immigrants. In 2006, the national unemployment rate among recent immigrants was more than double that of the Canadian-born population. Even though the marketplace is demanding highly educated employees,² the unemployment rate of recent immigrants with a university degree was four times the rate of university-educated, Canadian-born individuals.

Recent immigrants are earning considerably less compared to non-immigrant Canadians and the gap is wider than at any time during the last quarter century. The economic position of recent immigrants has also deteriorated relative to immigrants that arrived in Canada in earlier years.

Labour market integration and utilization of immigrants remains a significant challenge and an important policy objective. Once in Canada, complex credential assessment and recognition requirements keep many foreign-trained professional and tradespeople from putting their skills to work. Faced with having to incur costs to repeat their studies or undertake further training, some simply give up, resulting in a significant productivity loss to Canada. These barriers create significant costs not only for the immigrants and their families, but also for the government, businesses and the economy as a whole.

Canada has much to gain from allowing its immigrants to realize their full potential and much to lose from failing to do so. A sweeping examination of the economic implications and realities of Canada's immigration policy is required, a subject that has not received sufficient attention.

1 Those that arrived between January 1, 2001 and May 16, 2006, the focus of the 2006 Census.

2 According to the Association of Universities and Colleges of Canada, the number of jobs filled by post-secondary education graduates doubled from 1.9 million in 1990 to 3.8 million in 2006. During the same period, jobs for those without post-secondary education declined by 1.3 million.



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Global Governance: Meeting the Challenges of the 21st Century

Policy Brief, March 2009

Introduction

The deepest, broadest, and most persistent financial crisis in decades has the world in its grip. It has taken a significant toll on consumer and business confidence, and led to a sharp slowing in global economic activity. Much of the developed world (including Canada) is in recession and the slowdown is spreading to major emerging and developing economies.

In a recent speech, OECD Secretary-General Angel Gurría stated: “The only way out from this crisis is multilateral co-operation. But the world economy has changed to such an extent in the last years that we need a new type of multilateralism, more inclusive global governance.”¹

He added: “It is time to change. It is time to re-write the rules of a more reliable and balanced globalization. But this will not only require better

international organizations and better global governance; this will also demand a change of mind, a change of culture.”²

This paper focuses on the role of global steering committees and multilateral institutions in governing the global economy, and the increasing calls for their reform. It highlights some of the major challenges facing the world and the opportunity presented by the upcoming (April 2nd, 2009) G-20 Leaders Summit to cement change. Lastly, it concludes that Canada is in an excellent position to assume a leadership role to drive change.

What is Global Governance?

Global governance is a process of cooperative leadership that brings together national governments, multilateral public agencies, and civil society to achieve commonly accepted goals. It provides strategic direction and then marshals collective energies to address global challenges. To be effective, it must be inclusive, dynamic, and able to span national and sector boundaries and interests. It should operate through soft rather than hard power. It should be more democratic than authoritarian, more openly political than bureaucratic, and more integrated than specialized.

Examples of multilateral institutions that mold economic and political relations are the United Nations (UN) and its Security Council, the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO). Each of these organizations pursues its own objectives and priorities, according to its mandate.

The lack of a comprehensive system of oversight has been filled by a succession of ad hoc groups of states that act as a steering committee for the world economy, for example, the Group of Seven/Eight (G-7/8) Heads of State, and the Group of Twenty (G-20) finance ministers and central bank governors.

Source: Boughton, James M., and Colin I. Bradford, Jr. “Global Governance: New Players, New Rules.” *Finance & Development*, volume 44, number 4. International Monetary Fund. December 2007.

¹ Remarks delivered at the seminar in the Finnish Institute of International Affairs. Helsinki, Finland. January 19, 2009
² Ibid.



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Canadian Energy: A Valuable Resource

Policy Brief, May 2009

Introduction

The International Energy Agency (IEA)¹ predicts world energy demand will rise 1.6 percent a year (on average) between 2006 and 2030, and that by 2030 the world will consume 45 percent more energy than it does today. Most of the demand growth (87 percent) will come from non-OECD countries reflecting more rapid economic expansion and population growth.

It is projected that North America will consume 20-25 percent more energy by 2030. With global demand projected to grow more rapidly, securing energy supplies is more important and desirable than ever. Meeting this challenge will require sound management and strategic planning. To this end, the Canadian Chamber of Commerce is bringing together energy producers, large end-users and energy service/product providers to develop a comprehensive energy strategy that promotes a diverse supply of reliable, affordable and environmentally sound energy; provides for the most efficient and economical use of energy; helps stimulate the development and deployment of new energy technologies; and recognizes that we live in a world of energy interdependence. The consultations will culminate in a paper containing key policy recommendations slated for release in the fall of 2009.²

Pertaining to the energy strategy paper, this report provides an overview of currently available energy sources in Canada and highlights the energy sector's importance to the economy.³



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- 1 International Energy Agency. *World Energy Outlook 2008*. November 12, 2008.
- 2 This report was released on October 3, 2009: *Powering up Canadian prosperity: Realizing the energy sector's potential and ensuring continued access to a stable, secure, clean and flexible supply of affordable energy*. <http://www.chamber.ca/index.php/en/policy-and-advocacy/C71/>
- 3 Various sources were used in preparing this report including the private sector, international organizations, industry associations, and government agencies and departments. Every effort is made to present the most recent available data; however, there are lags in data collection and reporting.

The Tug of War Between Deflation and Inflation

Policy Brief, July 2009

Introduction

The global recession that ensued from a massive financial crisis and acute loss of confidence has been unprecedented both in terms of its severity and high degree of synchronicity. Worldwide, demand slumped and trade plummeted resulting in a considerable degree of economic slack that has kept downward pressure on prices. Headline inflation has fallen dramatically in advanced economies, and in many countries it has dipped below zero.

Total inflation in Canada - measured in terms of the rate of change in the Consumer Price Index (CPI) year-over-year - has declined sharply, and in June fell into negative territory. Excluding the most volatile components of the Index¹, the core rate of inflation has remained well anchored and in-line with the Bank of Canada's operational target (1 to 3 percent).

Deflation concerns are growing as consumer prices shrink. Deflation is defined as a sustained drop in the general level of prices as measured by an index of consumer prices. This decline affects most (if not all) prices in the economy, and is entrenched in expectations. Deflation should not be confused with disinflation, which is a slowing down in the rate of price increases. Conversely, inflation is a persistent rise in the average level of prices.

To combat the risk of deflation, central banks around the world (including the Bank of Canada) have aggressively cut interest rates to stimulate aggregate demand. Central banks also introduced bold and innovative measures to provide the market with much needed liquidity to kindle the flow of credit. Governments have committed substantial fiscal stimulus focused on spending and targeted tax cuts.

This massive fiscal and monetary stimulus has led many observers to warn that rampant inflation, not deflation, is what we need to fear once economic recovery takes hold.

The tug of war between deflation in the near term, and rampant inflation down the road, is still very much in question. We believe neither will materialize in Canada.

¹ Fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, intercity transportation, and tobacco products as well as the effect of changes in indirect taxes on the remaining components.



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Introduction

Canadians have headed to the polls three times since 2004 in a federal general election, resulting in a minority government each time. “Canada’s 5 year experiment with minority government appears to have sparked a desire for majority governments to return.”¹ In a recent Harris/Decima poll, 64 percent of Canadians preferred the majority option, while 24 percent favoured the election of a minority government next time around. Election fatigue may be setting in.

Only 58.8 percent of eligible Canadian voters cast a ballot in the October 14, 2008 federal election, a historic low. In the January 23rd, 2006 general election, 64.7 percent of registered voters participated. Voter turnout has declined significantly since 1988 after fluctuating around 75 percent over the 1945 to 1988 period. (see Chart 1). Canada is not unique in this regard. Voter turnout has been declining in many industrialized countries. “Democracy is based on the right of citizens to participate in making the decisions that affect them and in determining the rules by which they agree to live together. These fundamental rights find full meaning only when citizens engage, as actively as possible, in public life. The act of voting is an essential manifestation of the engagement.”²

The decline in turnout in successive elections has generated concern about the health of the democratic political system – “the extent of the democratic mandate that governments might claim, for the kinds of candidates who are elected and even for the types of issues that are discussed.”³

This paper examines the forces that drive voter participation – institutional, socio-economic and demographic. Without an understanding of these factors, “the problem of low voter participation could continue to plague the political system for years to come.”⁴ This paper also explains how elections are financed in Canada.

- 1 Harris/Decima. « Canadians Say It’s Time for a Majority Government ». Le 12 juillet 2009.
- 2 Élections Canada. « Les jeunes et les élections », *Perspectives électorales*. Vol. 5, n^o 2. Juillet 2003.
- 3 Elections Canada. “Confronting the Problem of Declining Voter Turnout Among Youth.” *Electoral Insight*. Vol. 5. No.2. July 2003.
- 4 Ibid.



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Economic Outlook 2010: On The Road To Recovery Policy Brief, October 2009

Policy Brief, December 2009

Introduction

The global economy is transitioning from recession to recovery. The recovery is spurred by the unprecedented actions of policymakers around the world to stabilize the global financial system, unfreeze credit markets and restore credit flows. Their extraordinary efforts have resulted in a marked improvement in global financial conditions. Additionally, massive fiscal stimulus is providing the global economy with much needed traction.

Global trade volume has stabilized, share prices have rebounded, commodity price indices are trending up, consumer and business confidence is gradually returning worldwide, and there are signs of stabilization in the distressed U.S. and UK housing markets.

The economic climate improved in all major economic regions in the fourth quarter,¹ but economic performance varies widely among regions. Emerging-market economies, China and India in particular, have returned to remarkably high growth rates (8.9 percent and 7.9 percent, respectively in the third quarter). Other emerging economies hit hard by the financial crisis, especially those in Eastern Europe, are still struggling. All G7-member nations have pulled out recession with the exception of the UK. Latin American countries are experiencing uneven patterns of economic activity.

While large economic contractions have usually been followed by robust economic expansions, the pace of renewed global activity will be much slower this time around reflecting the deep and lasting damage caused by the financial crisis. On a global basis, \$50 trillion dollars in wealth evaporated between the fourth quarter 2007 and the first quarter 2009,² and some 40 million people have lost their jobs.³ Inevitably, this has led to declining demand worldwide.

Overall, the International Monetary Fund (IMF) projects the global economy will grow 3.1 percent in 2010.⁴ This is moderate by historical standards.⁵ The IMF predicts emerging-market economies will contribute 70 percent to the growth of global economy in 2010, compared to 30 percent for advanced economies.

For the Canadian economy, the implications are significant. Canadian exporters will face constrained demand for their goods and services in traditional export markets – the U.S. (where 73 percent of Canadian merchandise exports are destined), and the European Community (where nine percent of Canadian exports are destined). Domestic demand will be the main engine of growth in 2010.

Overall, the Canadian economy is projected to grow at a modest pace (2.6 percent, year-over-year) in 2010 before ramping up to 3.3 percent in 2011. As with all forecasts, ours are subject to inherent risks and uncertainties which are so prevalent.

- 1 See International Chamber of Commerce (ICC) and Ifo Institute for Economic Research. "Clear Improvement in the Ifo World Economic Climate." *Press Release*. November 19, 2009.
- 2 Remarks by Lawrence H. Summers, Director of the National Economic Council. "Responding to an Historic Economic Crisis: The Obama Program." Brookings Institution. Washington, DC. March 13, 2009.
- 3 International Labour Organization (a specialized agency of the United Nations). "ILO says job losses are increasing due to economic crisis." *Press Release*. May 28, 2009.
- 4 International Monetary Fund. "World Economic Outlook: Sustaining the Recovery." October 2009. The IMF predicts growth of 5.1 percent for emerging and developing economies as a whole, and 1.3 percent for advanced economies.
- 5 Global GDP growth averaged about 5.0 percent per year from 2004 to 2007. Its long-run average is 3.7 percent.



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Downturn, Recovery and the Future Evolution of the Labour Market

Policy Brief, February 2010

Introduction

Economic downturns draw attention to labour market conditions that directly affect the economic well-being of Canadian workers and their families. Concern is naturally focused on the decline of job prospects and the increase in unemployment. Beneath the headlines, however, an interesting picture of the dynamics of the labour market emerges.

To provide a more complete understanding of the effect of the recession, this paper examines the performance of Canada's labour market in 2009 (year-over-year changes in employment levels between December 2008 and December 2009) across a range of demographic categories, industries and regions. It compares recent employment trends with past recessions and finds some stark differences. The paper also draws attention to the principal forces – changing demographics, globalization and technological innovation – shaping the future workforce and workplace and their implications for the size and composition of the workforce. Lastly, it focuses on initiatives that could help to ease the projected slowdown in the working-age population in the coming years.



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Embracing a Growth-Oriented Tax System

Policy Brief, April 2010

Introduction

Advances in communications and information technologies and the liberalization of trade and investment policies are accelerating the pace of global economic integration. Skilled workers, businesses and capital move easily across national boundaries, seeking the best economic opportunities. In response, even as the recession ravaged public finances, many countries have continued to overhaul their tax systems to improve their global competitiveness.

According to PricewaterhouseCoopers and the World Bank Group, between June 2008 and June 2009, 45 economies reduced the tax burden, broadened the tax base and/or made it easier to pay taxes, a 25 per cent increase from the previous year.¹

In recent years, Canada has moved to meet the challenge with a remarkable transformation in the business tax landscape. Federal and provincial business taxes have been substantially reduced, with further changes legislated. By 2012, Canada will have the lowest statutory corporate income tax rate in the G7 group of industrialized nations. It already has the lowest effective tax rate on new business investment in the G7. These measures have made Canada a more attractive location for new investment and have helped existing businesses compete.

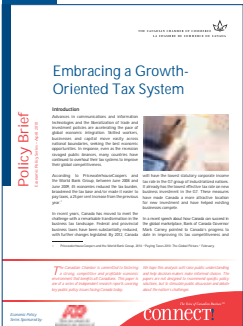
In a recent speech about how Canada can succeed in the global marketplace, Bank of Canada Governor Mark Carney pointed to Canada's progress to date in improving its tax competitiveness and encouraging trade openness. According to Mr.

Carney, "staying the course in these regards is likely the single most important contribution of the public sector."²

As Canada emerges from a global recession, its political leaders are searching for strategies to balance the books. It is crucial that the government refrains from hiking taxes or renegeing on promised corporate tax rate reductions. International competition is intensifying by the day. If Canada turns back now, as other countries continue to improve their tax competitiveness, it will fall behind.

Reining in spending and improving efficiencies as the recovery takes hold will enable the federal government to eliminate deficits over the medium-term and regain the fiscal flexibility to tackle areas that are crucial to Canada's long-term competitiveness, including high marginal personal income tax rates (especially as they apply to individuals with modest incomes) that reduce the incentive to work, save, invest in human capital and act entrepreneurially.

A long-term strategic and comprehensive tax reform plan is needed to achieve strong economic growth and prosperity. This paper focuses on a few key areas in need of improvement.



- 1 PricewaterhouseCoopers and the World Bank Group. 2010. "Paying Taxes 2010: The Global Picture." February.
- 2 Remarks by Bank of Canada Governor Mark Carney, to the Ottawa Economics Association. Ottawa: March 24, 2010.

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