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OPINION

Post-pandemic euphoria will not last

By DAVID CRANE (/AUTHOR/DAVID-CRANE) JULY 5, 2021

Pre-pandemic problems will remain and we have few ideas on how to put Canada on a better course for the longer-term future—one that generates the jobs and wealth to sustain a more productive, sustainable, and equitable society.



Improving productivity performance even by slight amounts can bring big benefits. Raising the rate of productivity growth by just 0.1 percentage point a year over the next decade, from 1.5 per cent to 1.6 per cent, would boost output by \$23-billion in 2030, and accumulate output by \$121-billion over the decade, writes David Crane. *Photograph courtesy of Pixabay*

TORONTO—No matter how rosy things may look as the pandemic lockdown draws to a close and shoppers rush out to spend, that should not be taken as sign that we are on the road to a new era of economic gain. After a period where shoppers found themselves locked in, spending is one way to feel liberated.

But the post-pandemic euphoria will not last, pre-pandemic problems will remain and we have few ideas on how to put Canada on a better course for the longer-term future—one that generates jobs and wealth to sustain a more productive, sustainable, and equitable society. Our economy is projected to underperform over the next decade and unless we do better, we will not be able to support many of the things we want to do as a country. Once the shopping spree is over, the tough problems will still be there.

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So where do we start in putting Canada on a course to do better? First we need much better analysis of the big challenges we face and new ways to generate the best ideas to put us on better course. Wishful thinking is not enough. And aspirations are just aspirations. This is why we are hearing calls for a new economic council that can tackle the big and tough challenges we face.

Jim Balsillie, chair of the Council of Canadian Innovators, the association representing Canada's tech companies, recently called for creation of such a council to address our major challenges. Now, Don Drummond, a former senior official with Finance Canada and later the chief economist for the TD Bank Group, is calling for an Equitable Growth Institute in a new paper published by the Centre for the Study of Living Standards in Ottawa. In fact, Drummond says, "it has been decades since there has been a comprehensive, multi-year policy research effort." What Canada needs is "strategic policy advice" that will move us closer to better policies to deal with poor productivity growth, better income distribution and a clear path to net zero emissions.

With a projected annual growth rate in the range of just 1.5 per cent a year over the next decade, this will not be enough to sustain or improve living standards, or generate the revenues needed for the three levels of government to meet the public goods, including health and education, we want. Unless we do better, we could face a higher level of public debt, a fiscal policy of austerity, and a recourse to a lower exchange rate for the dollar, which would make us poorer, as well as a growing level of foreign debt to finance our chronic current account deficit. Think 1993-1995.

As Drummond points out, our weak growth rate is due to slowing labour force growth and our poor productivity performance. While we can do some things to boost labour force growth—more immigration, more flexible work arrangements so older Canadians can keep on working, measures to enable more Indigenous Canadians and others to participate in the labour force, for example—much of the focus will have to be on finding ways to boost productivity through innovation. We also need better analysis of the future of work in a digital economy.

Since 2000, Canada has ranked 25th out of 36 countries in productivity performance. Our output per capita is 11.4 per cent below the eurozone average and 26.6 per cent below the U.S. Moreover, our measly productivity performance has come mainly from increases in machinery and equipment "rather than what might be thought of as innovation," Drummond says.

Improving productivity performance even by slight amounts can bring big benefits. Raising the rate of productivity growth by just 0.1 percentage point a year over the next decade, from 1.5 per cent to 1.6 per cent, would boost output by \$23-billion in 2030, and accumulate output by \$121-billion over the decade, with 30-40 per cent of the gain flowing into the government sector, Drummond estimates, pointing out that "these 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 health care and pensions from the aging population."

In addressing the productivity challenge, the council would have to pursue why we have so few industries at the global productivity frontier. The council, Drummond argues, could investigate "what is often called the 'Valley of Death' in firm growth in Canada." While Canada is good at creating new businesses, "they tend to grow fairly rapidly at first, but then they stall or sell out once

reaching a certain size. This is anti-growth and anti productivity as productivity tends to be higher in larger firms.”

With growth we also need fairer distribution of the gains. Canada has halted the increase in income inequality since the early part of the last decade but as Drummond points out, “little progress has been made since in narrowing inequality.” Canada ranks 18th out of 37 countries in inequality of income after taxes and government transfers.

Climate change and the transition to net zero emissions of greenhouse gases by 2050 is another great challenge—with Canada lacking a plan to reach the government’s goal of reducing emissions by 40–45 per cent by 2030, compared to 1990. How do we achieve this while pursuing stronger economic growth?

Indeed, there is no shortage of tough questions. I have been arguing for some time that establishing some kind of publicly funded economic council, operating at arm’s length from government and publishing all of its research, would do much to elevate public understanding of the challenges we face and lead to better policy to make us a more prosperous, equitable and sustainable country.

Drawing on the best minds in the country, and bringing together the many different communities that collectively constitute Canada to work together for a better Canada, would be one of the best investments we could possibly make. So let’s do it.

David Crane can be reached at crane@interlog.com (mailto:crane@interlog.com).

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(https://www.hilltimes.com/2021/07/12/feds-2035-green-cars-promise-leaves-unanswered-questions-say-auto-associations/305667)The government announced a 'mandatory target' on June 29: that only zero-emission vehicles would be sold in Canada by 2035.

Men on a mission: how two Conservative MPs changed Canada's laws the hard way, twice (https://www.hilltimes.com/2021/07/12/men-on-a-mission-how-two-conservative-mps-changed-canadas-laws-the-hard-way-twice/305884)

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(https://www.hilltimes.com/2021/07/12/men-on-a-mission-how-two-conservative-mps-changed-canadas-laws-the-hard-way-twice/305884)Len Webber and Matt Jeneroux changed Alberta's laws around organ donation and caregiver leave in 2013. Then they got elected to Parliament and did it for Canada.

High-frequency rail project an appeal to Liberal base, climate-conscious voters, say ex-Grit aides (https://www.hilltimes.com/2021/07/09/high-frequency-rail-project-an-appeal-to-liberal-base-climate-conscious-voters-say-ex-grit-aides/305935)

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(https://www.hilltimes.com/2021/07/08/roseanne-archibald-wins-afn-national-chief-race-after-fifth-ballot/305700)RoseAnne Archibald says First Nations will 'honour the little ones that are being recovered across this country' and that she will work to ensure the Truth and Reconciliation Commission's Calls to Action are implemented.

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Increasing unaffordability in Canada's red-hot housing market a 'national emergency,' says NDP's Kwan

(https://www.hilltimes.com/2021/07/07/increasing-unaffordability-in-canadas-red-hot-housing-market-a-national-emergency-says-ndps-kwan/305415)

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(https://www.hilltimes.com/2021/07/07/increasing-unaffordability-in-canadas-red-hot-housing-market-a-national-emergency-says-ndps-kwan/305415)Both the federal government and economists are watching housing prices closely after a massive spike in average home prices in March.

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(https://www.hilltimes.com/2021/07/07/so-long-for-now-munson-retires-from-the-senate-after-17-years/303702)Ontario Senator Jim Munson's time in the Red Chamber officially ends on July 14, and while it was a job he'd never anticipated, he says he's 'enjoyed every moment.'

With McKenna out, NDP sees opportunity to recapture Ottawa Centre

(https://www.hilltimes.com/2021/07/07/with-mckenna-out-ndp-sees-opportunity-to-recapture-ottawa-centre/305116)

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(https://www.hilltimes.com/2021/07/07/with-mckenna-out-ndp-sees-opportunity-to-recapture-ottawa-centre/305116)Ottawa Centre has historically flipped between the Liberals and the NDP at both the federal and provincial levels.

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(https://www.hilltimes.com/2021/07/07/moon-shot-cant-be-the-final-frontier-for-canadian-space-program-say-sky-watchers/304122)

NEWS | By ALICE CHEN (HTTPS://WWW.HILLTIMES.COM/AUTHOR/ALICE-CHEN)



(https://www.hilltimes.com/2021/07/07/moon-shot-cant-be-the-final-frontier-for-canadian-space-program-say-sky-watchers/304122)With a focus on lunar exploration, it's an 'exciting time' for the Canadian space sector, but there's room for more government engagement, intervention, and communication to boost the industry, say stakeholders.

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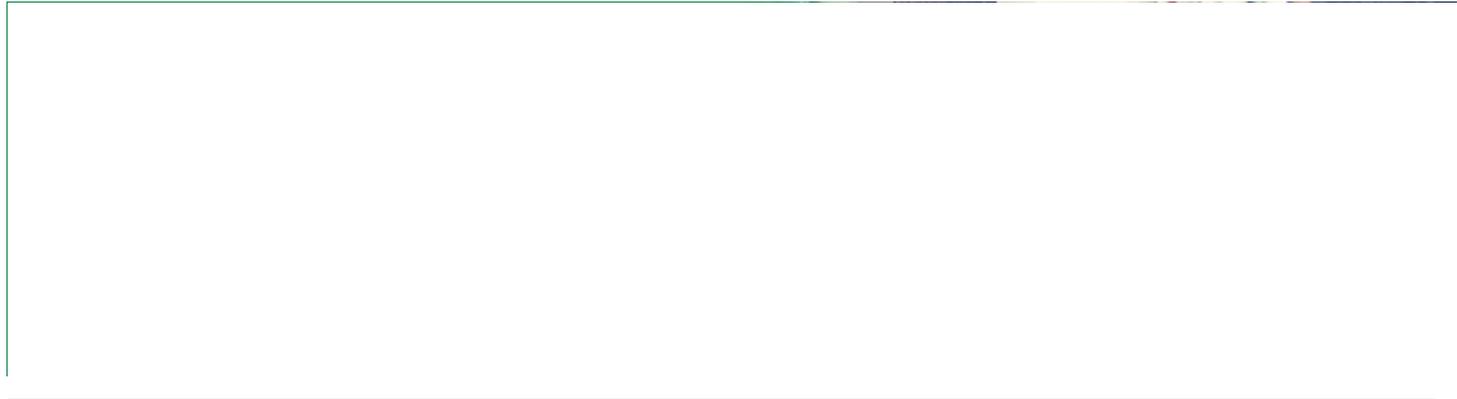
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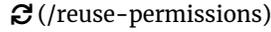
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