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Investing in Canadian Workers for a Brighter Economic Future

Evan Brander

**University of Toronto School
of Public Policy and
Governance**

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The IRPP's *Canadian Priorities Agenda* project is the inspiration for the capstone seminar in the master's in public policy program of the School of Public Policy and Governance at the University of Toronto. The course is offered in an intensive format as a core requirement in the final semester of the two-year program. *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-Being* is the basic text for the course. It is supplemented by readings chosen by the instructors and guest presenters. The students take the role of judges, and for their final assignment they write a 5,000-word paper modelled on the judges' reports in the original project, in which they have to make the case for an agenda comprising five policies selected from options presented in the course. Every year the instructor selects the best student paper, and the IRPP posts it on its Web site.

CANADIAN PRIORITIES AGENDA

INVESTING IN CANADIAN WORKERS FOR A BRIGHTER ECONOMIC FUTURE

Evan Brander

A number of changes are occurring in the Canadian workforce that threaten the future prosperity of Canadians. By making key investments in our labour force today, the Government of Canada will ensure that Canadian workers are prepared for this changing economic context. This policy agenda will work to build a Canadian labour force with the people and the skills needed to help the Canadian economy thrive in the future. The proposed changes will help Canadian workers to be more productive and innovative. A more productive workforce will lead to a Canadian economy that is globally competitive, and that improves the prosperity and well-being of all Canadians.

The Canadian labour market is already facing and will continue to face two major transitions. First, the labour force is experiencing a demographic transition. The Canadian workforce is aging and there are fears that not enough workers will be available to fill positions being left by baby boomers. Many new workers will be needed to meet labour demand in coming years. Canadian policy makers should look within and outside of Canada to attract new workers to the labour force.

The second major transition facing the Canadian workforce is a shift in labour demand. As the knowledge economy grows, there is greater need for workers with strong human capital. Canadian businesses require workers with higher levels of education and more specialized skills to help them succeed in increasingly competitive global markets.

Failure to address these challenges would leave Canadian workers without the skills they need to be successful in tomorrow's economy, and labour shortages caused by a high dependency ratio would drive up labour costs and hurt business competitiveness. Ultimately, this would reduce our future growth, harm Canadian prosperity and reduce Canada's position as a leading nation in the world. The following policy agenda would work to prevent this outcome by starting now to build the labour force Canada will need to compete in the future.

The proposed policy agenda starts in the earliest years of the lives of young Canadians to build a strong foundation for future success. It would assist Canadian students in making important decisions in their lives about the human capital they will acquire to help them achieve their career goals. The policies would ensure that immigrants coming to Canada achieve success by matching their skills to the needs of Canadian employers. Finally, the policy agenda would help businesses to make their workers amongst the most productive in the world. This would mean that Canadians could produce more, without having to work longer or harder. The policy agenda as a whole would work to build a productive, highly skilled workforce that will drive Canada's future economy and improve the prosperity and well-being of all Canadians.

Selection Criteria

The primary criteria that were used in selecting policy recommendations were economic efficiency and fiscal sustainability. The policies chosen would improve economic efficiency in Canada by making investments that correct market failures and that will yield large benefits in the near and long terms. The policies will reallocate resources to expand Canada's economic growth by improving the productivity of Canadian workers.

The program is also fiscally sustainable as it is revenue neutral and will improve Canada's finances in the long run. The package is self-funding, including a sufficient increase in government revenues to pay for all of the proposed policies. The policies will leave Canada's finances in a stronger position. By boosting labour productivity and expanding income, the Canadian tax base will grow and government revenues will increase.

Policy Proposals

#1 – Provincial provision of targeted early childhood education and care

Prior to the beginning of kindergarten, Canadian children in most provinces currently receive no public education. It is during these formative early years that the foundation for the rest of a child's life is built. The failure to offer public early childhood education between the ages of one and five represents a lost opportunity for the Canadian government. A strong, targeted early education program would help to build human capital in young Canadians' earliest years. This will put them on the path to acquiring the tools they need to succeed throughout their careers and lives.

There are currently a number of federal programs that offer benefits to parents with young children. The Canada Child Tax Benefit, the National Child Benefit Supplement and the Universal Child Care Benefit all provide financial assistance to parents. Despite all of these programs, a large number of children live in poverty. An estimated 10% of children in Canada live in poverty.¹ Canadian children growing up in poverty experience worse academic

¹ Margaret McCain, Fraser Mustard and Kerry McCuaig. 2011. *Early Years Study 3*. McCain Family Foundation. Toronto, ON. pp. 13.

performance and less successful careers than children who grow up under better circumstances.² Studies have consistently shown that a highly effective way to improve the life outcomes of these vulnerable children is through targeted early childhood education programs.

There is strong evidence to suggest that targeted early childhood interventions yield considerable improvements in the lives of at risk children. The Perry Preschool Program in the 1960s showed that students who received early childhood education on average had higher IQs, better educational attainment, higher incomes and less likelihood of being arrested than their peers in the control group who did not receive the intervention.³ There is also an argument to be made for providing high quality early education to a targeted group of vulnerable children. Project STAR in Tennessee found that children enrolled in small kindergarten classes with more experienced teachers were more likely to attend college and had higher average incomes than children in larger classes.⁴

The costs of a national early childhood care and education program will be high, but the returns will be substantial in the long run. Each cohort of school dropouts costs the Canadian economy an estimated \$2.62 billion per year.⁵ By reducing the number of dropouts and improving levels of educational attainment for vulnerable children, the national early childhood education program would lower the high cost to the Canadian economy of having children drop out of school and fail to reach their potential. The program will also provide economic benefits by increasing Canada's labour force participation rate. At present, only 66% of mothers with pre-

² Alan Leschied, Debbie Chiodo, Paul Whitehead and Dermot Hurley. 2003. *The Association of Child Poverty with Child Welfare Service and Child and Family Clinical Outcomes*. The University of Western Ontario. London, ON. 26 pp.

³ Michael Baker. 2010. *Universal Early Childhood Interventions: What Is the Evidence Base?* University of Toronto. Toronto, ON. pp. 5.

⁴ Ibid.

⁵ Margaret McCain, Fraser Mustard and Kerry McCuaig. 2011. *Early Years Study 3*. McCain Family Foundation. Toronto, ON. pp. 10.

school-age children are employed.⁶ Providing care to vulnerable children will allow their parents to return to the workforce, which will both improve the prosperity of the families and grow the Canadian economy.

In order to implement this program, the federal government would provide funding to the provinces to provide spaces in early childhood education facilities for the children of families earning a combined income of less than \$40,000 per year. The provinces would provide vouchers to eligible families to enrol their children in private childcare facilities. The federal government, via the relevant provincial ministry, would then reimburse the childcare facilities. The federal government would provide funding to Quebec and Prince Edward Island – the two provinces that already have universal, publicly funded daycare systems. Only the costs of providing care to families with an annual income of less than \$40,000 would be transferred to those two provinces.

Few statistics are collected on the costs of childcare in Canada, and the costs of childcare provided by a family member are often not evaluated. According to a *Globe and Mail* report, the average annual cost of childcare in Ontario is \$11,100.⁷ For the purposes of this calculation, this figure will be assumed to be an accurate measure of the *national* average annual cost of childcare. There are a total of about 1,821,000 children between the ages of 0 and 4 in Canada.⁸ There are a total of 9,389,700 families in Canada.⁹ This means that the average family in Canada has 0.19 children between the ages of 0 and 4.

⁶ Ibid.

⁷ Globe Staff. 2013. *By the Numbers: How much does daycare really cost in Canada?* <http://www.theglobeandmail.com/news/national/by-the-numbers-how-much-does-daycare-really-cost-in-canada/article15006208/>.

⁸ Statistics Canada. 2013. *Population by sex and age group*. <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo10a-eng.htm>.

⁹ Statistics Canada. 2013. *Census families by number of children at home*. <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil50a-eng.htm>.

There are a total of 1,551,490 families in Canada earning a combined income of less than \$40,000 per year. Assuming that children are evenly divided across all income groups, then the total number of children living in families with an income lower than \$40,000 is 294,783. At an average childcare cost of \$11,100 per child per year, the total cost of providing childcare to families with an income less than \$40,000 would be approximately \$3.3 billion. The large increase in demand for childcare spaces that could come with this program would increase costs substantially. Capital investments would need to be made to create new childcare facilities, and many new staff would need to be hired. Further resources would also need to be devoted to inspecting private childcare providers to ensure that they meet high standards of early education and care. Including these additional costs would raise the annual cost of the national targeted childcare program to an estimated \$6 billion per year.

By developing a program to provide high quality care and early education to children of low-income families, the federal government will be setting vulnerable children up for future success throughout their careers. The children who receive publicly funded care from this program will be more likely to complete school and have successful, productive careers. By starting now to help children succeed, we will build a workforce with the kinds of people who will help the Canadian economy thrive in the future.

#2 – Develop a web portal with information for post-secondary applicants, fund post-secondary applications for high school students

The needs of the Canadian labour market have changed as we have transitioned to a knowledge economy. Canadian employers are demanding more workers with higher levels of education and more specialized skills. At the current levels of post-secondary participation in Canada, there

will not be enough young Canadians gaining the specialized skills needed to meet labour market demand in the coming years.¹⁰ In the coming decade, most of the jobs that will be created will require candidates with a post-secondary education. Job creation will be the strongest in occupations that require a university education, and it will be the weakest in occupations that require only on-the-job training.¹¹ About 70% of the jobs created in the next decade will require either a university degree or a college diploma.¹² Shortages of workers with the skills demanded by employers are already costing the Ontario economy alone an estimated \$24.3 billion per year.¹³

As well as facing shortages in the number of post-secondary graduates needed to meet Canadian labour market demand, Canada will experience a mismatch between the skills that students are acquiring and the skills that the market requires. There is an increasing gap between the subject areas of post-secondary students and the skills that employers are demanding.¹⁴ Among Ontario employers, there is very strong demand for college graduates with diplomas in engineering, business, and computers and telecommunications. There is strong demand for university graduates with degrees in science and technology and health.¹⁵ There is relatively low demand for students in social sciences and the humanities, subject areas that make up a large proportion of total post-secondary student enrolment in Canada.¹⁶

¹⁰ Darcy Hango and Patrice de Broucker. 2007. *Postsecondary Enrolment Trends to 2031: Three Scenarios*. Statistics Canada. 108 pp.

¹¹ Craig Alexander and Shahrzad Mobasher Fard. 2011. *Post-Secondary Education is the Best Investment You Can Make*. TD Economics. 6 pp.

¹² Association of Universities and Colleges of Canada. 2014. *Canada's Skills Gap*. <https://www.aucc.ca/media-room/publications/canadas-skills-gap-11-quick-facts/>.

¹³ Daniel Munro and James Stuckey. 2013. *A Looming Skills Gap Threatens Ontario's Future*. The Conference Board of Canada.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

In order to increase enrolment and help match student areas of study with labour market needs, the federal government should take two approaches. First, it should develop a web portal with information for students applying to post-secondary education. Second, it should provide funding to cover the cost of student applications.

The web portal would include important information about programs of study including the number of applicants in the previous year and the rate of acceptance. It would also include information on the graduation rates from each program to show what proportion of students is able to make it through the entire course of study. The government should work with post-secondary institutions to gather data on the labour market outcomes of students. This would include the employment rate of students from each program following graduation, and the average income level of graduates within five years of leaving school. This would help to give students information on the labour demand for graduates from each subject area. With this web portal, applicants could choose to enrol in a program based on their own interests and abilities as well as on their career aspirations following graduation.

The web portal would be developed by Employment and Social Development Canada, in collaboration with Statistics Canada and the Council of Education Ministers. The federal and provincial departments would design a framework for collecting data on the labour market outcomes of graduates. This would lead to improved transparency in post-secondary recruitment and help to reveal the progress being made by post-secondary institutions in filling the economy's labour needs. A link to this portal would be included in each existing provincial and territorial post-secondary application system to help students make informed decisions about the education they pursue.

To expand student enrolment in post-secondary education, the government should cover the expense of applying to colleges and universities. Even though the cost of an application to a post-secondary institution makes up only a small portion of a student's education costs, it can present a significant barrier to applying and then enrolling in a degree or diploma program.¹⁷ Removing this barrier will encourage a larger number of students to apply to post-secondary studies upon graduating from high school.

The federal government would cover the base cost of school applications through provincial post-secondary application portals. This would mean that students who choose to apply to post-secondary education could apply to three universities or three colleges, at no cost to themselves. Applicants would pay for any additional applications that they wished to submit. The government would deliver funding to post-secondary institutions via provincial application portals to cover the costs of processing applications.

There are approximately 680,000 grade 12 students in Canada.¹⁸ The approximate cost of applying to three colleges in Canada is \$57.¹⁹ The approximate cost of applying to three universities is \$450.²⁰ Based on current Canadian college and university enrolment rates,²¹ the approximate total cost of funding three college or university applications for each grade 12

¹⁷ Philip Oreopoulos. 2014. *Human Capital Policy and 3 Suggested Policies to Help Improve Skills and Well-Being*. School of Public Policy and Governance, University of Toronto. February 6, 2014.

¹⁸ Statistics Canada. 2013. *Headcount enrolment in public elementary and secondary schools, Canada, Provinces and Territories*. <http://www.statcan.gc.ca/daily-quotidien/131204/t131204c001-eng.htm>.

¹⁹ Based on the baseline cost of college applications on the Ontario College Application System.

²⁰ Based on the cost of applying to three universities through the Ontario University Application Centre.

²¹ Enrolment statistics are for the 17-19 age group in Darcy Hango and Patrice de Broucker. 2007. *Postsecondary Enrollment Trends to 2031: Three Scenarios*. Statistics Canada. 108 pp.

applicant would be \$54 million.²² The cost of this program would be expected to increase as a greater proportion of students apply to post-secondary education, once the fee for doing so has been removed.

This program will encourage more Canadian high school students to apply for post-secondary education, and it will help students to choose programs of study based on their employment expectations following college or university. This will help to build the well-educated, highly skilled workforce that will be needed to keep Canada's economy productive and competitive in the future.

#3 – Reduce the Temporary Foreign Worker Program in favour of expanding the provincial nominee program

Canada has long been a major destination for immigrants from around the world. In per capita terms, Canada accepts more immigrants than any other country in the world.²³ Immigrants make up a large and important part of the Canadian labour force. As Canada faces demographic changes, our economy will rely more heavily on immigrants. Canada will need to attract a growing number of skilled workers to the country to fill labour shortages. We will need to do this, even as competition for skilled immigrants increases throughout the OECD.²⁴ Our ability to attract highly skilled immigrants will be determinative of Canada's future prosperity.

²² This figure uses levels of post-secondary enrolment, rather than post-secondary applications; rates of post-secondary applications by grade 12 students were not available.

²³ Joe Friesen. 2012. *Why Canada Needs a Flood of Immigrants*. Globe and Mail. <http://www.theglobeandmail.com/news/national/time-to-lead/why-canada-needs-a-flood-of-immigrants/article4105032/?page=all>.

²⁴ OECD. 2008. *The Global Competition for Talent: Mobility of the Highly Skilled*. Washington D.C. 165 pp.

New immigrants will become an increasingly important source of labour for the Canadian labour force, as they will be needed to fill positions left by retiring baby boomers. Population aging in Canada will mean that the proportion of the population that is of working age will shrink over the coming decades. Continued declines in the population growth rate, combined with increases in the life expectancy of Canadians, will lead to a large increase in the dependency ratio. Currently, there are about five working age Canadians for each person over 65. By 2050, this ratio will decrease to less than 2.5 people of working age for each senior.²⁵ This high dependency ratio is expected to create labour shortages in the Canadian economy if all current policies stay the same.²⁶ The Conference Board of Canada estimates that, due to labour shortages, employers will soon have to reduce their pace of hiring to one-third of the pre-recession level.²⁷ New immigrants will play an important role in filling labour shortages in Canada.

As well as facing shortages in the number of workers available, Canada will face shortages of workers possessing the skills and training that tomorrow's economy will require. The Canadian technology, construction and resource extraction sectors will face growing shortages of skilled workers to fill positions.²⁸ If skilled workers are not found to fill these

²⁵ Department of Finance Canada. 2012. *Economic and Fiscal Implications of Canada's Aging Population*. Government of Canada. Ottawa, ON. <http://www.fin.gc.ca/pub/eficap-rebvpc/report-rapport-eng.asp>.

²⁶ Ibid.

²⁷ Pedro Antunes. 2013. *A Labour Market Shortage of 1 Million by 2020? Where We Stand Today*. Conference Board of Canada. http://www.conferenceboard.ca/economics/hot_eco_topics/default/13-11-11/a_labour_market_shortage_of_1_million_by_2020_where_we_stand_today.aspx.

²⁸ Canadian Chamber of Commerce. 2009. *Advanced Skills Shortages in Canada – Getting to the Root of the Problem*. Canadian Business Journal Vol. 7, Iss. 3.

shortages, it will hurt Canadian businesses and ultimately reduce our economic growth.²⁹ Canada will need to attract highly skilled workers to help fill these gaps.

The Temporary Foreign Worker Program allows Canadian employers to hire international workers when there are no Canadian citizens available to fill their labour demand.³⁰ In 2011, over 192,000 temporary foreign workers were admitted to work in Canada.³¹ The foreign workers are allowed to enter the country on a short-term work permit, and then are expected to leave after their work term has come to an end. Only higher-skilled temporary foreign workers have any opportunity to gain permanent residency, if they have a permanent job offer and are part of the Federal Skilled Trades Program or the Federal Skilled Workers Program. In 2011, only about 15% of the temporary foreign workers who entered Canada acquired permanent status.³²

The Provincial Nominee Program allows provinces to address their longer-term labour demands by nominating immigrants to enter their region. Each province³³ and all territories except for Nunavut have the opportunity to nominate a set number of people to immigrate to Canada. The nominations are usually based on the occupations, skills or education of immigrants. The program allows the provinces and territories to determine their own labour market needs and then choose immigrants based on these needs. When immigrants are

²⁹ Ibid.

³⁰ Employment and Social Development Canada. 2014. *Temporary Foreign Worker Program*. Government of Canada. Ottawa, ON.

http://www.esdc.gc.ca/eng/jobs/foreign_workers/index.shtml.

³¹ Citizenship and Immigration Canada. 2012. *Fact Sheet – Temporary Foreign Worker Program*. Government of Canada. Ottawa, ON.

<http://www.cic.gc.ca/english/resources/publications/employers/temp-foreign-worker-program.asp>.

³² Ibid.

³³ Quebec has an immigration program that is separate from the Provincial Nominee Program but is directly comparable. This recommendation would treat Quebec's immigration program as being the same as the Provincial Nominee Program.

nominated, they receive priority processing for faster admission into the country. The current processing time for provincial nominees is approximately 16 months.³⁴ The Provincial Nominee Program makes up a relatively small proportion of the immigrants entering Canada. In 2005, approximately 4,000 people entered Canada as permanent residents under the program.³⁵

In order to respond to the long-term labour market needs of the provinces, the Temporary Foreign Worker Program should be frozen in favour of an expansion of the Provincial Nominee Program. The number of temporary foreign workers admitted to the country would be frozen at current levels. Provincial quotas would be gradually doubled over the next three years and then reassessed to determine whether further quota increases should be made. The provinces would be able to nominate workers from the Temporary Foreign Worker Program, in order to give them permanent status and allow them to continue working in the province.

The Temporary Foreign Worker Program would be capped and not reduced, because it will continue to play an important role in the Canadian economy. Where there are employers who face immediate labour needs, the Temporary Foreign Worker Program will be able to fill acute shortages of workers. The agriculture sector, which hires about 34% temporary foreign workers, is able to offer only seasonal employment.³⁶ There will continue to be a benefit in admitting some unskilled workers to the country on a temporary basis to fill short-term work positions that could not be filled by Canadians.

The expansion of the Provincial Nominee Program will allow provinces and territories to develop the labour markets they need to remain competitive through the coming period of

³⁴ Citizenship and Immigration Canada. 2012. *Provincial Nominee Program*. Government of Canada. Ottawa, ON. <http://www.cic.gc.ca/english/hire/provincial.asp>.

³⁵ Canadian Home Builders' Association. 2005. *Immigration – Review of the Provincial Nominee Program*. http://www.chba.ca/uploads/policy%20archive/2005/2005-09-06_01.pdf.

³⁶ Phil Triadafilopoulos. 2014. *Immigration: Challenges and Proposals*. Lecture: School of Public Policy and Governance. Toronto, ON. 24 January, 2014.

demographic transition. In the long run, this recommendation will serve to shift highly skilled workers out of the Temporary Foreign Worker Program and into the Provincial Nominee Program. By offering permanent residency to skilled immigrants, rather than allowing them entry into the country on a temporary basis, Canada will be better able to attract highly skilled workers. When immigrants are admitted into the country on a permanent rather than a temporary basis, employers and the workers themselves will be more willing to make investments in training and developing the specific skills that firms need. Expanding the Provincial Nominee Program and freezing the Temporary Foreign Worker Program will help Canada to develop the highly skilled labour force needed to fuel a productive knowledge economy.

#4 – Improve productivity by establishing an industrial research and innovation council

Productivity is the most important variable in determining the long term per capita income of an economy.³⁷ Achieving strong productivity is key to making improvements in a country's standard of living and improving the welfare of its citizens. There are three factors that contribute to productivity growth in an economy: capital, labour and residual total factor productivity. In the past two decades, labour productivity in Canada has fallen relative to other countries.

Throughout the 1990s, lower labour productivity levels in Canada relative to the US accounted for 80% of the gap in real GDP between the Canadian and American economies.³⁸ In an OECD ranking of countries by labour productivity levels, Canada placed 17th, well behind

³⁷ Conference Board of Canada. 2013. *Labour Productivity Growth*.

<http://www.conferenceboard.ca/hcp/details/economy/measuring-productivity-canada.aspx>

³⁸ Alan Crawford. 2002. *Trends in Productivity Growth in Canada*. Bank of Canada Review. pp. 19.

many key partners in the OECD.³⁹ In 2012, Canada experienced labour productivity growth of just 0.8%.⁴⁰

One of the main drivers of productivity growth in an economy is innovation. For the past decades, Canada has had a weak performance in innovation. A Conference Board of Canada ranking placed Canada 13th out of 16 countries in innovation.⁴¹ At the level of the firm, Canadian companies have failed to make important investments that would improve innovation and boost their productivity. Canadian businesses lag in their investments in information and communications technology.⁴² Canadian businesses also have a weak record in commercializing their innovations. This is the process of turning ideas into actual marketable goods that can be sold to consumers. While Canadian firms have good ideas and employ strong workers, there is a gap in Canada between innovative thinking and economic growth.⁴³

Improving Canada's labour productivity performance will be key to ensuring strong long-run economic growth and improving the living standards of Canadians. In order to achieve this improvement, the federal government must take actions to support innovation in Canadian businesses. The creation of an industrial research and innovation council (IRIC) would help to grow commercializable innovations in Canada and ultimately improve the productivity of the Canadian labour force.

³⁹ OECD. 2014. *Labour Productivity Levels in the Total Economy*.

<http://stats.oecd.org/Index.aspx?DatasetCode=LEVEL>

⁴⁰ Conference Board of Canada. 2013. *Labour Productivity Growth*.

<http://www.conferenceboard.ca/hcp/details/economy/measuring-productivity-canada.aspx>

⁴¹ Conference Board of Canada. 2014. *Innovation*.

<http://www.conferenceboard.ca/hcp/details/innovation.aspx>.

⁴² Ibid.

⁴³ Ibid.

IRIC would be an arm's length agency that would deliver funding and services to Canadian businesses.⁴⁴ It would report to the federal minister of industry.

One of the major problems with current business services offered by the government of Canada is that they are highly fragmented. There are many different federal government programs that provide funding to firms for research and development. An ECOS Research Associates poll found that many federal funding programs had very low levels of take-up by Canadian firms. The poll found that six of the federal programs were accessed by only 1% of the firms surveyed.⁴⁵ IRIC would make up for this problem by creating a common platform for all federal programs that support innovation in Canadian businesses. IRIC would build a single online concierge service to provide individualized advice to businesses on the federal and provincial programs available to assist them in improving innovation.⁴⁶

IRIC would focus on providing the support demanded by businesses. It would respond directly to the needs of businesses and take actions to help firms move ideas into economically viable innovations. IRIC would help to improve commercialization by providing vouchers that would help businesses reach the commercialization phase. The vouchers would allow firms to access services from approved providers and would cover a portion of the costs of commercialization.⁴⁷ The voucher program would be delivered by the Industrial Research Assistance Program, which would be brought under the umbrella of IRIC.⁴⁸

Finally, IRIC would work in collaboration with provincial governments and federal departments to build a strategy for developing and retaining business innovation talent in

⁴⁴ Peter Nicholson and David Cote. 2011. *Innovation Canada: A Call to Action*. Industry Canada. pp. 5-8.

⁴⁵ Ibid.

⁴⁶ Ibid., 5-14

⁴⁷ Ibid., 5-13.

⁴⁸ Ibid.

Canada.⁴⁹ IRIC would build a youth employment program to provide business mentorship to students. This would help students to develop both the technical skills needed to develop innovations and the professional skills needed to build businesses that will commercialize their innovations.⁵⁰

The operational costs of running IRIC would be minimal. IRIC staff could be transferred to the council from existing government programs. As existing programs are eventually transferred to IRIC, there will be a reduction in overhead costs that would come from program consolidation.⁵¹ Reduced overhead costs would help to cover the initial costs of establishing IRIC.

The major additional cost to the government associated with IRIC would come from increased program take-up by Canadian firms. When firms are more aware of the programs run by the government to help them innovate, they will increase their use of these programs. This will increase the amount of funding and services provided by federal government business assistance programs.

In Budget 2012, the federal government increased the annual budget of the Industrial Research Assistance Program by \$110 million.⁵² A portion of this spending increase could be re-allocated toward the delivery of an innovation voucher program. The estimated cost of additional program uptake as a result of IRIC's concierge service is in the tens of millions of dollars. This cost will be partially offset by an increase in corporate and personal income tax revenues, which will be generated by improving business innovation.

⁴⁹ Ibid., 5-14.

⁵⁰ Ibid.

⁵¹ Ibid., 5-12.

⁵² Deloitte. 2012. *Budget 2012: new R&D support measures challenge Canada's global position.* http://www.deloitte.com/view/en_CA/ca/services/tax/tax-publications/f24a3c127d066310VgnVCM3000001c56f00aRCRD.htm.

By improving business innovation, IRIC will help to boost Canadian labour productivity. Expanding the output of Canadian workers will lead to the growth of per capita GDP in Canada and ultimately help to improve the standard of living of Canadians. Developing a strategy on innovation talent will help to develop the human capital that the Canadian business sector will need to excel in the coming decades. IRIC will help to build a more productive workforce with the skills needed to create sustained business-led economic growth in the years to come.

#5 – Increase the GST by one percentage point

In order to fund the above proposals, a new source of revenue will need to be found. Evidence suggests that the most efficient way to raise the required revenues is through consumption taxes. There are multiple reasons for choosing an increase in the GST over an increase in personal income taxes. Avoidance of consumption taxes is much more difficult than personal income tax avoidance. The amount of revenue generated by consumption taxes will remain relatively steady as aging workers retire from the workforce and have less income on which to pay tax.⁵³ All taxes have a negative impact on economic growth and productivity, but the impact is much smaller for consumption taxes than income taxes.⁵⁴ The investments outlined in this report are necessary for the future competitiveness and prosperity of Canadian workers. If these investments are to be made, new revenue must be generated. Economic evidence clearly shows that the best way to generate new income is through consumption rather than income taxes.

A one-percentage-point increase in the GST would generate sufficient funding to ensure that this entire package of policies is revenue neutral. The increase should be phased in 0.5% at a

⁵³Glen Hodgson. 2012. *Reinventing the Canadian Tax System: The Case for Comprehensive Tax Reform*. Conference Board of Canada. Ottawa, ON. pp. 5.

⁵⁴ *Ibid.*, 6.

time over the next two years to ensure a slow transition to the new tax rate for Canadian consumers. According to the Parliamentary Budget Officer, a one-percentage-point increase in the GST would raise \$7 billion in revenues.⁵⁵

Canada currently has a relatively low tax burden compared to other OECD countries. Canada's total tax burden as a percentage of GDP is 30.7%.⁵⁶ This means that Canada's tax level places it 21st in the listing of OECD countries by tax level. Canada places below the OECD average and has a tax burden that is considerably lower than those in partner nations like the UK and Germany. The proposed increase in the GST would raise Canada's tax burden as a percentage of GDP by approximately 0.38%. This would mean that even with the increased consumption tax, Canada would maintain its current position of 21st in the OECD in terms of overall tax burden.

Though consumption taxes are a highly efficient way to raise revenue, they are a regressive form of taxation. This means that everyone pays the same consumption tax rate, regardless of income level. In order to make up for the regressiveness of the tax, GST rebates would continue to be paid to low income Canadians. Through its annual media campaign reminding Canadians to file income taxes, the government should try to raise awareness of the availability of the GST rebate for low income Canadians. The federal government pays back about 10% of the GST through the GST credit.⁵⁷ This would mean that approximately \$700 million of the extra revenues raised from the proposed one-percentage-point increase in the GST would be paid back in rebates.

⁵⁵ Jason Jacques. 2013. *Revenue Impacts Arising from Tax Adjustments: 2013*. Parliamentary Budget Officer. Ottawa, ON. pp. 2.

⁵⁶ OECD. 2014. *Revenue Statistics: OECD Member Countries: Tax Revenue as a percentage of GDP*. <https://stats.oecd.org/Index.aspx?DataSetCode=REV>.

⁵⁷ Raj Chawla. 2006. *The GST Credit*. Statistics Canada. Ottawa, ON. pp. 15.

It is true that consumption taxes are painful to Canadian consumers and have always been politically unpopular. However, this small increase in the tax rate will be able to yield substantial benefits for Canadian workers. The programs funded by this one-percentage-point increase in the GST will help to support Canadian families, young people, new immigrants and Canadian businesses. Raising revenues through the GST will help to create a Canadian labour force that will build a stronger economy and a more prosperous future for all Canadians.

Assessing the Policy Framework

The recommended policy package was developed with a commitment to fiscal sustainability in mind. The package is revenue neutral, generating sufficient revenue to fund all costs associated with the proposed policies. The cost breakdown is as follows:

Expenditures:

Targeted childcare and education program: approximately \$6 billion

Fund post-secondary applications for high school students: \$54 million

Additional program uptake from IRIC concierge service: tens of millions of dollars

GST rebates: approximately \$700 million

Total expenditure: approximately \$6.8 billion

Revenue:

One-percentage-point increase in GST: \$7 billion

This package would generate a small surplus, which could be used to cover any unforeseen expenses that arise in the implementation of the recommended policies.

As a combined package, the above policy proposals will work toward building the workforce that Canada will need to thrive in the future. Giving Canadians the right set of skills will enable them to achieve greater prosperity and lead better lives. Bringing in new Canadians to take the economic baton from retiring baby boomers will ensure that the Canadian economy experiences a smooth transition as the country's demographics shift. The industrial research and innovation council will enable businesses to invest in their people and build a more productive workforce. Each of the policies will help Canadian workers to achieve their potential and build a brighter economic future for Canada.

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