

## Canada warned to take steps to secure economy

Kim Covert, Financial Post ·

OTTAWA — The Canadian economy may have raced ahead of others in terms of its recovery from the economic crisis, but it's slowing down and the finish line is not yet in sight, according to separate reports released Tuesday.

The Canadian Chamber of Commerce and the Conference Board of Canada both noted in reports that the Canadian economy is weakening, at least in part due to poor economic performance in the United States and globally.

As well, the Bank of Canada on Tuesday announced it would hold interest rates at 1% and downgraded its estimates for economic growth.

“Canada’s recovery is further along than many other developed economies, especially when considering the rapid rebound in employment,” said the Conference Board’s Pedro Antunes, director of its National and Provincial Forecast, in the board’s autumn outlook.

“To continue on its path of recovery, Canada will need to rely on the U.S. economy to improve trade and a steady rise in private capital investment — components that are very dependent on the state of the U.S. and global economy.”

The chamber of commerce report, titled Fiscal Policy for a Stronger Tomorrow, outlines the steps it says the government has to take to secure the recovery and job growth which it says have outpaced many of Canada’s G8 partners.

The chamber outlines a three-part strategy for Ottawa that includes continuing with current stimulus plans but working quickly to erase the deficit and “addressing long-standing structural impediments to productivity” including removing internal trade and mobility barriers, as well as “burdensome” regulatory procedures, and minimizing tax and compliance costs.

“The window of opportunity to bring indebtedness down is rapidly closing as demographic changes — a rapidly aging population and slower growth in the labour force — will exert significant pressures on the public purse,” the report says.

Steps needed to secure the recovery include: signing a proposed free trade agreement with the European Union — the fifth round of negotiations for the deal began on Monday in Ottawa; working to conclude the World Trade Organization's Doha round of trade talks; working with international partners to limit protectionism; looking for ways to limit the thickening of the Canada-U.S. border; and ensuring that businesses have continued access to affordable credit.

The report stresses the importance of eliminating the federal deficit and paying down as much debt as possible. The report notes that by 2019, more than a quarter of the population will be over 65 and by 2029 that group will have grown to more than a third of the population, while the labour force will have shrunk, reducing government revenue while at the same time increasing health-care costs and the amount paid out in benefits to the elderly.

The chamber also recommends a heavier reliance on consumption taxes, such as the GST, and less on personal and corporate income taxes.

“Switching the tax mix towards consumption-based taxes would encourage both work and capital formation and, thus, stimulate productivity and economic growth,” the report says.