# RBC Submission to the Competition Policy Review Panel

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# RBC Submission

## I. INTRODUCTION

RBC is pleased to have this opportunity to provide input into the Competition Policy Review Panel's consultation process. The launch of this review is timely. The pace of change on a global basis is increasing daily and other jurisdictions are taking aggressive steps to improve their competitiveness. We must do the same.

Canada is at a crossroads. Actions taken by the government now will have a lasting impact on where Canada stands on the global stage in the decades ahead. Bold and decisive action is needed to create a new domestic policy framework that will pave the way for Canada's future success.

## II. EXECUTIVE SUMMARY

The key elements of our submission can be briefly summarized as follows:

- the global economy is entering a phase of fundamental restructuring that will rival major changes throughout history;

- this period will create the threat of dislocation, but will also present tremendous opportunities for those who anticipate and prepare for it;

- Canada is already feeling the initial impacts of these global shifts, but is not well placed to respond;

- a new domestic policy agenda is needed to ensure that Canada can be at the forefront of the changes to come -- this policy framework must encompass the following broad areas:

    – <u>taxation</u>: we need to significantly reduce corporate income tax rates and have a competitive personal income tax regime;

    – <u>regulatory effectiveness/flexibility</u>: we need to move forward with a market-oriented regulatory framework that is far more streamlined, efficient and effective than the current structure;

    – <u>stronger national economic union</u>: we need to adopt clear national policies and standards to ensure that our economic union works as effectively and efficiently as possible.

This submission examines each of these points in turn. Our recommendations are focused on improving Canada's domestic policy framework to ensure that we can lead the world in creating globally competitive companies, jobs and higher standards of living for all Canadians.

## III. GLOBAL TRANSFORMATION

The world is undergoing a fundamental transformation similar in potential impact to those throughout history.[1] To take advantage of the opportunities offered by this global transformation, countries need to develop an appropriate tax and regulatory framework to allow companies to succeed both domestically and abroad.

A strategically targeted tax and regulatory framework helps to create the competitive pressures needed to promote innovation and efficiency and attract necessary resources and technology. These pressures provide the basic infrastructure for the development of strong, globally competitive companies.

Our concern is that as a country we are currently not well placed to attract, grow and retain these types of companies in Canada. By introducing a comprehensive tax and regulatory reform package, Canada can seize the opportunities presented by the global challenges that lie ahead. Canada's objective should be to ensure we are one of the world's most competitive regions from which to develop, grow and expand our corporations.

## IV. NEW DOMESTIC POLICY FRAMEWORK

We believe that Canada's new public policy framework must be strategically focused around goals that will increase productivity in Canada. Increased productivity is the ultimate measure of the conditions for success noted above (i.e. competition, efficiency and innovation).

The remainder of this submission outlines a package of domestic policy reforms designed to help promote Canada as a source of globally dominant competitive companies. In short, we are recommending the development of an aggressive policy offence to better position Canada as an economic leader on the world stage.

We have divided this domestic policy framework into the following key areas:

1. <u>Financial sector policy:</u>

    - *insurance competition*: elimination of the restrictions on the ability of consumers to obtain insurance information, services and products from bank branches in order to enhance competition in this market;

    - *merger/ownership restrictions*: elimination of the merger restrictions to allow for the creation of large globally competitive financial services companies headquartered in Canada.

2. <u>Tax policy</u>: lower corporate income taxes; improvements in the taxation of small and medium size businesses (SMEs).

3. <u>Competition policy</u>: changes to promote globally successful companies.

[1] For a more detailed description of the global challenges that lie ahead, please see, "*Comment: A Call to Action*" by Roger Martin and Gordon Nixon, in the Globe and Mail, page B1, July 2, 2007.

4. Economic union policies: measures to reduce duplication, overlap and waste on a national basis (e.g. creation of a Canadian securities regulator; elimination of internal trade barriers).

5. Labour market policies: improvement to the existing immigration, labour and education framework to ensure that looming demographic issues can be addressed.

6. Regulatory policy: streamlining and strengthening of the efficiency and effectiveness of the current regulatory framework by moving towards a more market oriented and principles-based structure.

## 1. FINANCIAL SECTOR POLICY

### A. Overview

Strong, efficient and competitive financial institutions fulfill a unique role in contributing to the success of any country. Financial institutions constitute the backbone of a nation's economy by virtue of the services they provide, including: pooling savings, financing investments, processing payments and managing risk. The funding and advice provided by the sector to individuals and businesses are necessary prerequisites to their ability to succeed and grow, both at home and abroad.

Beyond this direct intermediary function, financial institutions are also the source of high-paying and good quality jobs in a nation's economy. Taken as a whole, financial institutions provide the vital foundation for a country's domestic and international economic success.

While Canada's financial services sector is strong and successful, there are a number of important public policy initiatives that the government could undertake to transform the sector into a true driver of global economic success into the future. There is no better place to look for a source of globally successful Canadian headquartered companies than in our financial services sector.

### B. Insurance Restrictions

As currently drafted, the *Bank Act* imposes significant constraints on the ability of consumers to obtain insurance products, services and information from bank branches. This anti-competitive prohibition significantly limits the amount of choice and convenience for consumers in the insurance marketplace.

It is important to emphasize that consumers would enjoy significant benefits from the elimination of this barrier to competition. The link below[2] is to a previous submission that RBC provided to the government on these benefits. This earlier submission showed that customers would benefit from more choice, competition and convenience if this regulatory barrier were removed.

It is also worth noting that one of the implications of the recommendations on mergers discussed below is that a large bank could potentially merge with, or acquire, large life insurance companies. Elimination of the restrictions on the ability of a bank to distribute insurance from its branches would help to facilitate such a transaction. While this change is not a condition for mergers between large banks and large insurance companies to proceed,

[2] http://www.fin.gc.ca/consultresp/06Rev_50e.html.

eliminating the constraints would provide a wider range of strategic options and further opportunities for productivity gains for the respective companies to consider.

The above changes would represent a significant move forward in positioning Canadian financial institutions to compete on the world stage. As was noted by the Governor of the Bank of Canada in a recent speech, "…we should continue to look for ways to improve the framework so institutions can compete across pillars of the financial system, domestically as well as internationally."[3]

## C. Mergers

Merger Restrictions

Given the desire to create conditions for the development of globally successful companies, the government's policy prohibition on mergers between large banks and on mergers between large banks and Canada's two largest demutualized life insurance companies should be removed. As will be discussed in more detail below, we further recommend that merger applications only be subject to the normal prudential and supervisory assessment process that would apply to any other transaction that would be reviewed by the government.

Changes to the merger rules would create the opportunity for banks to better compete on the global stage. For reasons that have been set out in numerous previous studies and reports,[4] economies of scale and scope are important to the ability of financial institutions to improve efficiencies for the benefit of not only the institutions themselves, but for the economy as a whole. These facts were confirmed in a speech by the Governor of the Bank of Canada on this issue:[5]

> …the second main finding is that, compared with U.S. banks, there are unexploited economies of scale for Canadian banks. This suggests that Canadian banks are less efficient with regard to the scale of their operations and if banks could reap economies of scale, there would be efficiency benefits to flow through to the Canadian economy. Overall, our research concluded that legislative and regulatory changes have benefited efficiency in Canadian financial services. This shows the importance of removing any remaining restrictions that inhibit competition and efficiency, but provide little or no benefit in terms of financial soundness.

In short, large, globally successful financial services companies that are headquartered in Canada can bring significant economic and employment benefits to Canada. Elimination of the merger prohibitions and the development of a framework that provides for certainty of outcomes (discussed in more detail below) could create the conditions for Canadian financial institutions to become true leaders on the global stage.

Ownership Rules

It is difficult to assess the above recommendations on mergers in isolation from the ownership restrictions that currently apply in the sector. As the appendix to the Panel's

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[3] "*What's Been Done, and What's to Come*", by David Dodge in the Globe and Mail, December 17, 2007.
[4]*Efficiency and Competition in Canadian Banking*, Jason Allen and Walter Engert, Bank of Canada Review, Summer, 2007; OECD Economic Survey of Canada, June, 2006; *Grasping the Nettles: Clearing the Path to Financial Services Reform in Canada*, David Laidler, CD Howe Institute, September, 2006; *Branching Out: The Urgent Need to Transform Canada's Finance Landscape and How to Do It*, Thorsten Koeppl and James MacGee, CD Howe Institute, June, 2007.
[5] Remarks by David Dodge, Governor of the Bank of Canada to the Economic Club of Toronto, December 11, 2006.

paper notes, the current legislative framework for financial institutions effectively requires that ten banks and life insurance companies in Canada are required to be widely-held.[6] Under this rule, no person (foreign or domestic) is permitted to own more than 20% of the voting shares or 30% of the non-voting shares of one of these companies.

In assessing these sectoral ownership limits, a number of factors need to be taken into account. On the one hand, several positive benefits can be associated with easing ownership limits:

- removing restrictions on the free flow of capital can help to reduce inefficiencies and economic distortions that are often created by regulatory barriers;

- easing the restrictions on ownership could provide financial institutions with access to broader sources of capital that could be used for a wide range of purposes (e.g. explore international expansion);

- a well capitalized acquirer (e.g. a foreign bank) may be in a position to enhance competition (e.g. improve efficiencies; introduce new products) to the benefit of Canadian customers;

- shareholders of large Canadian financial institutions are negatively impacted by arbitrary restrictions on the ownership of bank shares (e.g. no control premium);

- wide dispersion of ownership is perceived by some as providing less rigorous control of management than might otherwise be seen in a closely-controlled entity.

At the same time, however, we recognize that the government has long maintained a policy of "Canadian control" of our largest financial institutions. Previous studies on this issue, including the MacKay Task Force Report, have postulated several reasons for this policy:

- many other countries maintain similar restrictions;

- the benefits of preserving a strong financial centre in Canada (e.g. jobs; economic growth; tax revenue);

- domestic financial institutions may be more sensitive to local market realities;

- maintaining wide ownership may be helpful in avoiding prudential concerns that can be raised in cases of close ownership (e.g. self-dealing);

- the "Canadian-control toolkit"[7] may have certain strengths from a supervisory perspective (e.g. maintenance of mind and management ensures Canadian regulators have access to information they need to regulate the bank).

[6] While there are variations in the specific ownership rules that apply, the net effect is that the following institutions are currently required to be widely-held: RBC; TD; BNS; BMO; CIBC; NB; Laurentian; Canada Western; Manulife and Sun Life.
[7] The MacKay Task Force identified the Canadian Control Toolkit as including the following: the head office of a bank must be located in Canada; shareholders' meetings are required to be in Canada; a majority of the directors are required to be resident Canadians (more than half of the directors at any meeting must also be Canadian); the CEO must be ordinarily resident in Canada; key corporate documents must be maintained in Canada; key changes to a bank's corporate structure require either Ministerial or Superintendent approval.

Balancing the above considerations, our recommendation is that the government remove the legislative widely-held ownership restrictions on banks and insurance companies.

While we recommend that the hardwired legislative ownership restrictions be removed, we believe that the other elements of the "Canadian Control Toolkit" should be maintained. Key among these requirements is the ability of the Minister of Finance to approve the acquisition of control of any financial institution on a case-by-case basis. We would note that in making this assessment, the Minister can specifically take into account any matter that he or she considers to be in the "best interests of the financial system in Canada".

In our view, this approach will ensure that the current arbitrary ownership restrictions will be replaced by a more flexible approach that can balance public policy considerations against the benefits of consolidation and expansion of business opportunities.

One of the issues that the Panel will be addressing as part of its review is whether Canada's competitive position can be enhanced through broader measures to reduce existing barriers to foreign direct investment (FDI) in Canada. While the sectoral ownership limits that apply to financial institutions are not specifically targeted to foreign investors, several of the considerations we have outlined above will be relevant to this broader debate. Specifically, the Panel will need to balance the benefits of encouraging new investment against the possible implications of removing protective barriers such as those noted above relating to "Canadian control".

Our recommendation to remove the sectoral limits for financial institutions is one example of where potential barriers can be eased. As part of the upcoming consultation process, we would be pleased to discuss further with the Panel how the above considerations could apply in the context of the broader debate on FDI.

## D. Public Interest Policy

In moving forward with the above recommendations, it is important for the government to clarify for the market when and how these changes will take place. As an example, the government may want to create a transition period on issues such as ownership changes to ensure that broader Canadian control issues are fully taken into account. It will also be important for the government's policies to be sufficiently clear to allow potential participants to understand how the government will review and approve a particular transaction. Clarity of outcomes will be important.

To this end, it would be helpful for the government to follow through on the intentions it originally set out in its 2003 white paper[8] to clarify the policy and process to be applied to a merger application. In this paper, the government set out some preliminary views on the scope of the public interest and sought input on a number of specific questions relating to the structure of the industry and how consolidation should proceed. The links below[9] are to RBC's previous submissions on the issue of consolidation. Without going into details, we would reiterate the comments we previously outlined.

[8] *Response of the Government to Large Bank Mergers in Canada: Safeguarding the Public Interest for Canadians and Canadian Businesses*, Department of Finance, June 23, 2003.

[9] http://www.fin.gc.ca/consultresp/mergersRespns_6e.html; http://www.competitionbureau.gc.ca/epic/site/cb-bc.nsf/vwapj/BMEG_RBC.pdf/$file/BMEG_RBC.pdf

In addition to these previous positions, we would also highlight our concerns about the lack of balance in the government's proposals on the public interest criteria to be reviewed by the Minister on a merger application. These concerns relate specifically to the Panel's questions about the need to more appropriately reflect the importance of efficiencies and global competitiveness in assessing a merger transaction.

In our view, the existing review process overemphasizes consumer issues at the expense of considerations relating to the global competitiveness of Canadian financial institutions. We believe that the sole public interest criteria that should be assessed by the Minister is whether a proposal would enhance the competitiveness of the financial institution.

## 2. TAX POLICY

### A. Overview

Canada lacks a dynamic taxation policy framework. To become a source for investment and to foster the development of large, globally successful companies, Canada must be a leader in creating and maintaining low corporate tax rates.

On this point, we note that we support the comments in the Canadian Bankers Association ("CBA") submission on the concerns with the existing tax system and the options available for the government to make improvements in the future.[10] Below we have highlighted one or two points on corporate taxes for emphasis.

### B. Corporate Taxes

Canadian corporate tax rates are too high. In order to achieve our goal of becoming one of the world's most competitive economies, it is vital that corporate tax rates are significantly lower than those in other jurisdictions, including the U.S.. An internationally competitive corporate tax system will ensure that Canada can become a great North American platform from which to locate and build a business.

Despite laudable recent initiatives by the federal government to reduce the overall rate, our corporate taxes remain high relative to other Organization for Economic Cooperation and Development (OECD) countries. This is particularly true in Ontario and in newer industries (like communications and other services) relative to more traditional ones (forestry and manufacturing).

The marginal effective tax rate (METR) includes statutory rates, capital taxes and sales taxes on capital inputs. METR measures the extent to which corporate taxes increase the required rate of return for new investments. Within the OECD group of countries, Canada ranks near the top of the list in terms of this corporate tax burden.

The federal government deserves credit for its recent focus on the METR. Recently announced reductions in the federal corporate tax rate are a good start. Further, the incentives that have been put in place to encourage the provinces to help move the overall tax burden lower (e.g. reduce and eliminate capital taxes) has had a very positive effect, particularly in Ontario and Quebec.

The corporate tax burden varies across the provinces -- Ontario is at the high end while many of the Atlantic provinces are at the low end (in part due to the harmonized sales tax). Ontario will continue to pay the price for prohibitively high tax rates,

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[10] "*Strengthening Canada's Competitiveness*", Canadian Bankers Association submission to the Competition Policy Review Panel, January 10, 2008.

whether it is in the form of an ongoing reduction in living standards or weaker performance in manufacturing relative to other provinces such as Quebec or a declining investment trend in the province.

More aggressive action is needed on reducing statutory rates to continue to move the overall tax burden down – particularly in Ontario. Recent proposed measures such as speeding up the elimination of capital taxes and broadening the lower small business tax rates to more businesses are positive steps in the right direction. It is important to emphasize, however, that these initiatives pale in comparison to necessary moves Ontario needs to make (e.g. significantly reduced corporate tax rates).

Changes to municipal tax policies are also needed. Issues such as infrastructure and immigration can only be addressed by considering proposals to broaden revenue-raising authorities of municipal governments (e.g. infrastructure bonds, three-P partnerships and tax increment financing). Requiring municipalities to rely heavily on profit insensitive property taxes raised disproportionately from businesses is a counterproductive policy since it can make business operations uneconomic.

While we recognize that both provincial and municipal tax policies are not within the purview of the federal government, it is possible that a federal incentive regime similar to the one used to encourage provinces to remove capital taxes could potentially be considered to address a number of the provincial and municipal taxation issues noted above.

### C. Measures to Assist Small and Medium Size Businesses

Much of Canada's productivity challenge is linked to smaller businesses. The facts of the SME experience in Canada are as follows:

- Canada has proportionally many more micro-businesses than the US (currently, 99.7% of Canadian firms have fewer than 500 employees whereas in the U.S., SMEs make up 85% firms);
- while we have been good at starting new businesses, we have been less successful in growing them and, in particular, growing them into market leaders;
- Canadian business in general faces a productivity challenge relative to the US;
- SMEs tend to have lower rates of productivity than larger companies on both sides of the border;
- given that SMEs represent a larger percentage of the Canadian economy compared to the United States, we have a larger weight on a similar challenge.

To address this concern, Canada needs policies that take the country to the next level by removing barriers to growth for all SMEs and by providing the necessary environment for our best firms to become market leaders. To achieve this, the underlying barriers to growth need to be dismantled starting with several public policy recommendations.

First and foremost among these is the need to address the barriers to growth embedded within tax policies. Of particular importance are profit-insensitive taxes such as capital taxes and steep increases in effective tax rates once small business exemptions are surpassed.

Under the existing framework, it is very difficult for SMEs to transition from small business tax rates to the internationally high existing rates of corporate taxation that apply on new investment in large companies. Measures are needed to ease this transition. The significant reduction in corporate income tax rates discussed above for larger companies is one of the key steps that can be taken to help ease this transition.

In addition to tax initiatives, the government should also pursue the non-tax measures discussed in further detail below, including: streamlining the regulatory framework and liberalizing internal trade, financing and labour markets.

## 3. COMPETITION POLICY

### Overview

As the government has noted in its press release relating to the creation of the Panel, a paramount goal of public policy is to enhance the productivity of the domestic economy. Improvements to productivity, enabled through a more efficient economy, ensures rising living standards for all Canadians. Encouraging competition is one way to deliver on these goals.

As suggested in the section above on financial sector policy, the timing is appropriate for the Panel to examine whether the current framework in areas such as mergers strikes the right balance between consumers' interest in competition and the creation of an environment from which Canadian firms can grow to become global competitors. This section outlines our comments on this issue in the context of Canada's broader competition policy framework.

### Changes to *Competition Act*

In our view, the issue of competition is indeed a matter of balance. We believe that a stronger focus on efficiencies would help to strengthen the existing framework. By way of background, the critical linkage between competition and efficiencies is underscored in the purpose section of the *Competition Act*:

> "The purpose of this Act is to maintain and encourage competition in Canada in order to promote the efficiency and adaptability of the Canadian economy…."

For a small country like Canada, enterprises that achieve high efficiency scale are often very large in relation to the size of the economy. It is for this reason that economic efficiency must be the paramount goal of competition policy in Canada.

It is not clear, however, that the importance of efficiency has been effectively carried forward into our competition legislation. The link below provides a reference to an RBC submission that was previously provided to the government on this issue.[11] The focus of this submission is on proposals to ensure that efficiencies are given a more prominent role in the current competition framework.

[11] http://www.primestrategies.ca/bureau/submissions/Allgood_RBC_Submission.pdf

## 4. ECONOMIC UNION POLICY

### A. Overview

As has been noted earlier, Canada needs to take significant new steps to improve our efficiency, effectiveness and competitiveness as a country. If we are to compete with world leaders for globally successful companies, we can no longer afford the luxury of inefficiencies and needless duplication arising from federal/provincial jurisdictional disputes. There a number of areas where the policy path is clear and the time has come for action to be taken.

### B. Securities Regulation

Numerous studies have clearly demonstrated that the existing balkanized framework for the regulation of securities markets is needlessly costly for businesses and taxpayers, inefficient in its operation, and not as effective as it should be.

The need to change the system is clear. Canadian businesses and taxpayers should no longer be expected to suffer from a broken system that is widely seen as out of step with international trends.

Recognizing the weaknesses of the current system, reform efforts have been ongoing for decades. Recent initiatives at the federal level include the publication of a Wise Person's Committee Report in 2003 entitled, "It's Time". The conclusions of the report did not leave much room for ambiguity on this point:

> It's time for Canada to have a single securities regulator. Capital markets around the world are continuing to integrate and become more competitive and important to economic growth and prosperity. Canada is now at a crossroads. Others have moved faster in adapting their regulatory structure in response to these trends. Either we can continue with a fragmented regulatory structure that has served Canada adequately in the past but that is ill suited to current realties, or we can choose to create a regulatory structure that helps Canadian capital markets become a source of comparative advantage in the increasingly competitive global marketplace….We believe the choice is clear. Canada cannot afford to stand still.

The Report also recognized the challenges raised by the federal/provincial dimension to this file, but strongly recommended that the federal government needed to set these issues aside in the best interests of its citizens:

> The history of provincial regulation has led to a misconception that the federal government lacks jurisdiction over capital markets. This is not the case. The federal government has the constitutional authority to pass comprehensive legislation regulating all capital markets activity within Canada….
>
> …This is a significant conclusion. The opinions are, of course, based on constitutional jurisprudence. We merely add that the legal conclusion corresponds with the common sense reality that the government of any country should have the legislative power to protect, buttress and enhance its economy in the interest of the well-being of all its citizens….
>
> ….We recommend that the federal and provincial governments promptly implement our recommendation. If, however, not all the provinces and territories

> decide to participate in establishing the Canadian Securities Commission, we recommend that the federal government nevertheless proceed to implement our recommended structure so that Canada would have only one securities regulator. While provincial cooperation would surely be preferable, it is not necessary. The constitutional opinions presented to the Committee confirm this conclusion.

Recognizing the challenges involved in obtaining provincial cooperation on this issue, we agree with the sentiment that action on this issue needs to be taken. It is critically important for Canada to have a common securities regulator and a single federal securities act. We recommend that the government take all reasonable steps to move this issue forward as soon as possible.

### C. Internal Trade Barriers

Under our existing framework, interprovincial trade barriers exist that would be illegal in Europe. These internal barriers keep firms from growing large enough to compete effectively in foreign markets and increase the cost of doing business.

Governments in Canada need to work towards the free flow of goods, services and investments in Canada. In this regard, we applaud the efforts of Alberta and BC in establishing the Trade, Investment and Labour Mobility Agreement (TILMA). When fully implemented in 2009, this agreement will effectively eliminate the border between the two provinces for virtually all transactions. The CBA has estimated that removing these barriers will create 78,000 jobs and reduce economic costs by $4.8 billion.

Unfortunately, this is the exception to the rule of internal trade barriers in Canada. As noted in the CBA submission to the Panel, we would urge other governments across the country to pursue TILMA-type agreements. If the provinces are not able to make progress to achieve a workable Agreement on Internal Trade, we recommend that the federal government take more direct action.

Specifically, we recommend that the federal government use its constitutional power over interprovincial trade and commerce to legislate a set of domestic free trade principles. These principles could then serve as guidance to the provinces and set benchmarks against which future progress could be measured.

### D. Harmonization of Provincial Sales Taxes with the GST

As the CBA submission has noted, harmonization of provincial sales taxes with the GST is sound economic policy. Given that a substantial proportion of provincial sales tax revenue is accounted for by tax on business inputs, this represents a tax on investment. According to the Department of Finance, sales tax harmonization would reduce the marginal effective tax rate on new business investment to 16.4 per cent, thereby encouraging increased investment, which will lead to higher productivity longer term.

As an industry, we have encouraged those provinces that have not yet harmonized to do so. At the same time, however, we would note that there will be certain industries, such as financial services, that will be negatively impacted by such a change.

Specifically, financial services are currently exempt from GST, which means that tax is not paid by consumers of financial services products. This also means, however, that financial services providers are not entitled to input tax credits on purchases of supplies. Conversion of provincial sales taxes to the wider tax base of the GST will mean that financial services providers will effectively wind up paying significantly more sales taxes as a result of harmonization.

Imposing higher taxes on financial institutions would clearly have a significant negative impact on their competitiveness. It would raise their costs and impair their capacity to invest and improve their services. Ultimately a less competitive and efficient financial services sector will be a detriment to consumers as well.

The intention of the harmonization initiative – i.e. lowering tax rates – is laudable. It will thus be particularly important for the government to work closely with negatively impacted stakeholders on options to ensure that taxes are not inadvertently significantly increased, including some form of transition/mitigation regime for impacted industries.

## 5. LABOUR MARKET POLICIES

Canada is facing the threat of a decrease in growth of the labour force. This will intensify the pressure on improving productivity and will pose challenges for companies looking to Canada for investment opportunities. Below are a number of recommendations designed to pursue faster growth in the supply of labour in an aging population environment:

- immigration targets should be raised to between 300,000 and 400,000 immigrants per year to help meet future labour shortages;

- more communication and co-operation are required between the federal government, which controls immigration policy, and provinces, which control certification across the professions and skilled trades and the movement of labour;

- all levels of government should significantly improve the ways they co-ordinate their policies on accepting, placing and integrating immigrants to ensure that Canada does not lose out on the potential contributions of immigrants by creating a disappointing experience on arrival in Canada;

- a more concerted effort is needed to encourage immigrants to settle in communities across Canada where there are labour shortages, such as in western Canada (the majority of immigrants in recent years have settled in just three metropolitan areas —Toronto, Vancouver and Montreal);

- the framework for foreign certification and the recognition of the foreign work experience of immigrants needs to be improved;

- we need better information on foreign educational institutions, including easily accessible ratings or overviews of these institutions should be made available;

- language training and programs should be expanded to reduce language difficulties as a barrier to effectively participating in the workforce;

- apprenticeship programs in the skilled trades need to be reformed to pursue the goal of greater participation by women and visible minorities in the workforce.

In addition to these regulatory measures, the government should also work to ensure that Canada has a competitive personal income tax framework as well. As part of this review, the government could consider the effect of higher marginal rates of taxation on second incomes since these may create disincentives to two-earner couples and restrain labour force participation in general. Statistically, the more significant impact of these high marginal rates is on female labour force participation.

## 6. REGULATORY POLICY

### A. Overview

As noted in the CBA's submission, Canada's financial services sector is one of the most heavily regulated industries in the country. Indeed, virtually all aspects of the structure, activities and business operations of financial groups are subject to oversight by a variety of federal and provincial regulatory bodies.

The competitiveness of our financial services sector is profoundly affected by the legislative and regulatory framework. We support the recommendations in the CBA submission to respond to these concerns. Outlined below are the key points we would like to highlight for the Panel's consideration.

### B. Market Solutions

As we re-examine the existing regulatory framework, it is important to emphasize that the only source for job creation, investment opportunities and innovation is the market. Barriers to its efficient operation act as a drag on the ability of an economy to promote growth and opportunities for all Canadians.

Bearing this principle in mind, the government needs to undertake a fundamental reassessment of its entire stock of regulation to ensure that the goals of promoting competition, encouraging investment and enhancing efficiency are at the foundation of all government initiatives.

As part of this review, policies on competition, investment and efficiencies need to be clearly articulated and the existing legislative and regulatory framework must be adapted to deliver on these goals. Inefficient regulatory barriers to competition must be eliminated.

In undertaking a review of the regulatory framework, the government should follow the approach adopted by the Minister of Industry in revitalizing the framework for telecommunications. The Minister's approach can be summarized as follows:

- where possible, the government should seek market solutions to a problem;

- in cases where a market solution is not adequate and regulation is needed, care must be taken to ensure that it is specifically targeted to achieve precisely defined policy objectives;

- any necessary government regulation should be as minimally intrusive and efficient as possible.

These broad principles can apply to any type of government regulation. We have identified a number of specific issues in the area of financial sector regulation where we believe significant improvements can be made to the regulatory framework and would welcome the opportunity to discuss these further with the Panel and the government.

We believe that a reassessment of the regulatory framework outlined above, together with a move away from prescriptive regulation to a more principle-based approach, would lead to significant gains in efficiencies and effectiveness in Canada's economy.

## V. SUMMARY/CONCLUSION

The above submission outlines a strategic domestic policy agenda that is designed to improve Canada's economic outlook for all Canadians. This policy agenda is comprised of the following components:

- financial sector policies (e.g. the elimination of the insurance restrictions) that will directly improve consumer choice and convenience in the insurance market;
- tax policies (e.g. lower corporate tax rates) that will improve the competitiveness of companies and promote job growth in Canada;
- competition policies to ensure that companies headquartered in Canada can succeed on the world stage, thereby providing a source of high quality and better paying jobs for Canadians;
- national standards (e.g. a common securities regulator; single federal securities act; removal of internal trade barriers) that will reduce waste, improve productivity and contribute to higher living standards for Canadians;
- labour market policies to improve opportunities for Canadians to contribute to Canada's economic success;
- regulatory policies that will improve the efficiency and effectiveness of the legislative framework for all Canadians.

In summary, this policy package will:

- enhance competition in Canada and improve the scope of choice and convenience available to Canadian consumers;
- improve the competitiveness of companies headquartered in Canada to ensure that Canadians have access to a broader range of higher quality and better paying jobs;
- increase productivity as a means to ensuring that the standard of living of Canadians is among the highest in the world.

Taken together, we believe that these proposals will ensure that Canada can become an economic leader on the world stage for decades to come.