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**Manufacturiers et  
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Canada**

# **Policies for Productivity and Innovation: What Works? What Doesn't?**

**February 24<sup>th</sup> , 2011**

**Simon Prévost**

**Leadership makes the difference  
Le leadership qui fait la différence**



# Content

- Where are we now ? Some key observations
- Key relationships behind investment and innovation
- What do we do now? Some policy implications





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# Where Are We Now? Some Key Observations

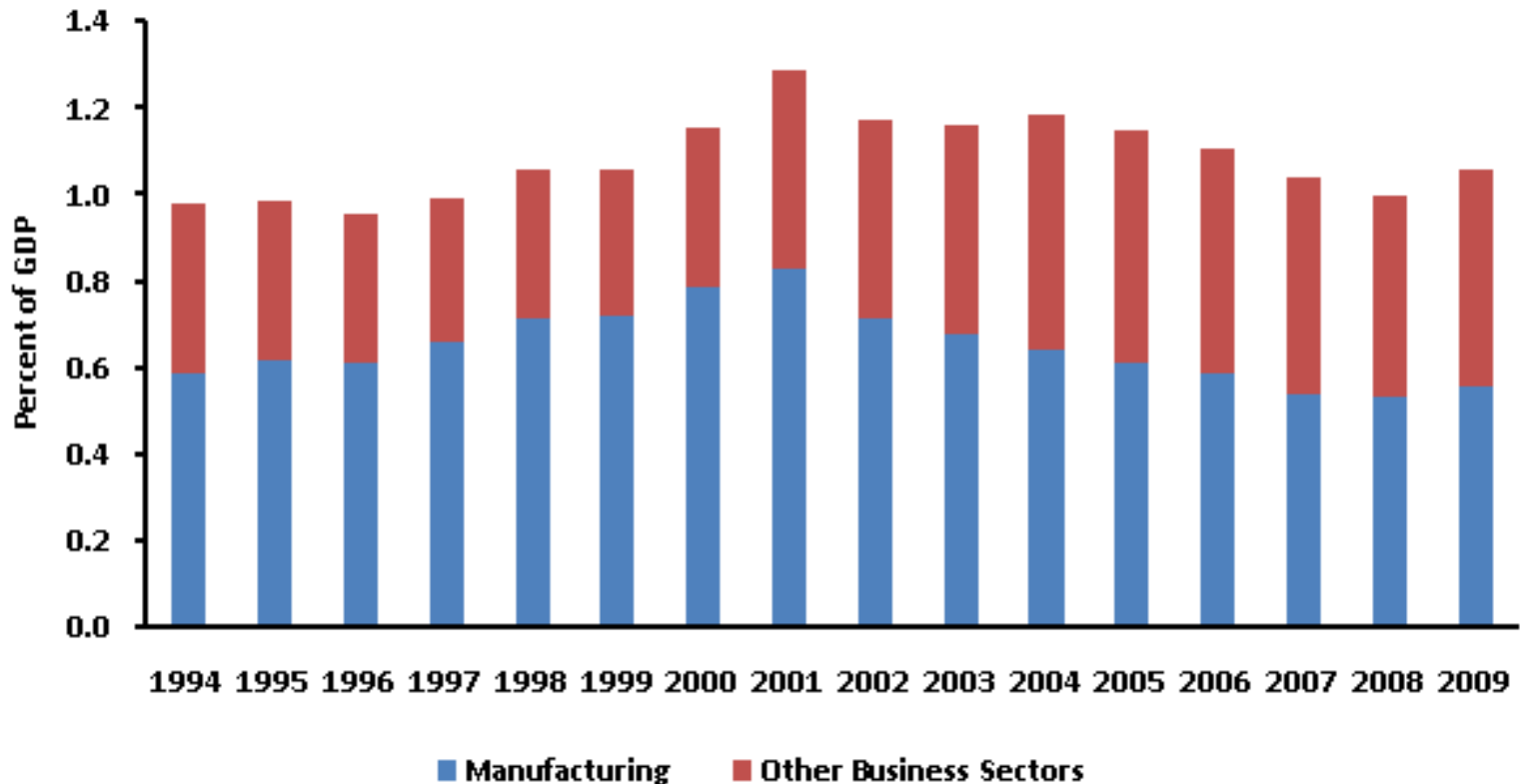
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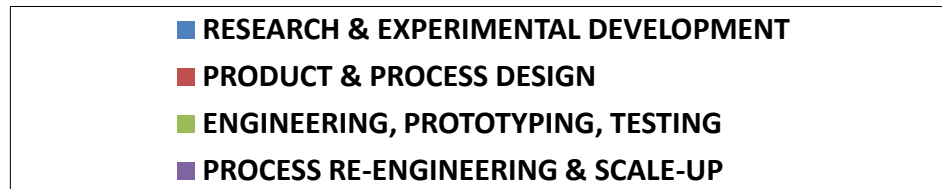
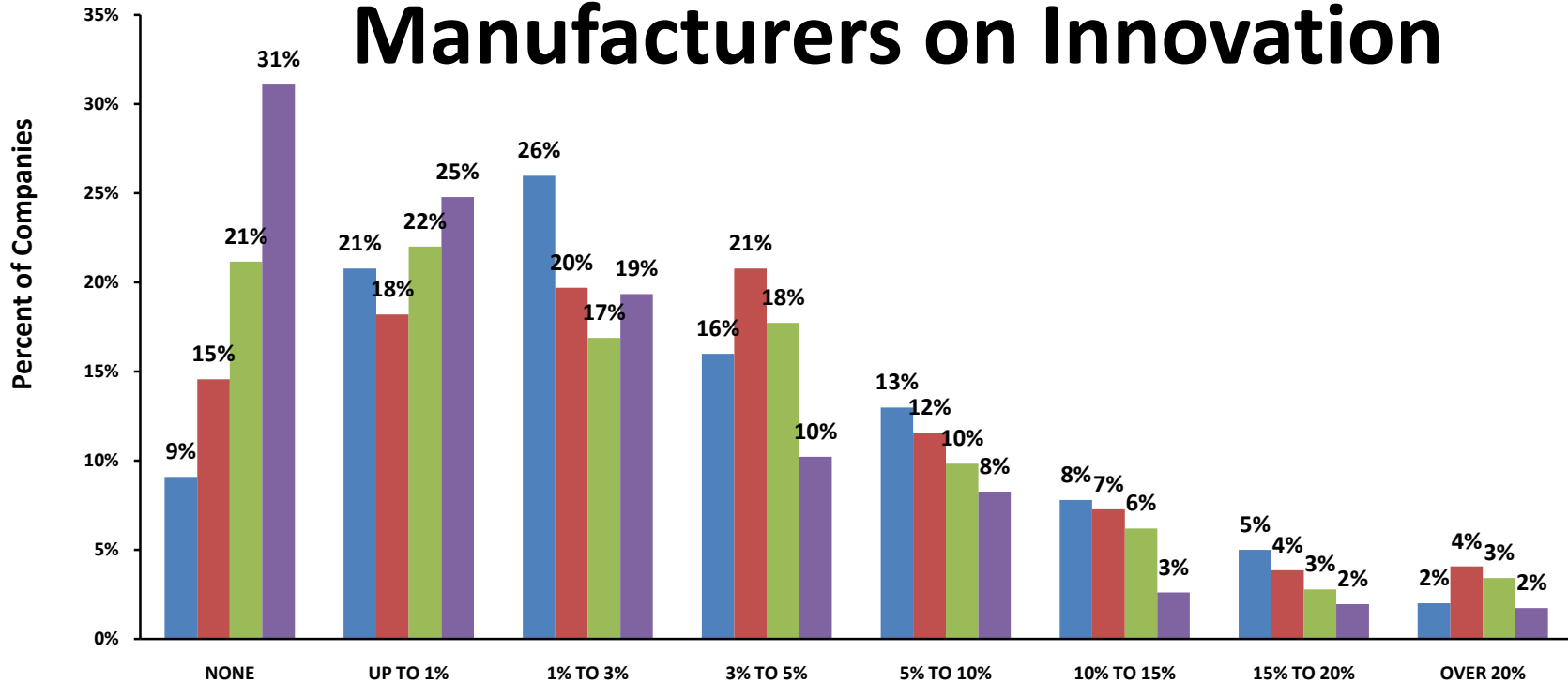


# Business Investment in Research & Development



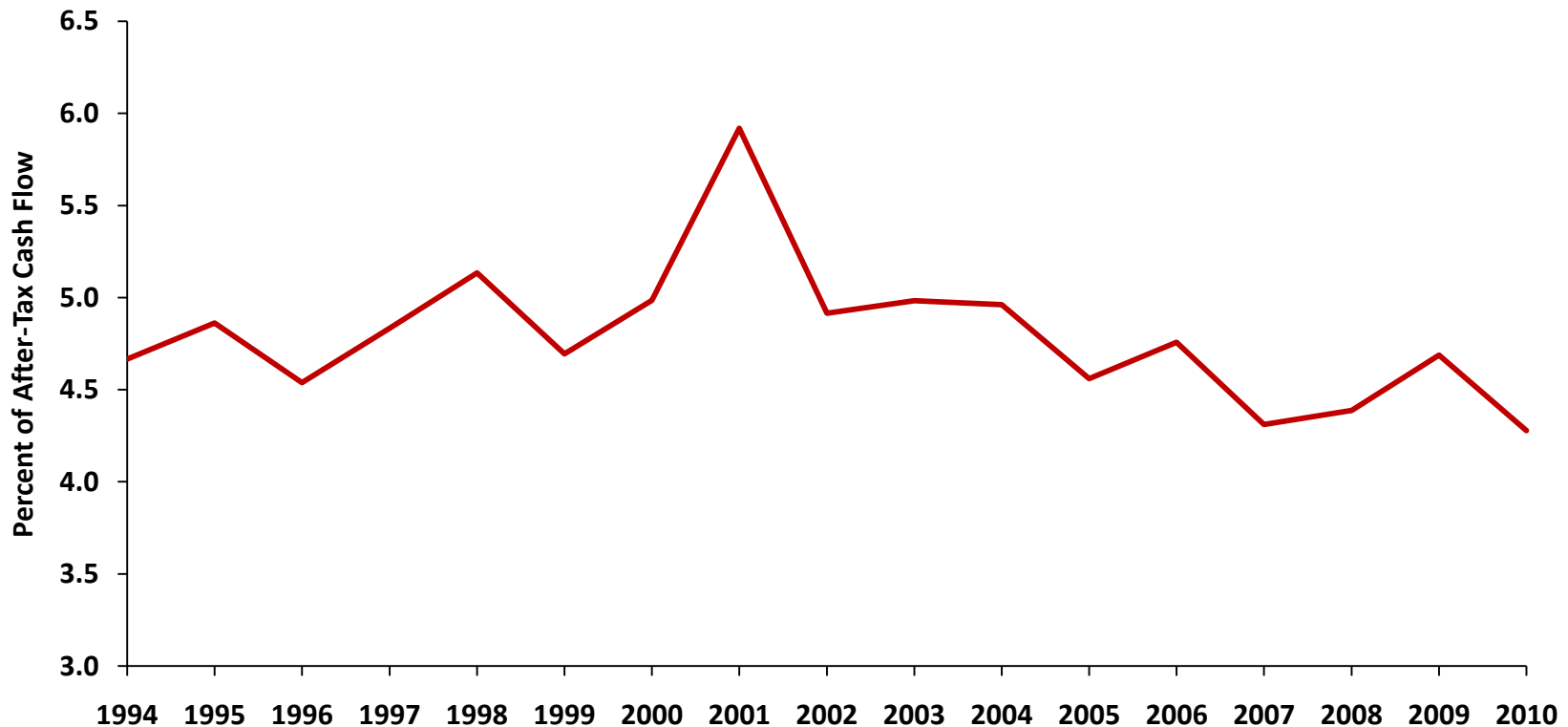


# Percent of Sales Spent by Manufacturers on Innovation



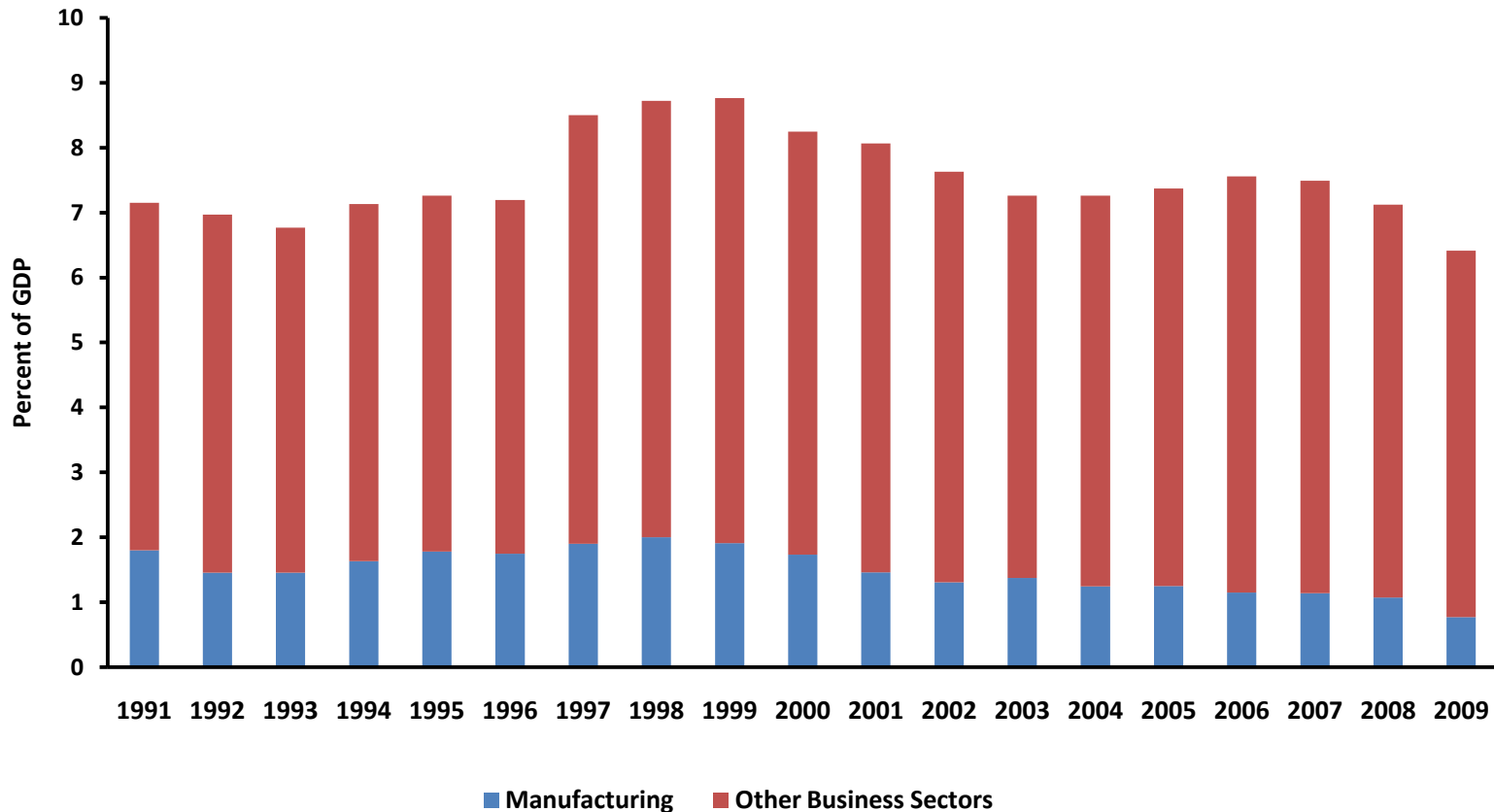


# Business Investment in Research & Development (cont'd)



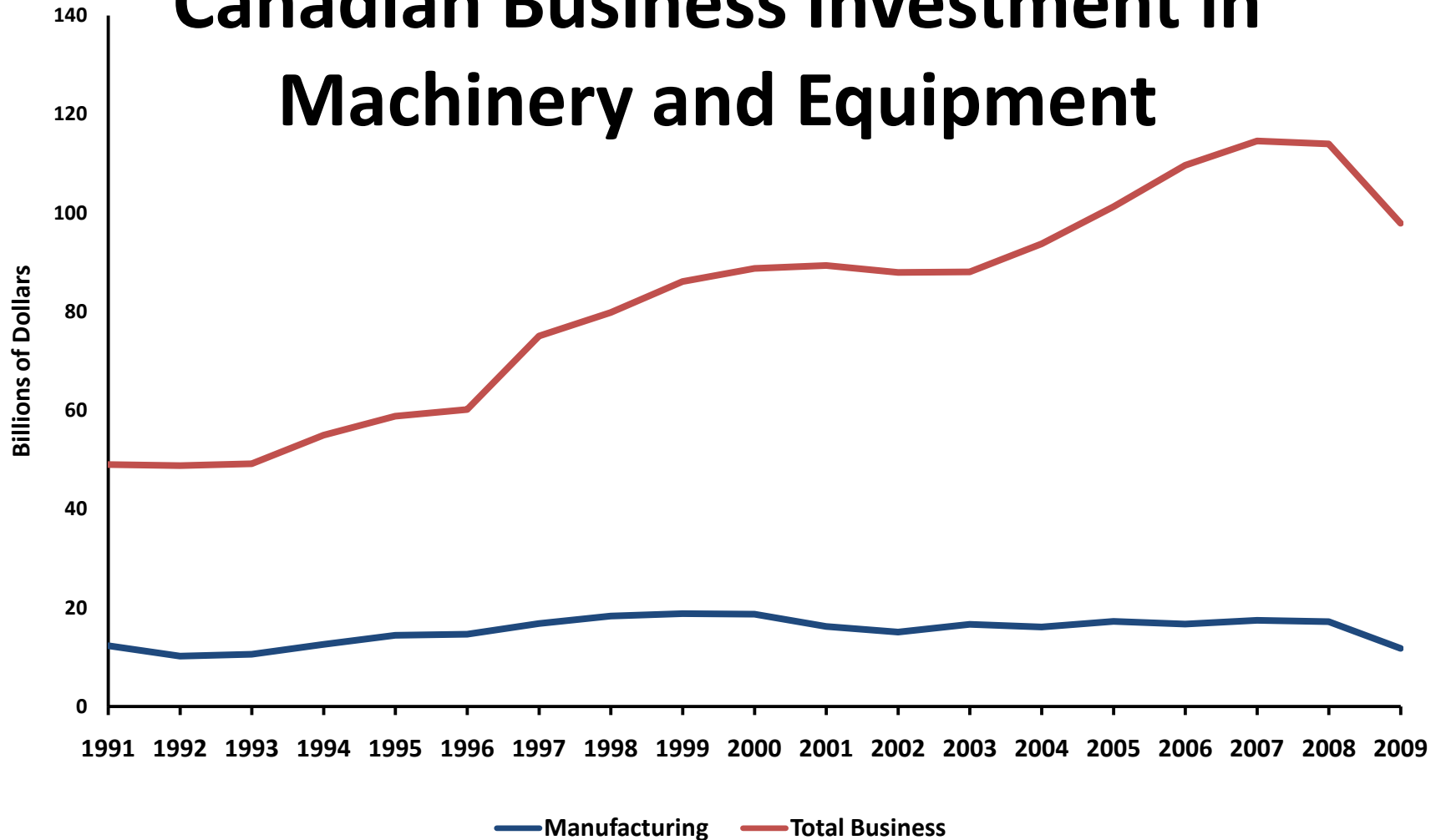


# Business Investment in New Machinery & Equipment



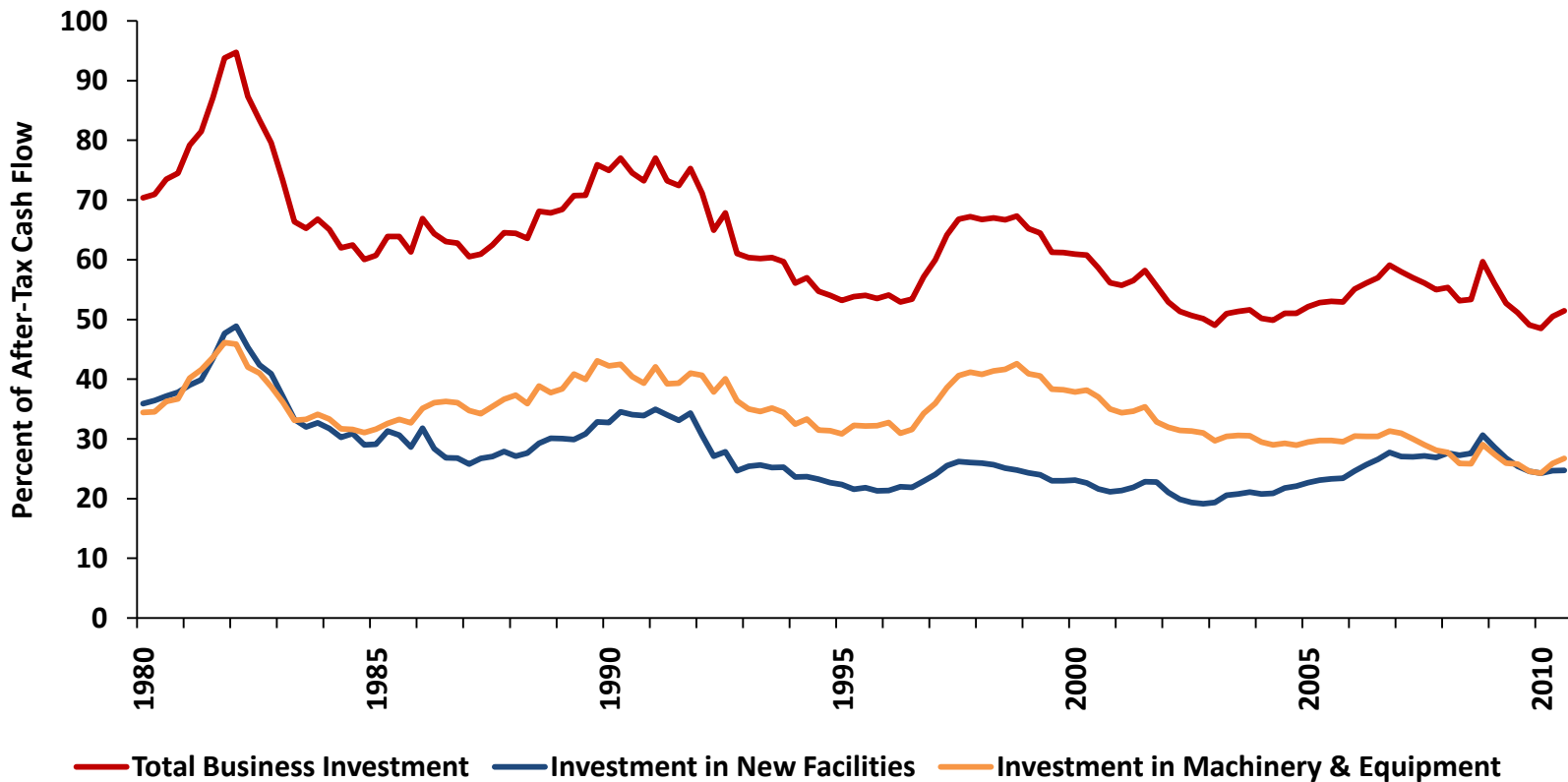


# Canadian Business Investment in Machinery and Equipment



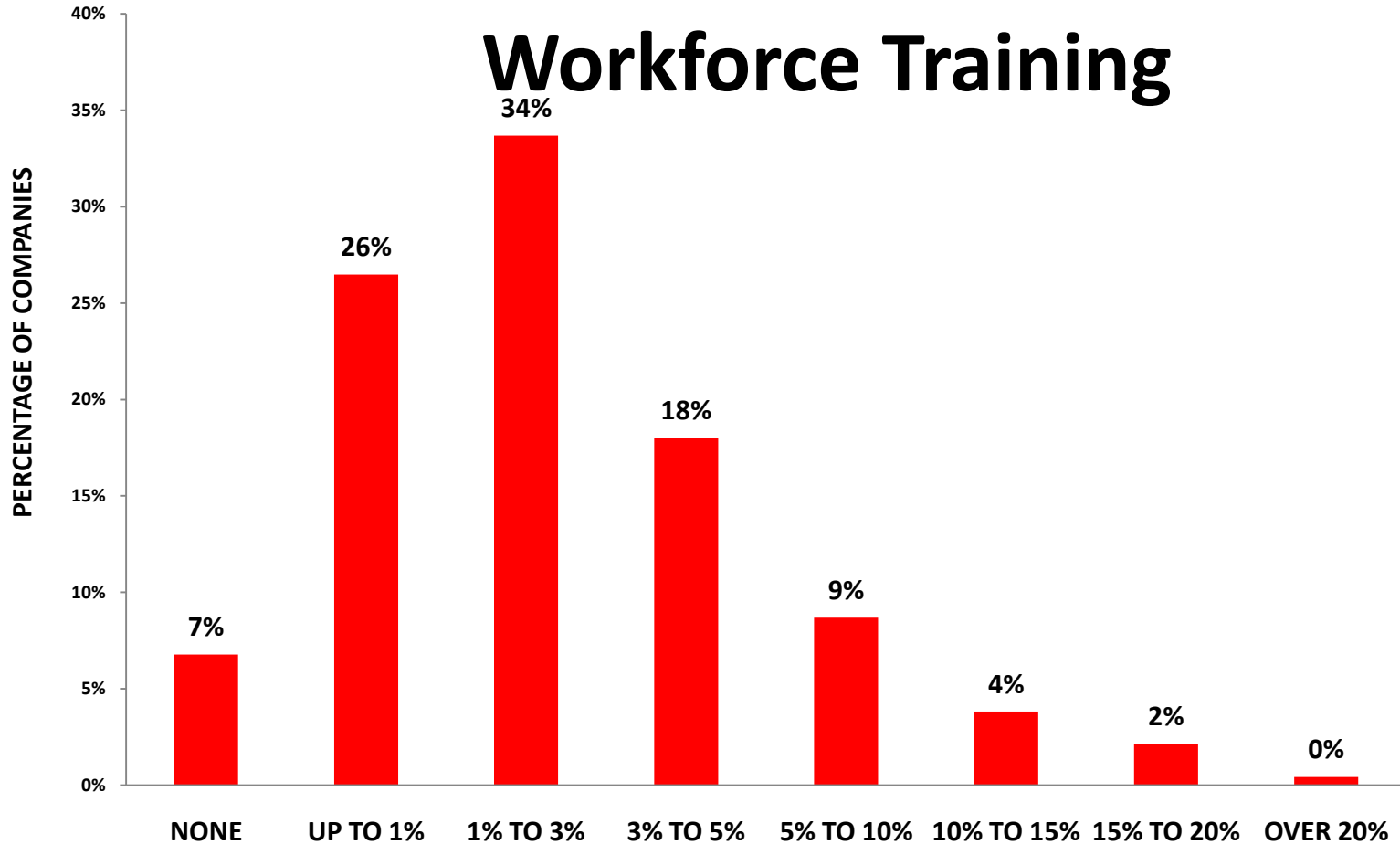


# Business Investment as a % of After-Tax Cash Flow



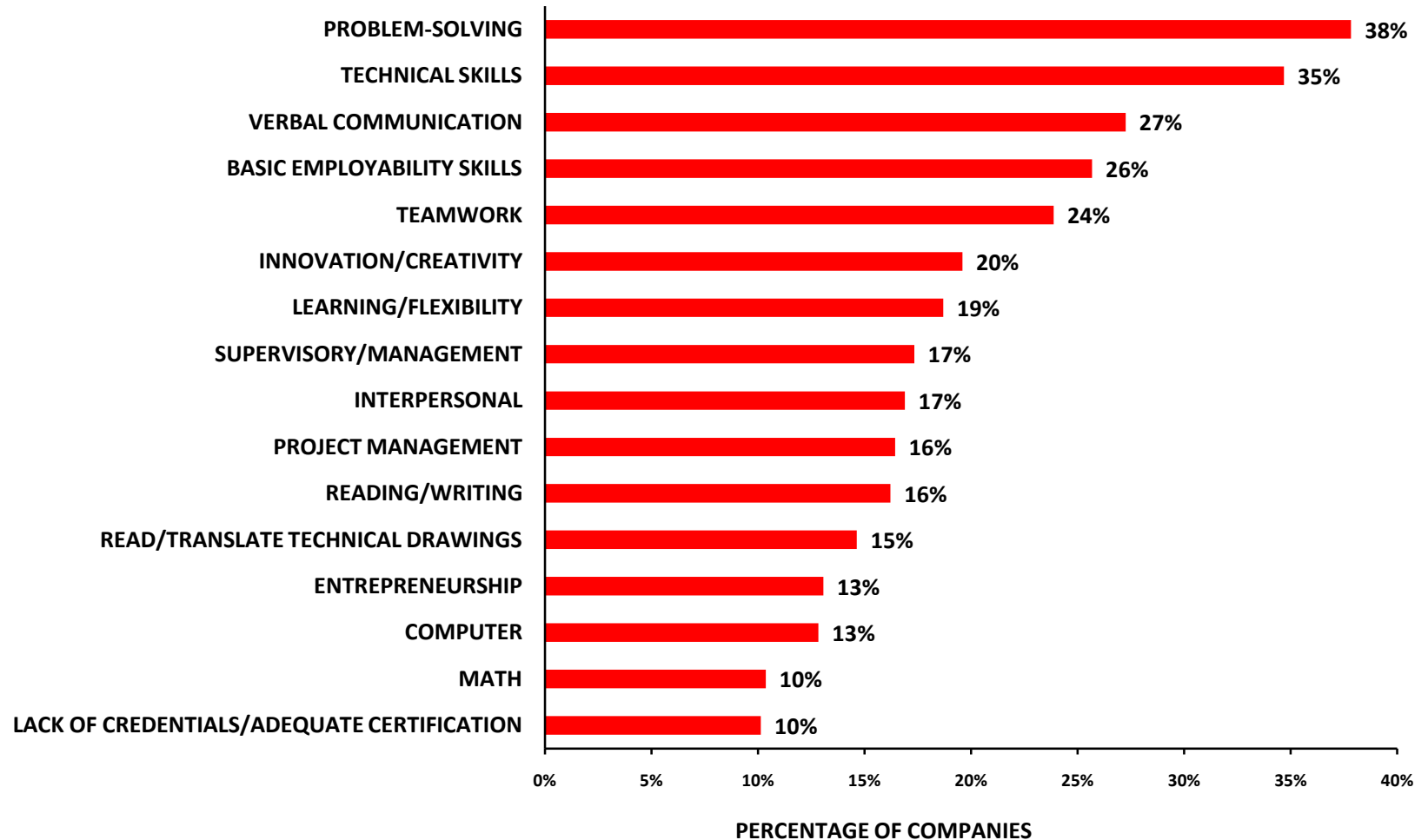


# Percent of Payroll Invested in Workforce Training



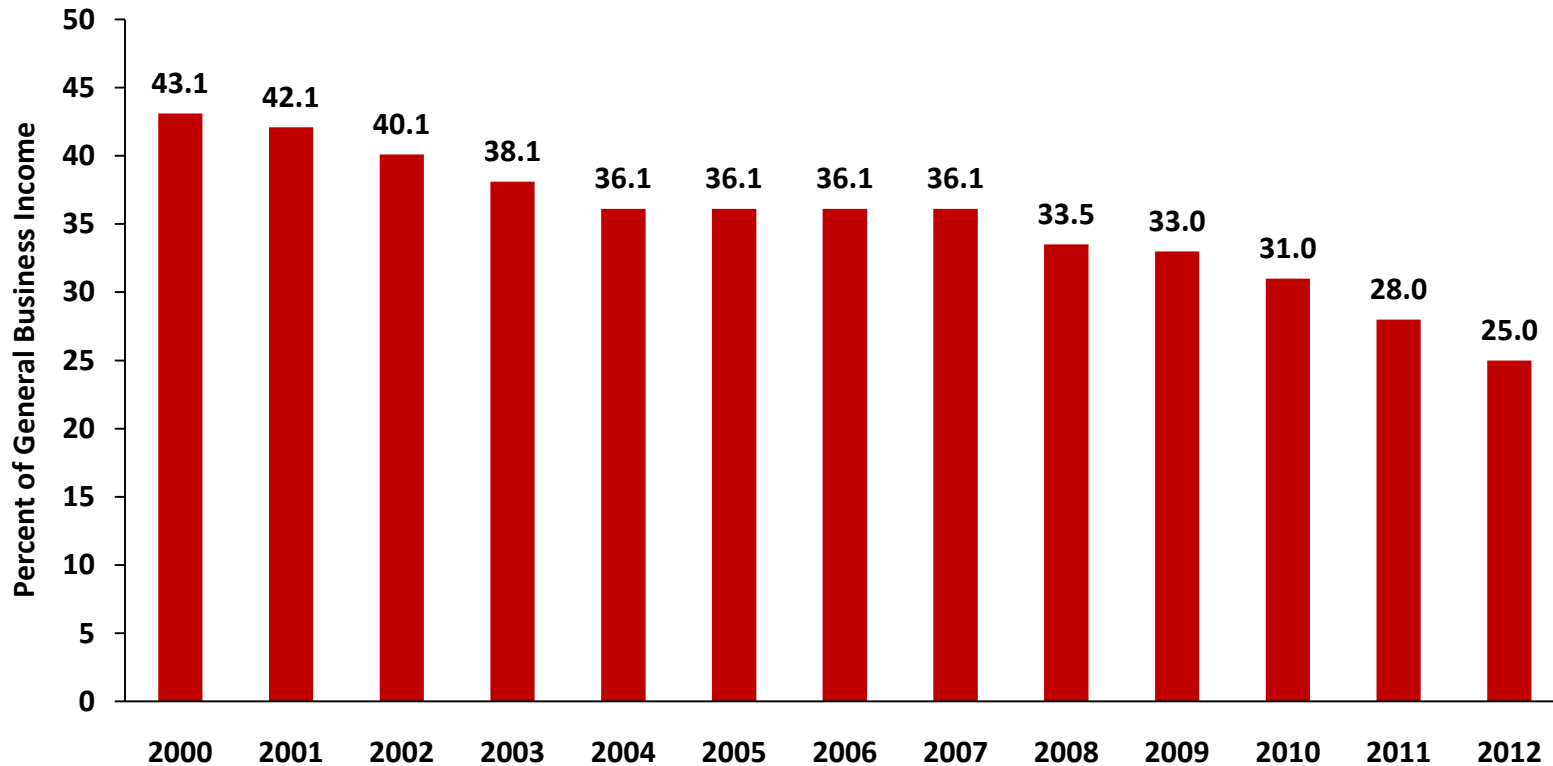


# Workforce Skills in Need of Improvement



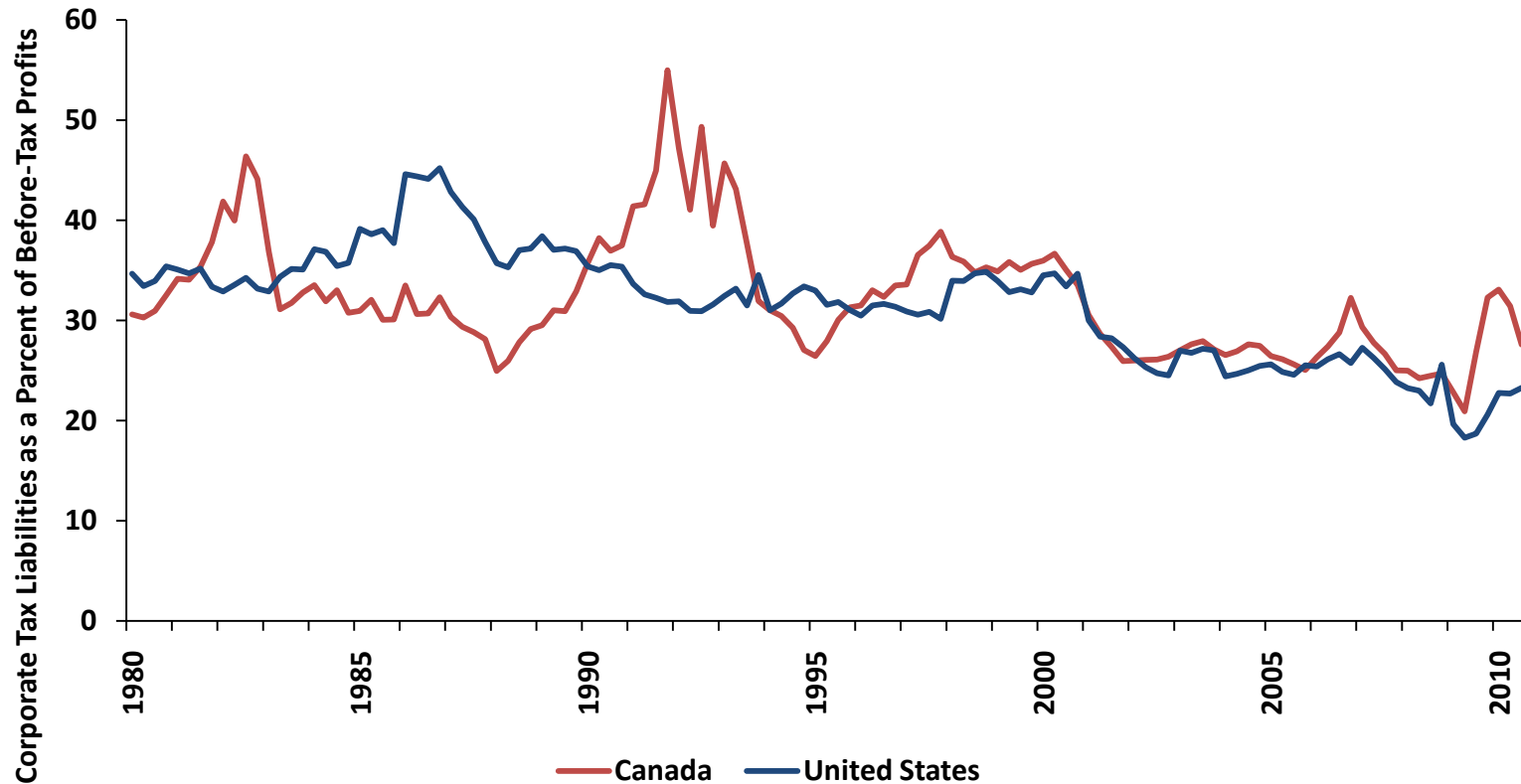


# Canada's Average Combined Statutory Corporate Tax Rate



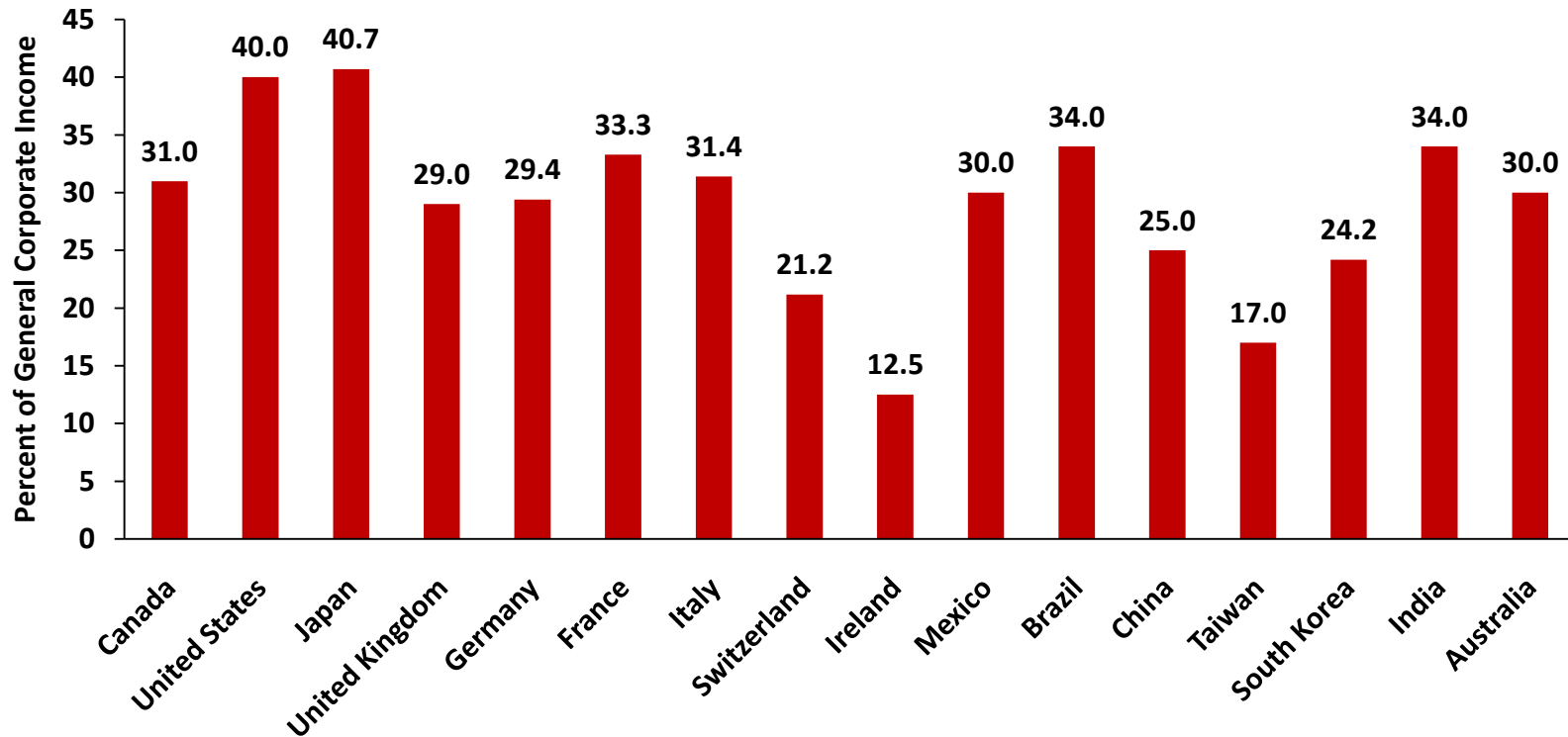


# Canada & the United States: Effective Corporate Tax Rates



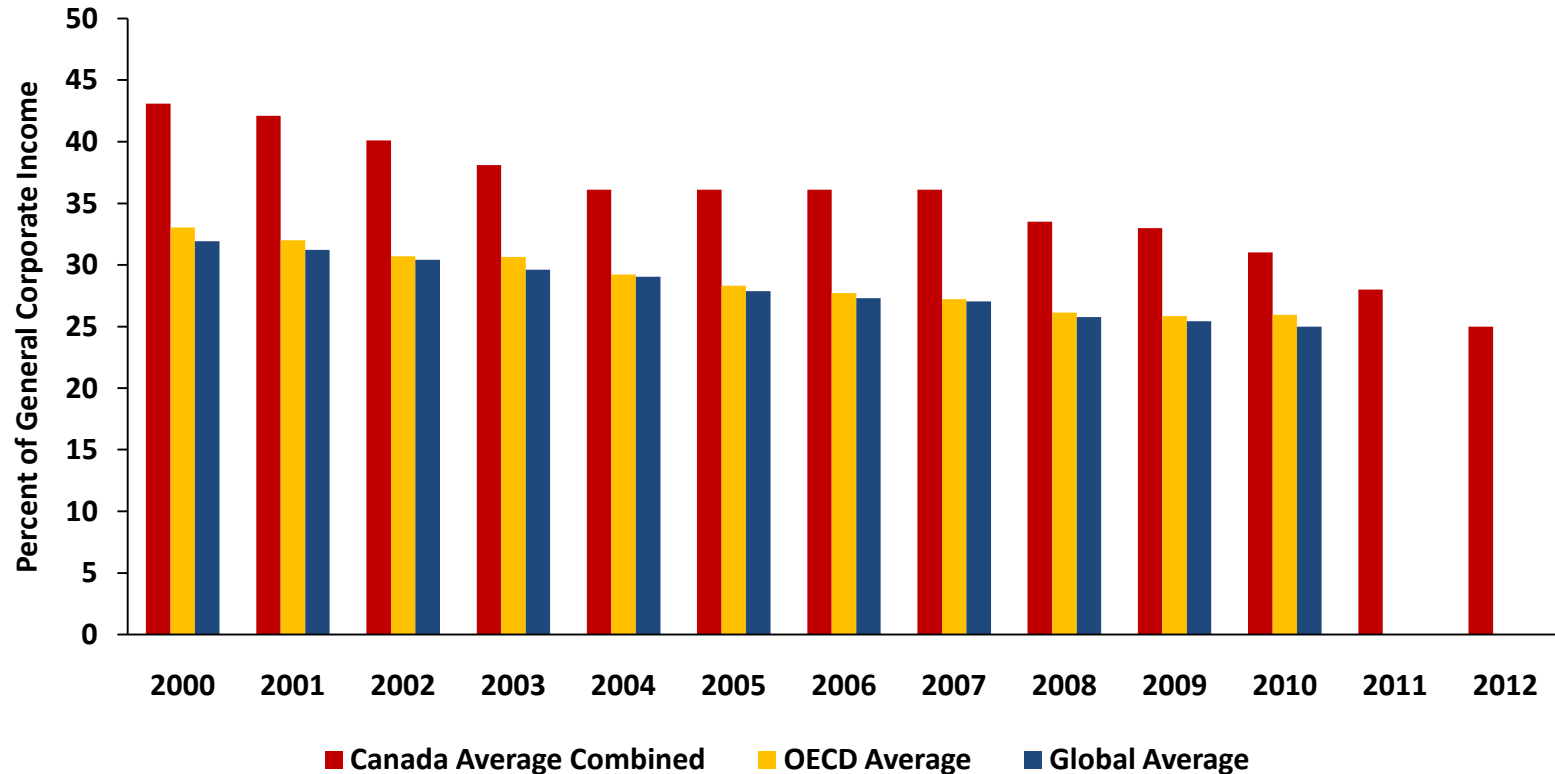


# International Corporate Tax Rates 2010





# Canada's International Tax Competitiveness





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# Key Relationships Behind Investment and Innovation

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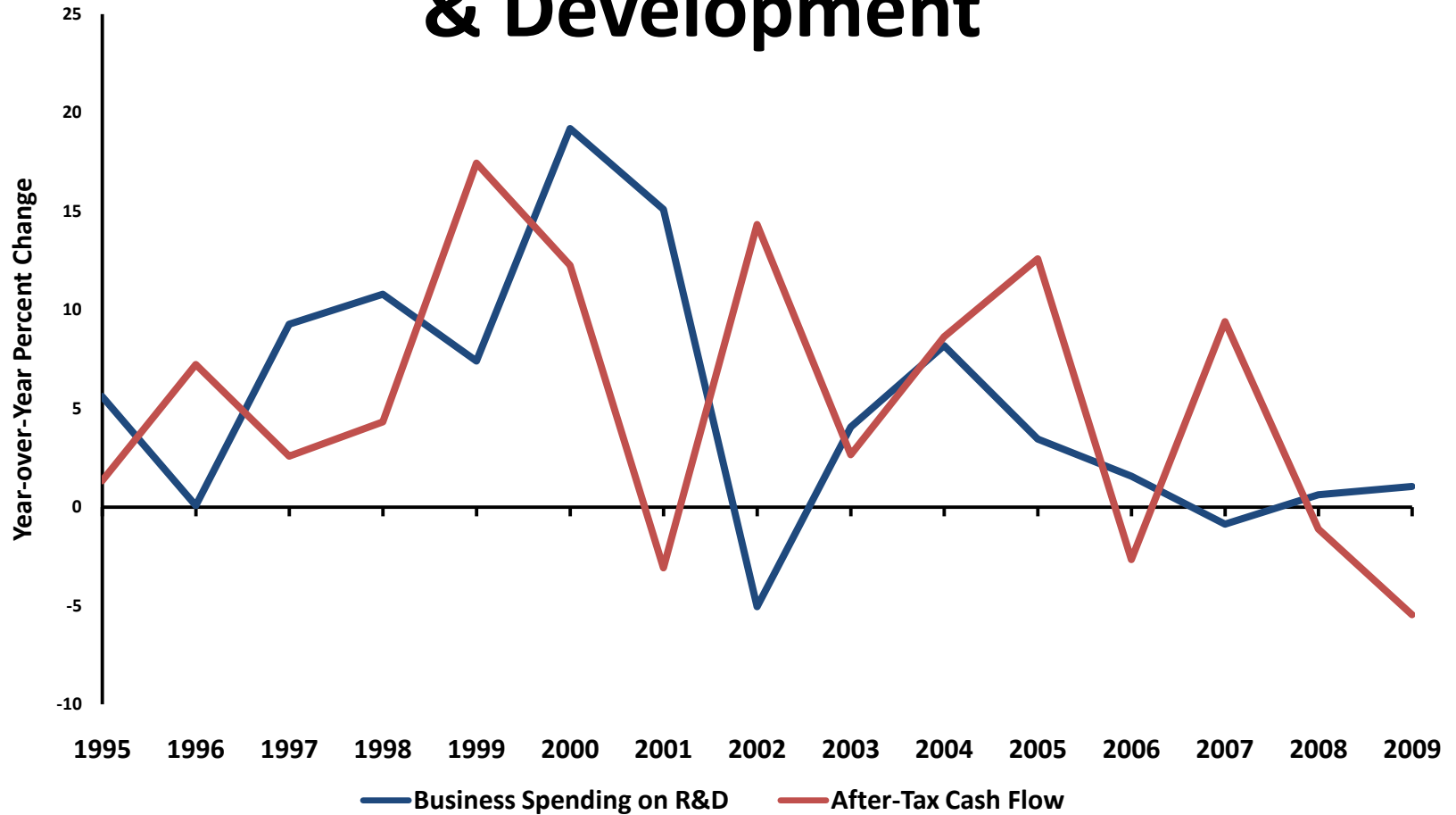
# What Drives Innovation?

- Innovation is driven by investments in productive assets
- Three main type of assets – knowledge (R&D), technology (new machinery and equipment) and human capital (skills and training)
- Investments in productive assets are in turn driven by after-tax cash flow performance
- At the end, innovation is ultimately an investment decision



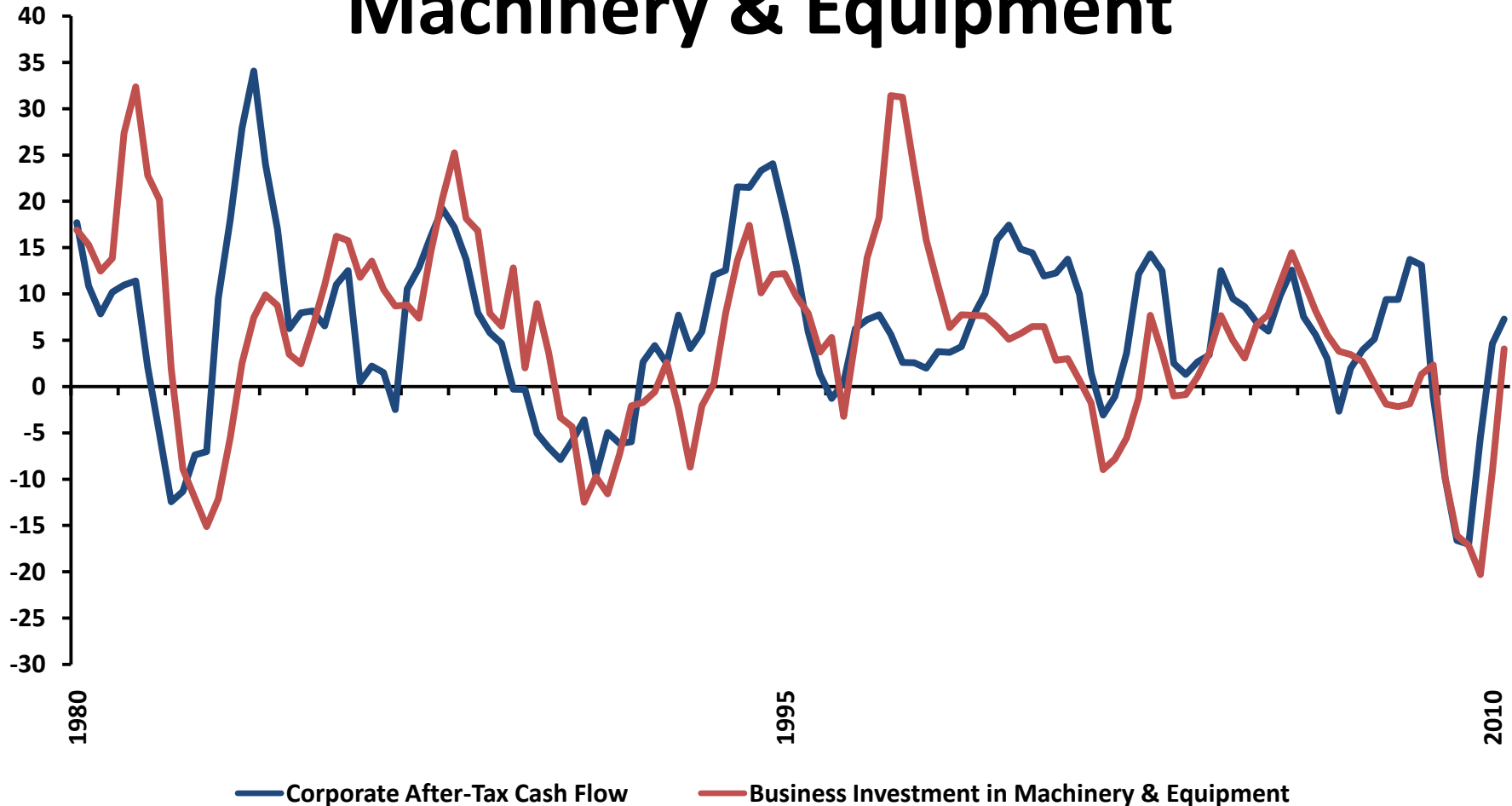


# Cash Flow Drives Investment in Research & Development



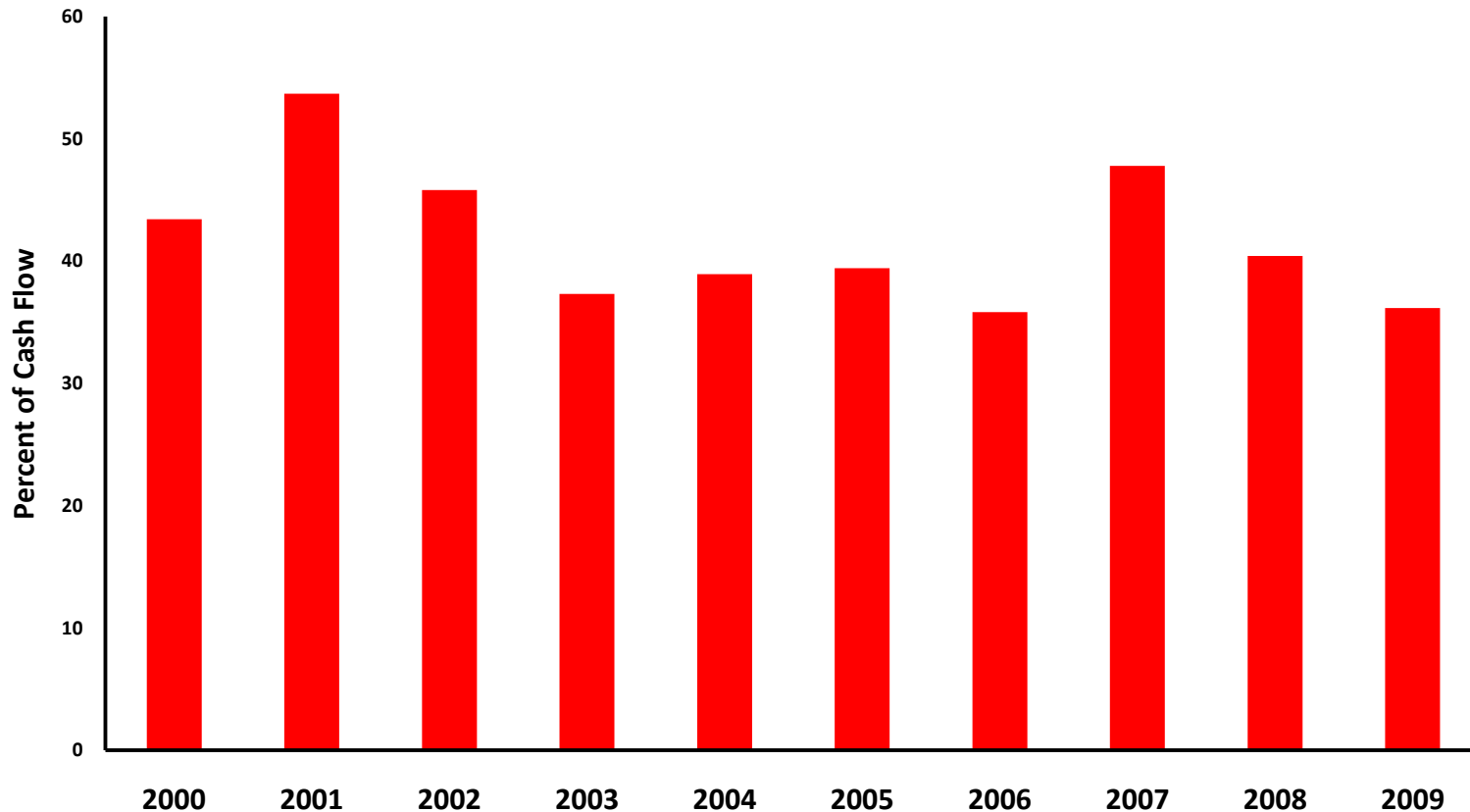


# Cash Flow Drives Investment in New Machinery & Equipment



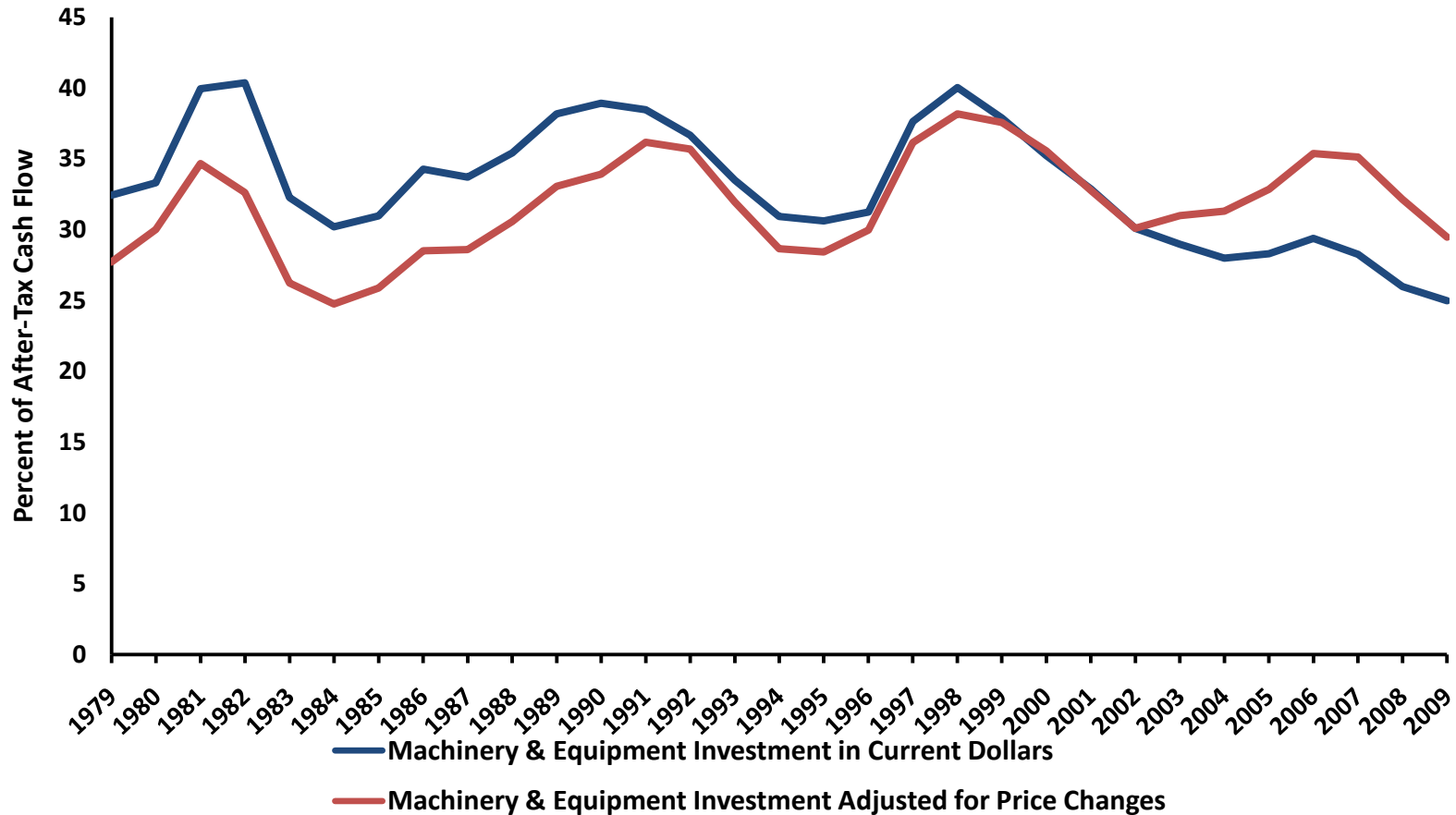


# Technology Investment as a Share of Cash Flow in Manufacturing



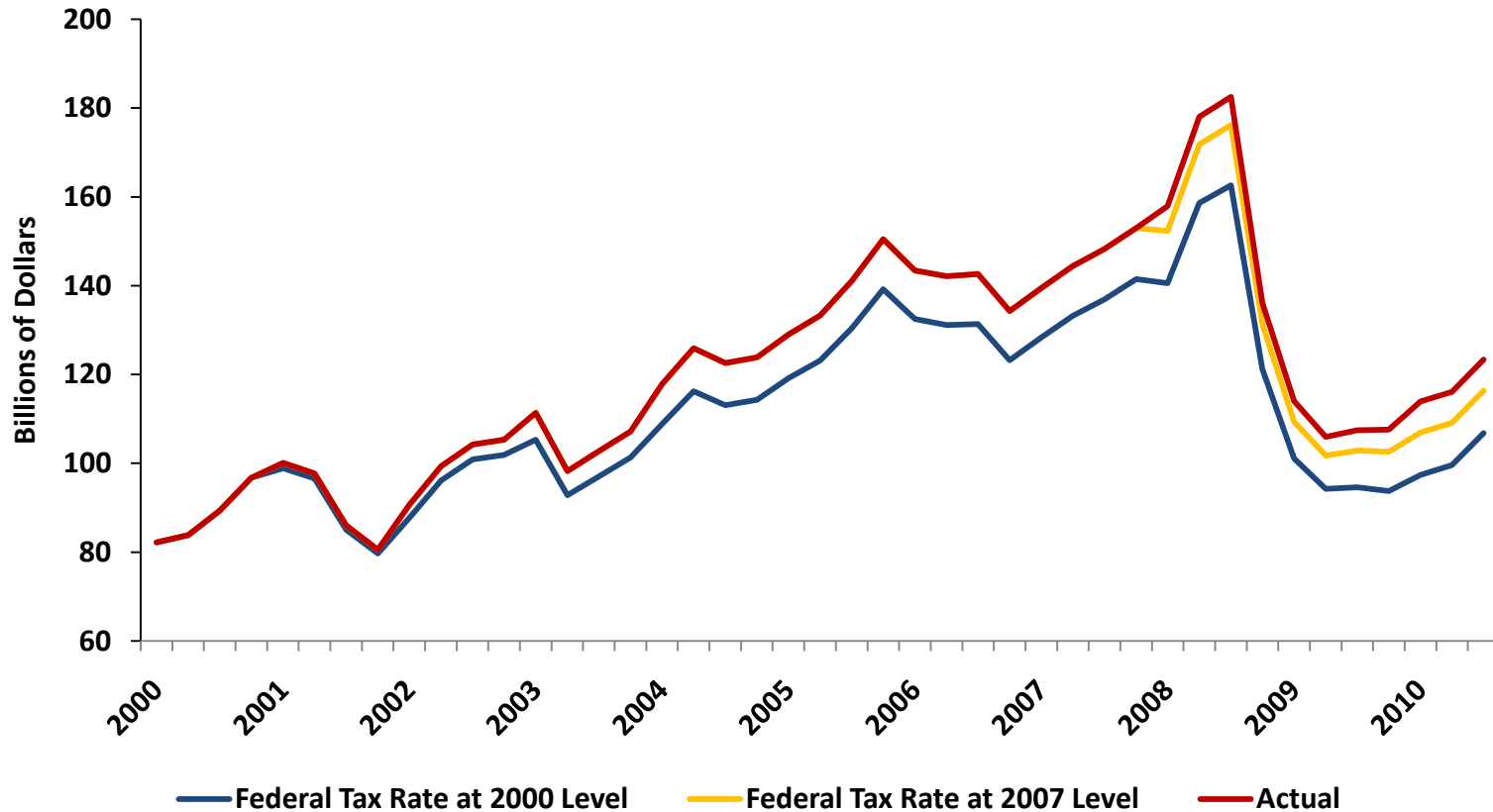


# Technology Investment as a Share of Cash Flow





# After-Tax Business Profits





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# What Do We Do Now? Some Policy Implications

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# Policy Options: What Works?

Impact of Policy Measure on Cash Flow	Examples of Policy Measures	Impacts of 1% Change in Cash Flow on Innovation Investments resulting from Policy Measures
Increase in Before-Tax Profits	<ul style="list-style-type: none"><li>- Harmonization of provincial sales taxes with the GST</li><li>- Elimination of duties on imported technologies, goods, and services</li><li>- Reduction in regulatory compliance costs</li><li>- Subsidies tied to business investment</li></ul>	+ 0.36%
Reduction of Effective Tax Rate on Profits	<ul style="list-style-type: none"><li>- Reduction in corporate income tax rate</li><li>- Elimination of capital taxes</li></ul>	+ 0.11%
Increase in Capital Cost Allowance	<ul style="list-style-type: none"><li>- Accelerated depreciation rates</li></ul>	+ 0.64%
Refundable investment Tax Credit	<ul style="list-style-type: none"><li>- Scientific Research &amp; Development Tax Credit</li><li>- Refundable Investment Tax Credit</li></ul>	+ 3.20%





# Fiscal Policy Targets

1. Encourage investments in productive assets
2. Increase the cash available for businesses to invest by leaving more money in the hands of companies that invest
3. Raise the rate of return on productive assets to make investment in those more attractive than other ways of allocating cash
4. Maintain policy measures for the length of the investment cycle – provide stability





# Tax Policy Recommendations

1. Extend the two-year write-off for investments in manufacturing and processing technologies to at least end of 2016
2. Make the SR&ED tax credit refundable
3. Introduce a refundable tax credit for workplace training
4. Introduce a refundable tax credit for investments required for regulatory compliance





## Tax Policy Recommendations Cont'd

5. Follow through on commitments to reduce federal corporate income tax rate to 15% and average combined rate to 25% by 2012
6. Follow through on commitments to harmonize provincial sales taxes with GST





## Other Policy Recommendations

1. Continue to provide direct financial support for companies investing in new products, processes, and technologies
2. Harmonize regulations and standards across Canada and internationally
3. Conclude economic agreements that eliminate protective barriers to trade, investment, R&D partnerships, technology transfer, and labour mobility within Canada as well as with key international markets





## Other Policy Recommendations cont'd

4. Increase financial support for the National Research Council's Industrial Research Assistance Program (IRAP)
5. Improve coordination and awareness about innovation infrastructure and business development services at the community level
6. Direct more funding for post-secondary and government research to applied and collaborative R&D initiatives with business





## Other Policy Recommendations cont'd

7. Raise business awareness about the innovation services that are available from Canada's universities, colleges, and government research centres
8. Ensure that Canada's young people and adult workforce have the basic literacy and numeracy skills they require to function in the workplace
9. Improve Canada's apprenticeship system and increase support for applied skills, trades, and technology programs in Canada's school and college systems





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**Thank You !**

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