

20 YEARS OF CANADIAN COMPETITIVENESS IN POLICY OPTIONS

20 ANS DE COMPÉTITIVITÉ CANADIENNE DANS OPTIONS POLITIQUES

This year marks Policy Options' 20th anniversary. To celebrate, we are running excerpts from the archives. In this issue, to accompany our cover story, we look at how different Policy Options' writers have looked at the problem of Canadian competitiveness over the years.

Notre revue célèbre cette année son vingtième anniversaire. À cette occasion, nous publions divers documents tirés de nos archives. Nous reproduisons ce mois-ci les jugements que divers collaborateurs d'Options politiques ont portés sur la compétitivité du Canada.

Avoid the political muskeg Traditional arguments for state support of and investment in infrastructure have been the foundation of numerous national policies in Canada. The argument goes something like this: infrastructure development is too expensive to be undertaken by private industry; essential services such as information networks must be affordable to all Canadians and therefore must be subsidized; private industry cannot be trusted to develop a resources on an equal basis around the country. Such arguments have stood the test of time in Canada. Times, however, have changed.

State intervention is not considered the sure-fire panacea that it might have been in simpler times. Governments are less financially flexible and much more intensely lobbied and scrutinized. Consider the major problems associated with subsidy. First, state funding creates the need for a political justification. Substantial state funding for the Canadian Internet is likely to become bogged down in a political muskeg of priorities, rights, needs and just desserts. By contrast, a market-driven approach would allow for the creation of a high-tech industrial commodity, with a minimum amount of social-policy wrangling.

It is estimated that building a network infrastructure in Canada will cost between \$1.5 billion and \$10 billion. Now say "pork barrel." Pork barrelling has been endemic in all national infrastructure programs and will threaten the efficient allocation of large network-building resources. The process of state-funded network construction would end up serving the old boys, the rich boys and the politically potent, but not the Canadian economy and certainly not the public.

Tyson MACAULAY

Sept 1994

For globalization, a GAI Perhaps the most serious weakness of Canada's social system, in its present form, is its vulnerability to the pressures of growing global competition. Because social programs are shared among the federal and provincial governments, responsibility is diffused and the incentive to preserve adequate levels of social assistance is that much less. As global competition increases the pressure on governments to reduce levels of social assistance to the "lowest common denominator," the cracks in Canada's systems will only widen...

Canada's emerging global requirements might breathe new life into an old idea, the guaranteed annual income or negative tax. In its most advanced form, it involved the complete dismantling of existing federal and certain provincial programs. It also calls for the virtual elimination of tax deductions and exemptions. These schemes would be replaced by a single "social tax system" built upon the principle that social assistance should be guaranteed to all those in need (as was done by the past Liberal governments in the cases of the Guaranteed Income Supplement and the Child Tax Credit.)

Under a guaranteed annual income, all personal incomes above a standard level would be taxed on a progressive scale. Incomes below that level would be supplemented by tax credits to the point where individuals with no income—irrespective of age, sex, marital status, residence or employability—would be guaranteed a minimum annual income from the state.

Roy MACLAREN

June 1991

Tapping the public purse The ultimate test of the value of a public investment in infrastructure is its direct economic benefits and in particular the benefits that cannot be appropriated by market mechanisms, i.e. the “externality” component. As [the recent report of the Royal Commission on National Passenger Transportation] rightly points out, this component is somewhat marginal, and does not generally justify the replacement of market mechanisms by government intervention.

Demands for government-financed “information highways,” such as the CANARI project in Canada, likewise appear to be an attempt by the telecommunications industry to tap the public purse to finance some of its own investments. The assumption that more powerful data transmission networks would have a significant impact on economic growth needs to be examined. The allocation of public funds to such a project and the extent of government involvement should only be determined after a careful identification of the likely benefits and beneficiaries. Universities and research centres would gain from cheaper access to such networks; but there are less circuitous routes by which to subsidize higher education.

Marcel CÔTÉ and France ST-HILAIRE July/Aug 1993

High tech is over-rated No matter how well Ontario does, and no matter how much high tech industry grows and thrives in Ontario, Ontarians are, for the most part, going to have to find their future livelihoods elsewhere.

High tech industry is relatively important in Ontario already; but it is not important as an employer, nor is it likely to become much more important in this respect than it now is under any plausible set of circumstances.

Even successful high tech industries initiated in Ontario are likely, in the end, to establish their major production facilities elsewhere, either for cost reasons or to gain access to larger markets : witness Northern Telecom and Mitel. There simply will not be enough high tech industrial jobs to go around, and it is folly to pretend that there ever will be.

Even if all high tech employment in Canada were in Ontario and the relative importance of such employment in Canada rose to US levels—a most improbable scenario—little more than the increase in total Ontario employment from 1970 to 1980 alone (quite apart from the growth in unemployment over this period) would have been sopped up. While the growth of the labour force has recently slowed down, the conclusion that most employment growth in the future, as in most of the postwar period, will continue to be in the service sector thus seems inescapable.

Richard BIRD

Sept 1984

Hope in product mandates The economic thrust of Canadian industry is moving from nationalistic protection to international competitiveness through specialization. Behind the move is a rejection of government intervention and a public preference for market-based discipline. There are outside forces too, and they are the more influential. The trend toward trade liberalization and more global products is making it harder to survive profitably with insular corporate strategies based on tariff protection.

So multinational firms in Canada are starting to specialize and can be influenced to do it in more innovative ways through the right kind of climate. The use of world product mandates is worth encouraging as long as we keep in mind that any form of specialization is better than resorting to imports.

For public policy in Canada, specialization will bring some problems with its benefits. There is no such thing as a problem-free economic structure. With specialization, Canada's complaints that foreign-owned firms do not export and do not do R & D will fade away, only to be replaced by other complaints. Give us time and the complaints will start to surface about transfer prices and loss of autonomy. And the new complaints will be louder and more persistent than the old ones because fear and suspicion are endemic when it comes to transfer pricing...

But, whatever the difficulties and whatever the dangers, Canada's thrust toward international competitiveness is necessary. In the long run it is difficult to overestimate the potential economic damage to Canada if foreign competition catches Canadian firms with their barriers down but still steeped in the habits of a protected economy.

Harold CROOKELL

Sept 1984

Misunderstood genius Future success in high-wage countries will reside in producing goods and services that are research-intensive, ultra-high value-added, of very high quality and customized to the needs of buyers. To enter those industries will require incentives and policies totally different from those required to enter the standardized manufacture of goods in factories such as we have known in the past. Without government help in various forms, no country can make it successfully into the new advanced knowledge-intensive industries.

The Macdonald Commission report says we should leave it to the “genius of the marketplace” (a repeated quote). I don’t always understand that genius. I understand when the government loses money in Canadair; that’s the stupidity of the government.

But when someone in the Canadian Commercial Bank loans money for every real estate deal and every oil-drilling hole around, that’s the genius of the marketplace? I don’t see the difference. There can be stupidity or bad management in both the private and the public sectors; there is no monopoly

on it anywhere.

The simple fact is that no country leaves it to the genius of the marketplace. Only Canadians believe the United States rhetoric about this. Americans don’t believe it, Europeans don’t believe it. The Department of Defense of the United States targets industries all over the place. They decided that the Japanese were getting too far ahead in information technology, so they put hundreds of millions of dollars into information technology.

SDI is probably more an industrial strategy than a defence strategy. (I certainly hope so, anyway.) New inventions are researched, ordered and paid for by government money in the United States until such time as they are taken up by private buyers and become the basis for whole new industries. That is what happened with semi-conductors and with integrated circuits; that is what is happening with lasers, optics and new materials.

The rhetoric of “hands-off” is only rhetoric.

Stuart SMITH

May 1986

Picking losers There is one particular concern about using industrial policy to deal with advancing technology. The idea is, of course, that industrial policy would take us as painlessly as possible from an economy based on smokestack industries like car, truck and farm equipment assembly, steel, rubber and heavy machinery, to an economy based on industries of the future like robotics, computers, and biotechnology. But those who were picking the winners and sunseting the losers would be political appointees and it is hard to imagine that politics would not rear its head on the way to achieving that ideal.

After all, in the smokestack industries there are far more votes and far better organized lobby groups than there are right now in the industries of the future and it would be astonishing were the political appointees who made up the planning and policy tribunal not to respond to those pressures in a serious way.

What advocates of industrial policy do not seem to realize is what would happen at the first sign that the tribunal might do something that could cost an incumbent government an election. In no time at all the industrial policy would be to pick winners and sunset losers based on where the votes were. Can anyone seriously imagine the MP from Hamilton supporting an industrial policy that did not pick steel as one of the winners? Although there are other problems, there are no such political worries if the market is allowed to handle things quickly and decisively.

John S. MCCALLUM

May 1984



Todd, October 1984

Our bias toward universities Unlike the case in Europe, our apprenticeship programs are quite primitive and our ability to provide vocational and technical training opportunities to young people is constrained. In the two years 1986-87, the dropout rate among apprentices was over 40 percent, perhaps reflecting an average age among participants of 27 as against just 16 in Germany, where programs are part of the secondary school system. Meanwhile, our technical and vocational schools are turning away students, including university graduates, because of capacity constraints. In the past, when new monies were more readily available for the expansion of post-secondary education and training, most funds went to universities. This reflected an ongoing indifference toward technical and vocational schools in Canada, probably due to strong social and cultural biases favouring university education. The inadequacy of vocational training in this country is confirmed by the fact that, in 1990, we ranked 16th among the 23 OECD countries, down from 11th place in 1989.

Peter LUSZTIG

July/August 1994

Beware mandate fever Mandate fever seems to be spreading. The idea is catching on that many of our economic problems would be solved if the subsidiaries of foreign firms were permitted to be involved in R & D, design, product engineering, production, marketing and distribution of selected products to North America or the world...

On balance, world product mandating is a good idea. But let's not make a religion out of it. It is just a good idea. It is better to have a positive trade balance than a negative one. It is better to use domestic sources than to import everything. It is better to have multinationals performing some R & D here than not performing R & D here. And, where there is no Canadian-owned supplier, it is better for governments to buy from product-mandated multinationals than from multinational packagers and assemblers.

Patricia JOHNSTON

March/April 1982



Jenkins, June 1991

Research isn't enough Adequate levels of scientific research are vital for success, but simply increasing the proportion of national effort on scientific research alone will not provide the technological capabilities to solve our economic and employment problems. First we need more private sector organizations, entrepreneurial in character, that see the improvement and creative design of new products as essential elements of their business strategies.

We clearly need to place more emphasis on using scientific knowledge for such innovation, and the function of engineering design is at the heart of these activities. A number of public policy initiatives are therefore required: we need a

national presence for engineering design that is distinct from science; we need renewal of aging and outdated engineering and technology resources in our universities and colleges; and above all, we need public policies to provide incentives to private sector organizations to engineer and design improved and new products.

The initiation of major projects by government in publicly funded service industries is one important device that should now be used to stimulate technology development and employment growth in private sector industries.

Richard BROWN

June 1987

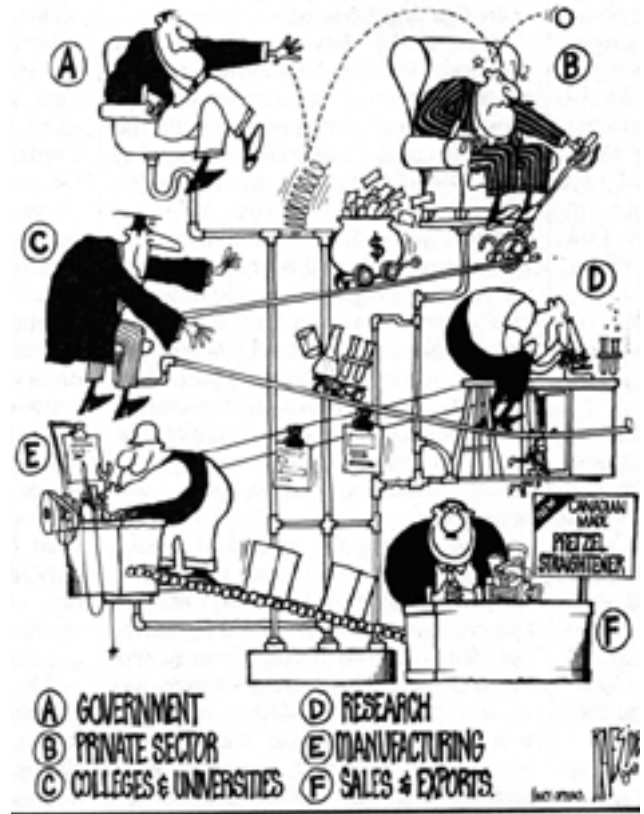
Our bright future in services With its developed socio-economic infrastructure and educated labour force, Canada has two important ingredients for a successful export trade in many types of services. Some Canadian service industries, in particular telecommunications consulting and banking, are already successful exporters. However, when measured net of dividend and interest payments, service exports account for only 10 percent of Canada's total exports. They are significantly lower than imports. Thus Canada runs a persistent deficit in services trade, both in total and specifically with the United States.

There are a number of reasons for questioning Canada's ability to be internationally competitive in a number of service industries. We are handicapped by our relatively small and dispersed domestic market, the large presence of foreign-owned multinational companies, the absence of strong structural links to offshore service markets, and the proximity of the US service sector...

The Canadian economy is trade dependent and service oriented. We clearly have to be attentive to developments in trade in services. Indeed, decisions about the trade and foreign investment policies we should apply to services are important and urgent.

Andrew R. MOROZ

March/April 1982



Raeside, June 1987

Un investissement urgent Pourquoi notre industrie secondaire à forte concentration technologique ne croît-elle pas au même rythme que celle des autres pays ? Les raisons sont connues depuis un certain temps déjà : nombre insuffisant d'ingénieurs et de scientifiques, régime d'impôt sur le revenu des sociétés mal adapté à ce secteur, présence de nombreuses compagnies n'ayant pas leur siège social au Canada et, surtout, faible niveau d'investissements en recherche et en développement : seulement 0.9 pourcent du PNB au lieu de 2 ou 2.5 pourcent, comme dans les pays les plus avancés. Ces raisons sont maintenant perçues par les gouvernements, et certains des éléments nécessaires pour remédier à cette situation existent déjà. C'est ainsi que les gouvernements provinciaux acquièrent les instruments appropriés, et que le gouvernement canadien insiste depuis quelque temps sur la nécessité de porter les dépenses sur la recherche et le développement à 1.5 pourcent du PNB d'ici 1985.

Il est urgent que nous nous attelions à la tâche car nous revenons de loin.

Alors que le public s'apprête à acheter des voitures électriques, avec tous les problèmes d'accumulateurs que cela implique, le pays n'a pas de grand laboratoire d'électrochimie.

Alors qu'un nouveau secteur industriel se développe dans le domaine des recombinaisons génétiques, nous n'avons pas encore un centre convenable pour servir une telle industrie du point de vue de la recherche et du développement.

Alors qu'on insiste sur l'expansion de l'industrie à forte concentration technologique, il n'existe pas encore de laboratoire de technologie en production industrielle et de robotique dans le pays.

Alors que la fusion thermonucléaire maîtrisée pourrait être une importante source d'énergie au début du XXIe siècle, nous n'avons pas encore de programme national...

De tous les outils que possède le Canada pour faire progresser sa technologie, le plus puissant est le Conseil national de recherches, qui a notamment pour mandat d'apporter une aide à la recherche et au développement industriels... Le Conseil utilise des outils *qui ont fait leurs preuves* ... Chaque dollar investi dans un programme de recherche et développement par le Conseil a rapporté 20 dollars en ventes à l'industrie.

Larkin KERWIN

March/April 1981

What “world class” means What distinguishes the world class from the merely good is the ability to be a global centre of thinking, making or trading. World class regions demonstrate excellence in at least one of these three domains. After all, great companies can start anywhere—usually where the entrepreneur is already living. Both Boston’s home region and Miami’s home region have spawned new office supply superstore concepts. There is nothing inherently Boston-linked in Staples, which started in Massachusetts, nor Miami-linked in Office Depot, which started in south Florida; indeed, the Staples start-up was financed in part by Latin American investors more commonly associated with Miami.

But neither city derives its strength from being the headquarters of an office supply superstore chain. Boston’s unique advantages are in software, health care and telecommunications; Miami’s is in international trade. It would be easier for Staples to leave Boston than for an advanced technology firm; easier for Office Depot to leave south Florida than for a Latin American exporter. For a place to be world class, it must feature a concentration of skills that are hard to uncouple from local assets—for example, colleges and universities in Boston, Latin American experts in Miami.

Rosabeth Moss KANTER

July/August 1991

Managers, copy Japan! There is no mysterious and inimitable secret to Japanese success. The key is close attention to detail, which was forgotten by Western nations with the advent of mass production and economies of scale. The Japanese concentrate on the basics and do them well. Both managers and workers identify with a common corporate goal such as increased productivity.

The Japanese recognize the link between short-term and long-term decisions. Operative decisions, relating to the workforce, quality and production planning, are made with a long-term view....The lessons that we should draw from the Japanese experience are obvious. Improved management-labour relations, flexible manufacturing systems, robotics, quality control and the other aspects of a harmonious workplace are not secrets of Japanese culture. They should be the common attributes of enlightened modern management in any nation.

This does not mean a slavish copying of Japanese management methods. What is required is a basic change in management attitudes.

Alan RUGMAN and John MCILVEEN

Jan./Feb. 1984

Bury industrial strategy The industrial strategists typically argue that the decline in Canada’s international competitiveness stems largely from our failure to match R and D spending levels and “high-tech oriented” government intervention in areas like Japan and Western Europe. But given Canada’s uniquely broad access to foreign technology, this argument comes nowhere near demonstrating that greater R and D spending by Canadian-owned firms would bring improved technological performance

Indeed, there is cogent evidence pointing to a pair of very different conclusions: much of our stunted growth derives not from a scarcity of technology, but from a managerial inability to integrate such technology into the industrial process; and for Canada, the sound route to economic advance is not an across-the-board protectionist confrontation with the technological super-powers, but rather a carving-out of competitive niches in particular segments of the world market for industrial goods and services

Irving BRECHER

September 1983

Resources for the future Exploiting our abundant resource wealth has stood us well in the past, in material terms, but our privileged position in the North Atlantic world of the 19th century has disappeared. We now face intensifying competition from Third World countries desperate to develop by selling raw materials and unburdened by environmental concerns or high labour costs. Instabilities in international commodity markets leave us vulnerable to severe economic downturns as the recent decline in oil prices illustrates.

The example of resources illustrates that the “industrial” orientation of technology policy needed today is in fact also focused upon fishing, forestry, mining, agriculture and energy—not just on microelectronics manufacturers in our industrial heartland. The resource industries represent inestimable strength for Canada if “upstream and downstream” industrial linkages can be developed around them. That is, we should use mining or forest exploitation to stimulate the design and manufacture of Canadian equipment (and services) needed to dig, blast, cut, shred, carry, transform and refine the resource.

Scott TIFFIN

May 1986