

THE CHALLENGE OF COMPETITIVENESS

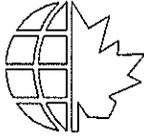
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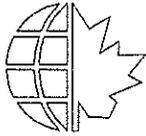


HOW COMPETITIVE ARE WE?

After being gripped by a severe recession for more than a year, the Canadian economy has now entered the early stages of recovery. The prospect of a return to growth, of further declines in interest rates, and of falling unemployment will be welcomed by all Canadians. However, just as the onset of the recession in 1990 revealed little about the underlying strengths and weaknesses of our economy, so the end of the recession will not provide, in itself, the answer to a pressing question that is now on the minds of an increasing number of Canadians: **will Canada enjoy rising living standards and prosperity through the 1990s and beyond?** This question lies at the heart of the emerging national debate over competitiveness.

Competitiveness is not an abstract economic concept. Indeed, it is an issue that should be of concern to all citizens. Competitiveness is about producing more and better quality goods and services that are marketed successfully to consumers at home and abroad. It leads to well-paying jobs and to the generation of the resources required to provide an adequate infrastructure of public services and support to the disadvantaged. Competitiveness speaks directly to whether a nation's economy can provide a high and rising standard of living for its citizens.

The need to become more competitive affects all sectors of our economy; its relevance is not restricted to goods-producing or exporting industries alone. To assure a prosperous economy, it is equally important that our service-producing industries -- which now account for almost two-thirds of



Canada's economic output -- become more efficient and strengthen their competitive position over time. Similarly, a more efficient public sector is also a fundamental prerequisite for building a successful, competitive Canadian economy in the 1990s.

Historically, Canada's economic record has been an enviable one. Over the three decade period 1960-1990, our rate of economic growth was second only to Japan's among the major industrial countries; investment growth was also second only to Japan over this period. In addition, since 1960 Canada has recorded the fastest rate of employment growth in the OECD. As a result of this strong economic performance, Canada's standard of living today is the second highest in the OECD.¹ However, recent years have seen a deterioration in our relative performance across a range of economic indicators.

Canada's economic performance over the past decade reveals some disturbing trends which bear directly on the ability of our industries to compete successfully in the global marketplace:

- The most worrisome trend has been the slowdown in productivity growth, and Canada's deteriorating productivity performance relative to other industrial nations. According to the Organization for Economic Cooperation and Development (OECD), Canada ranked last among the seven major industrial countries (the G7) in total business sector

¹ "Canada's Economic Performance in an International Perspective," Quarterly Economic Review (Department of Finance, June 1991).



productivity growth (0.4 percent annually) over the 1979-89 period.² Weak productivity growth directly affects the actual and potential incomes of Canadian workers. As productivity gains have slowed almost to a halt, growth in real wages and in per capita real incomes has also faltered.

- Total public sector debt (federal, provincial and local) has skyrocketed, growing far more quickly than our economy. By year-end 1991, total government debt in Canada will stand at 75 percent of gross domestic product (GDP), up from 50 percent a decade ago. Among the G7 countries, only Italy suffers from a bigger government debt burden. In Germany, France and the United Kingdom, the government debt/GDP ratio is below 50 percent; in the United States, it stands at 56 percent.³ The massive increase in government debt over the past decade has pushed up interest rates, thereby raising the cost of investment capital for Canadian industry and helping to fuel an unwarranted appreciation of the Canadian dollar.
- Canada lags other major industrial countries on several important indicators of technological innovation and dynamism. We rank second last among the G7 countries in private sector R&D expenditures as a share of GDP. The proportion of scientists and engineers in our labour force is relatively low by developed country standards. The diffusion of technological knowledge is also an area of weakness. Canadian

² OECD Economic Outlook (July 1991), p. 120.

³ *Ibid*, p. 113.



business has been slow to adopt many of the sophisticated process technologies that are key to increasing productivity.⁴ The record of industry in acquiring and utilizing technology is more important to competitiveness than levels of expenditure on R&D per se.

- At a time when employers everywhere are demanding higher educational and skill levels, deficiencies in Canada's education system have become more apparent. Although we spend a larger proportion of GDP (7.2 percent) on education than any country in the world except Denmark, our education system is not performing adequately.⁵ Canada's national drop-out rate, at more than 30 percent, is one of the worst in the industrialized world, and virtually guarantees that large numbers of young people will experience a marginal attachment to the labour force or be stuck in low-wage occupations. Even among those who do graduate from high school, levels of literacy and numeracy are too low and compare unfavourably with Japan, South Korea, and many European countries. Many young people face significant difficulties in making the transition from school to work. Enrolment in technology-oriented college and vocational programs has been stagnant or declining, despite the fact that employment prospects in these fields are relatively good.

⁴ Economic Council of Canada, Making Technology Work: Innovation and Jobs in Canada (1987).

⁵ OECD, Education in OECD Countries (Paris: 1989).



- Major problems also exist in training and retraining those already in the labour force. Skilled labour shortages have affected an increasing number of industries and occupations. Canada attracts fewer highly skilled immigrant workers than in the past. As the number of young people entering the labour force each year continues to decline, employers increasingly must look to the existing population to satisfy their needs for skilled workers. Yet, the evidence suggests that investments by Canadian companies in upgrading workers' skills are inadequate -- the average Canadian enterprise allocates fewer resources to training than do its counterparts in other industrial countries.⁶ Apprenticeship training in Canada is poorly developed, suffers from limited access, and is overwhelmingly focused on a handful of traditional occupations.⁷ Government labour market programs have failed to equip the unemployed with marketable skills, or to provide adequate incentives for individuals to shift to regions and

⁶ A 1987 Statistics Canada survey estimated that Canadian private sector employers spent 0.3 percent of GDP on training. The comparable figure in the United States is approximately twice as high, while in Japan it is five times as high. Only one-third of Canadian employers provided formal training -- although among companies with more than 1,000 employees the figure rose to 92 percent. Note that such surveys fail to capture the informal training that goes on in firms; they also suffer from the fact that many employers do not track and quantify their training effort.

⁷ Two-thirds of all apprentices in Canada are concentrated in just ten occupations, primarily in construction and motor vehicle trades. Drop-out rates average 30-50 percent in most of the leading apprenticeship programs. The total number of apprentices represents just 1.1 percent of all civilian employment, compared to 7.1 percent in Germany. No formal, certifiable apprenticeship training is available for most of the fastest growing occupations in Canada. Report of the CLMPC Task Forces on the Labour Force Development Strategy (1990), pp. 176-77, 188-89.



occupations with better longer term employment prospects. In short, not enough has been done to develop the broadly-based learning and training "culture" that will be indispensable to sharpening and maintaining the skills of workers in the years ahead.

All of these trends raise doubts about the ability of the Canadian economy to provide high quality jobs, a better standard of living, and greater social equity in the future. Stated simply, we are falling behind most of our major competitors across a wide spectrum of indicators of competitive dynamism and success.

WHAT COMPETITIVENESS IS -- AND IS NOT

Canadians recognize that our economy must become more competitive if we are to sustain and improve our standard of living. Yet, there is considerable uncertainty, and even some anxiety, about what this might mean in practice. It may be useful, therefore, to dispel three myths that appear to envelop the broader debate about competitiveness in Canada.

First, **building a more competitive Canadian economy does not mean driving down wages and benefits to levels prevailing in "low-wage" countries.** It must be emphasized that Canada does not really compete directly with low-wage developing countries in most of our major export industries. In fact, more than 90 percent of Canada's trade is conducted with other "high-wage" industrialized countries -- the United States, Japan,



Britain, Germany, France, the Scandinavian countries, Australia, etc. It is the industries and workers in these relatively prosperous countries that are our principal competitors today. Wage levels in a number of other major industrialized countries are broadly comparable to those in Canada. However, several years of wage increases unmatched by productivity gains in many industries, and the more recent appreciation of the Canadian dollar, have severely eroded our international cost competitiveness, particularly in the important manufacturing sector.

There is no reason, in any case, why Canada cannot compete successfully even with countries where wages are below our own levels. Countries (and regions within countries) with relatively low wages are less productive, and tend to have far less value-added manufacturing activity, than higher-wage countries.⁸ The fundamental issue is not wages per se, but the productivity of Canadian enterprises and workers. Wages are low in lesser developed countries because productivity is generally low. When productivity levels rise, real wages increase in tandem. High wages cannot be sustained in the absence of high productivity -- a fact sometimes overlooked by Canadian politicians and union leaders. International evidence shows that top quality management skills, well-trained workers, and effective use of sophisticated technology can deliver the superior

⁸ Those who believe, mistakenly, that manufacturing naturally gravitates to "low-wage" jurisdictions should ask themselves why the share of GDP accounted for by manufacturing industries in OECD countries is highest in Germany and Japan (both are "high-wage" economies), and why most U.S. manufacturing activity takes place in relatively "high wage" states such as New York, California, Michigan, Ohio, and Pennsylvania, rather than in Louisiana, Alabama and Mississippi.



productivity that allows an industry in a high wage country to out-compete one located in a less prosperous nation.

A second myth that sometimes colours the public debate on economic competitiveness in Canada is that becoming more competitive requires dismantling social programs and the social safety net. This, too, is a mistaken view. Again, the fact that the countries with which Canada competes most intensely also maintain extensive social programs must be emphasized. Indeed, several highly successful industrial nations, such as Germany, are known for their well-developed, progressive social policies. However, a growing number of advanced countries -- such as Sweden -- have discovered that a "cradle-to-grave" welfare state, and the onerous taxes required to finance it, can slowly debilitate the productivity of their economies and erode the real living standards of their citizens. Many, including Sweden, have therefore introduced or are contemplating reforms to social programs and to labour and tax policies in order to strengthen incentives to invest, save, work and upgrade skills, while still preserving the essential social safety net.⁹

At a time of scarce public resources and mounting resistance to further tax increases, Canada must look carefully at ways to design and deliver social programs in a more effective and efficient manner. The priority must be to

⁹ Faced with an inflation rate of 10% and an inferior growth performance compared to other West European countries, Sweden's social democratic government slashed top marginal tax rates from 72% to 51%, reduced capital income taxes to 30%, and is contemplating a major reform of labour and social legislation. "Sweden's Shrinking Pie," Forbes (July 22, 1991), p. 190.



assure that those most in need are the principal targets of assistance. At present, Canada is generally in line with a majority of other advanced countries in terms of total spending on social programs. However, Canada also has a younger population than either Japan or most European countries. As our population ages, there will be strong upward pressure on pension and health care costs. Meeting social needs in a way that maintains and strengthens our wealth-creation potential will require cost-containment strategies and ongoing reform. However, the Business Council is convinced that a drastic curtailing of social spending is not a prerequisite to building a more competitive economy -- and in fact could even have the opposite effect.

In considering the relationship between competitiveness and social programs, a brief comment is needed on the United States -- our major trading partner and chief economic competitor. It is true that per capita social expenditures in the United States are lower than in Canada. It is also true that, largely because of Canada's commitment to a more expansive welfare state and the fact that most health care costs in the United States are "private", the total tax burden borne by Canadian citizens and businesses is higher than that imposed on Americans.¹⁰ Obviously, government policies in Canada must pay close attention to the economic

¹⁰ As a percentage of gross domestic product, government tax revenues in Canada reached 34% in 1988, compared to 29.8% in the United States. Comparable 1988 figures for other G7 countries were: Japan -- 31.3%; Italy -- 37.1%; the U.K. -- 37.3%; Germany -- 37.4%; and France -- 44.4%. The average for all OECD countries was 38.4%. David Perry, "International Tax Comparisons," Canadian Tax Journal (September-October 1990), p. 1328.



impact of differences in social costs and tax levels between the two countries, in order to minimize outflows of capital and skilled workers. However, this does not mean that Canada must slavishly emulate policies in the United States. Canadians can choose to channel a larger portion of tax revenues to social programs, without compromising competitiveness. Canada's publicly funded health care system, for example, carries with it a larger per capita tax burden than the mainly private American system, but is more economically efficient and actually provides some Canadian industries with a competitive advantage vis-a-vis their American counterparts because of the explosive growth in private health insurance costs south of the border.¹¹ Similarly, it may make economic sense for governments in Canada to spend relatively more than Americans do on critical public infrastructure -- for example, on education -- provided this higher investment produces demonstrable benefits that more than outweigh the costs of higher taxes and government spending. A labour force equipped with better basic skills is a case in point.

A third myth surrounding competitiveness is that responsibility for Canada's competitive problems should be laid at the door of lazy or incompetent workers. As noted in Professor Michael Porter's recent book, The Competitive Advantage of Nations, and reinforced in his

¹¹ In 1989, health spending represented 11.8% of U.S. GDP, compared to 8.7% in Canada. "A Survey of Health Care," The Economist (July 6, 1991), p. 5. A growing debate is underway in the United States over the merits of adopting aspects of Canada's health care system. For contrasting views, see "Canadian Health Care: The Implications of Public Health Insurance", (Health Insurance Association of America, Research Bulletin, June 1990); and United States General Accounting Office, Canadian Health Insurance: Lessons for the United States (June 1991).



forthcoming study of Canadian competitiveness, this view reflects a flawed understanding of how the process of productivity improvement and economic upgrading actually takes place in a country's firms and industries. The critical decisions affecting productivity are made at the level of the enterprise. These decisions are made by managers, not individual workers or unions. Managers are responsible for selecting and implementing new technologies, for organizing the flow of work, for training employees, for making investments, and for fashioning overall business and marketing strategies. To the extent that employees and unions understand that their own economic welfare is directly tied to the profitability and productivity of their firm, they can, of course, contribute to the competitive success or failure of a company. We believe that much more progress must be made in forging a shared understanding between Canadian business and labour on the necessity for improved competitiveness. But in the final analysis, it is business managers and shareholders who must accept ultimate responsibility for the fate of their enterprises.

How, then, do we suggest that competitiveness in a Canadian context be defined? **Our vision of a competitive Canada is one of a high productivity economy increasingly based on more sustainable forms of economic development. It competes by selling high-quality goods and services in world markets; its workers are well educated and skilled, its tradeable goods and services are competitive, and it is thus able to maintain high incomes, a superior standard of living, and essential programs to aid the poor and disadvantaged.**



We are convinced that achieving higher productivity, not driving down wages, is the key to improving the competitiveness of the vast majority of Canada's industries, and to ensuring the future prosperity of our economy as a whole.

THE COMPETITIVENESS CHALLENGE

The conditions which historically have allowed Canadians to become one of the world's most prosperous peoples -- an abundance of natural resources, a relatively well educated and youthful labour force, proximity to the vast United States market -- are unlikely to be sufficient to deliver a high standard of living in the future. The reality is that many other countries are catching up to -- and some have surpassed -- Canada in such critical areas as industrial productivity, technological sophistication, labour force skills and education, and managerial expertise. While they still provide valuable economic benefits, Canada's traditional competitive advantages no longer guarantee prosperity. We must do more to leverage and improve upon these advantages, and to build new ones. Working smarter has become an economic imperative.

Concern about competitiveness has become widespread in Canada. The Economic Council of Canada, the Science Council, and the National Advisory Board on Science and Technology (NABST) are all currently examining Canada's competitiveness. The federal government has also become seized of the issue, recently announcing a series of national



consultations around the theme, "Prosperity Through Competitiveness."¹² While we believe the "five building blocks of Canada's future prosperity" outlined in the government's recent consultation paper -- learning, science and technology, investment, trade, and a competitive domestic market -- should help to focus debate and discussion, we are concerned that one vital "building block" is missing from this list: sound public sector finances and its corollary, macroeconomic stability. The Canadian business community is convinced that unless federal and provincial government deficits are steadily and substantially reduced over the next several years, Canadians will continue to face the high costs of capital and rising taxes that have done so much to undermine the competitiveness of many of our industries and firms. The necessary effort to achieve a low and stable rate of inflation also risks being fatally compromised if public finances continue to deteriorate.

The Business Council is committed to working with business organizations, governments, and the labour movement to find ways to improve Canada's economic performance and to build a stronger, more competitive economy. In an initial step to come to grips with this challenge, in late 1990 we commissioned Professor Michael Porter of the Harvard Business School to undertake a major study of Canadian competitiveness. In conducting his Canadian research, we requested that he draw extensively on the analytical framework and data developed for his in-depth comparative study, The Competitive Advantage of Nations. To be released in October,

¹² Government of Canada, Prosperity Through Competitiveness (Discussion Paper, July, 1991).



Professor Porter's study -- entitled "Canada at the Crossroads" -- will offer a detailed analysis of the factors that have determined the competitive performance of 25 Canadian industries. Canada's successes and failures in global markets, the sources of competitive advantage and disadvantage in the Canadian economy, and the impact of government policies on competitiveness are among the principal subjects addressed in this project.

The preliminary findings from Professor Porter's research are not comforting. They reinforce the points made earlier in this paper about poor productivity performance, slow adoption of new technology, the failure to upgrade the skills of our labour force, and the negative impacts of excessive government deficits and debt. They identify characteristics of our economy and public policies that have undermined flexibility, innovation and competitiveness: outmoded attitudes on the part of organized labour, excessive government intervention in the economy, poor coordination of government policies, and a lack of competition in the domestic market. The study also highlights some significant weaknesses in the strategies followed by many Canadian managers over the past two decades: a failure to leverage natural resource-based advantages to move into higher value products; an inadequate corporate commitment to training and human resource development; insufficient research and development; and an overly-cautious, inward-looking approach to market development that has resulted in limited success in selling to markets outside of North America. Once the study is completed, the Business Council intends to develop a more detailed response to the many fundamental challenges which it raises for the Canadian private sector.



COMPETITIVENESS: SETTING PRIORITIES

Responsibility for maintaining and improving competitiveness rests primarily on the shoulders of Canadian businesses. Individual business enterprises, not governments or interest groups, implement the strategies and take the actions that result in either success or failure in the marketplace. Governments cannot ensure prosperity. It is useful to recall this fundamental point, because some Canadians appear to believe that the way to achieve prosperity is for government to insulate the country from the broad competitive forces sweeping the world economy -- trade liberalization, the adoption of global investment strategies by multinational enterprises, and major shifts in technologies and markets.

Governments do influence the competitive prospects of industries and enterprises operating from a Canadian base. Their proper role is indirect rather than direct, but it is an important role nonetheless. The national consultations around the theme of "Prosperity Through Competitiveness," to be launched by the federal government in the coming weeks, may help to define a more precise competitiveness agenda for the country -- although we believe that most of the necessary analytical work has already been done by bodies such as NABST, the Economic Council of Canada, and the academic research community.

The Business Council has published a number of previous economic statements addressing aspects of the economic challenge facing Canada in the 1990s. We intend to develop a more detailed action plan and



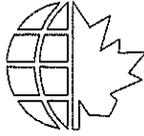
specific recommendations to improve Canadian competitiveness in the coming months. In general, we are convinced that creating a more competitive Canadian economy will require action on several fronts:

1. Make a firm commitment to fiscal responsibility.

The Canadian public sector as a whole has an unbroken record of 20 years of fiscal mismanagement that has saddled Canadians with almost \$600 billion in government debt, mainly attributable to persistent federal deficits. Sustained improvements in our standard of living will be impossible unless this disastrous pattern is reversed, and soon. In today's global economy, nations with undisciplined public finances and untamed appetites for government borrowing are destined to suffer from higher costs of capital and other economic distortions that work directly against the goal of competitiveness -- as Canada's experience in recent years amply attests.

- With the end of the 1990-91 recession, it is imperative that the federal government remain on track to achieve the short-and medium-term deficit reduction targets announced in the February 1991 budget.¹³

¹³ The budget predicts that the public accounts deficit will fall from \$30.5 billion this year to \$6.5 billion by 1995-96. The Honourable Michael Wilson, The Budget (February 26, 1991), p. 94.



- Also required is a more determined effort by provincial governments to eliminate their deficits. This admonition applies to all provinces, but especially to Ontario, whose current fiscal plan envisages several consecutive years of unprecedented deficits that will double the province's debt burden within just four short years.¹⁴ Given an expected return to reasonably strong economic growth beginning in 1992, it is difficult to see any justification for consecutive Ontario deficits in the range of \$7-9 billion through 1995.

2. Institute policies to upgrade Canada's human resources.

A skilled, flexible and well-educated work force is perhaps the single most important source of competitive advantage for any national economy. The study on Canadian competitiveness undertaken by Professor Porter echoes this theme. Improving our human resource base must be at the heart of any strategy to strengthen Canadian competitiveness in the 1990s.

- Reducing high school drop out rates and the incidence of functional illiteracy, increasing the science and mathematics content of school curricula, and developing agreed interprovincial educational standards backed up by greater use of testing should all be top priorities.

¹⁴ The 1991 Ontario budget projected a deficit of \$9.7 billion for the 1991-92 fiscal year, falling almost imperceptibly to reach \$7.8 billion by 1994-95. Honourable Floyd Laughton, 1991 Ontario Budget (April 29 1991), p. 55.



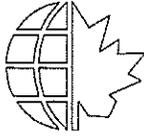
- Scaling back duplication, overlap and inconsistency in federal and provincial labour market programs would also be a positive step.
- In the private sector, a greater commitment to employee training on the part of Canadian business will be essential to achieving improved competitiveness. Canadian business should also be doing more to promote co-operative education, new approaches to apprenticeship, and other innovative mechanisms to link education more closely to the work place.

3. Strengthen the Canadian Economic Union.

Lack of free trade within Canada serves as an uncomfortable reminder that many of our competitiveness problems are self-imposed. Barriers to the free movement of goods, services, capital and people are estimated to cost the Canadian economy \$5-6 billion annually in lost output.¹⁵ Some barriers -- for example, provincial procurement preferences -- encourage the development of sub-scale industries unable to compete outside of protected, local markets.

Building a stronger economic union and removing internal market barriers take on particular urgency in light of worldwide trends toward freer trade and the globalization of markets, production and finance.

¹⁵ As recently estimated by the Canadian Manufacturers' Association.

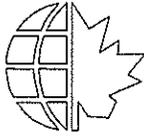


- The Business Council welcomes the federal government's commitment to forge a stronger and modernized economic union as a key priority of the forthcoming constitutional negotiations.¹⁶
- Although we are not yet in a position to provide a detailed response to the specific proposals contained in the recent federal government statement, we endorse the goals of enhancing trade and mobility within Canada and developing mechanisms to assure greater harmonization of federal and provincial economic policies. We intend to scrutinize the government's economic union proposals carefully over the coming weeks, and to make our views known to the Special Joint Committee of Parliament charged with examining the federal government's proposals.
- In the meantime, we urge all provinces to sign and implement the Intergovernmental Procurement Agreement. Moving ahead with this important initiative should not await the outcome of the constitutional discussions.

4. Adopt an outward-looking trade strategy.

With almost 30 percent of GDP and three million jobs dependent on exports, Canada's interest in multilateral trade liberalization is clear. Over

¹⁶ Government of Canada, Shaping Canada's Future Together: Proposals (September 1991), pp. 27-33.



the 1980s, world exports grew twice as fast as world output, a trend likely to continue through the current decade. This underscores the rich opportunities available to Canada in the global marketplace. More than ever before, improving our prosperity and creating new jobs hinges on our success in international markets. This is why bolstering Canadian competitiveness is so critical -- and why failing to do so will put us on a treadmill to economic decline.

Canada's overall trade picture with the United States has been improving since the introduction of the Canada-United States Free Trade Agreement (FTA). Between 1988 and 1990, exports to the United States grew by eight percent. At the same time, Canada's trade surplus with the United States jumped from \$11.4 billion to a \$17.3 billion -- a rise of almost 50 percent. Although the unfavourable macroeconomic climate in the United States and Canada has blunted the positive effects of the FTA in the past two years, Canada's trade performance is inconsistent with the story of gloom and doom told by many critics of free trade, who inexplicably have chosen to blame the FTA for the effects of economic recession. We are convinced that the FTA remains critical to Canada's long term prosperity and competitiveness.

- The federal government should make a concerted effort to attend to the "unfinished business" left over from the Canada-United States Free Trade Agreement -- specifically, completing the negotiations on trade remedies under Chapter 19 of the Agreement, taking further steps to liberalize trade in services, and making progress toward harmonization of standards in agriculture and other areas.



- As a participant in negotiations to create a North American Free Trade Area (NAFTA), Canada's principal goals should be to improve access to the Mexican market, to protect the hard-won gains of the FTA, and to use a NAFTA to expand business and economic links with Central and South America.
- New initiatives are needed to increase participation in international markets by small- and medium-sized Canadian companies. Less than one-third of Canadian manufacturers currently export, and firms with less than \$5 million in annual sales account for just one percent of total Canadian exports of manufactured goods.¹⁷ Getting more small and mid-sized firms involved in international trade should be the central objective of government trade promotion programs.

5. Foster technology creation and diffusion.

Technological innovation, diffusion, and commercialization are at the core of productivity growth and wealth creation. Canada's ability to assimilate foreign technological innovations is reasonably strong, but our record in domestic innovation and in commercializing the fruits of research is less impressive. As noted earlier, the Canadian private sector's R&D effort has been modest, and Canadian firms are slow to adopt new technologies.

¹⁷ Industry, Science and Technology Canada, Small Business in Canada: Growing to Meet Tomorrow (1989), p. 7.



- Much closer linkages must be forged between universities, public sector research bodies, and the private sector in order to obtain maximum economic benefit from our existing R&D efforts.
- Canadian companies must become more aggressive in acquiring and implementing advanced technologies to boost productivity. This would make more of a contribution to strengthening Canada's international competitiveness than larger R&D expenditures.
- Governments should examine whether changes to the tax system are required to assist in making equity capital available to small and mid-sized technology firms, as recently recommended by the National Advisory Board on Science and Technology.¹⁸

6. Match competitiveness with sustainable development.

The Canadian economic policy agenda for the 1990s cannot overlook the crucial relationship that now exists between the economy and the environment. Once treated as two disconnected realities, they are now seen to be inextricably linked -- an idea reflected in the term "sustainable development." Sustainable development is a dynamic vision of progress requiring an integration of economic and environmental considerations at

¹⁸ Report of the National Advisory Board on Science and Technology Committee on the Financing of Industrial Innovation (March 1991).



the front end of the development cycle, and at the highest levels of decision-making.

For the enterprise, the challenge of sustainable development calls for the adoption of principles and practices designed to ensure that the determinants of sustainability are key drivers of business decisions. Fortunately, evidence is mounting that more and more firms in Canada are introducing company-wide policies on sustainable development. The integration of resource and environmental considerations in investment decisions, in product and process design, and in marketing has contributed to a steady reduction in the use of energy, chemicals, water and materials per unit of output. The adoption of forward-looking corporate environmental policies can result in competitive advantage for business -- a point stressed in the study on Canadian competitiveness prepared by Professor Porter.

If Canada is to move toward sustainable development in a way that is effective and makes economic sense, supportive public policies are needed in several areas:

- Processes of consensus-building and economic policies that generate sustainable forms of economic development and command broad support from all sectors of Canadian society must be instituted. The establishment of national and provincial Roundtables on the Environment and Economy represents a step in the right direction.
- Substantially greater use should be made of market instruments to achieve sustainable development goals, with correspondingly less



reliance placed on inflexible, government-mandated "command and control" regulations. Consistent with a shift to market instruments, Canada should be looking at reducing government subsidies for activities such as transportation, agriculture, and energy development.

- Environmental standards mandated by government legislation should be scientifically sound and performance-based.
- Clarification of federal/provincial jurisdictional issues with respect to the environment is essential. This includes adoption of measures to promote harmonized standards across jurisdictions and to institute a "one-window" approach to regulatory approvals.
- New initiatives are needed to improve public knowledge and understanding of the environment, as well as to advance the state of scientific and technological knowledge bearing on the environment.
- Initiatives should be developed to facilitate the transfer of environmentally beneficial products, processes and services to small and mid-sized Canadian enterprises, as well as to developing countries.

The Business Council's commitment to these ideas and principles has led to the development of a policy paper and strategy for sustainable development which will be unveiled this autumn.



7. Make Canada's political system work better.

In a recent statement, Council members emphasized the importance of making the Canadian political system work to the better advantage of Canadians.¹⁹ We called for a resolution of the current constitutional impasse through a fundamental reform of federal institutions, a modernized and more efficient division of powers between Ottawa and the provinces, and recognition of Quebec's distinctiveness.

While the current unsettled constitutional situation is not without risk, the need to reform our federal system also gives Canadians a welcome opportunity to align our institutional arrangements more closely with our economic needs. By reducing the extent of overlap and duplication in government programs, it should be possible to lessen the overall burden of government on the Canadian economy. Maintaining and improving the Canadian economic union will also be essential to fulfilling our national potential and to improving competitiveness. We all have a stake in ensuring that in the quest for competitiveness, the Canadian political system becomes more of an ally and less of an impediment.

¹⁹ Business Council on National Issues, Canada and the 21st Century: Towards a More Effective Federalism and a Stronger Economy (April 26, 1991).



CONCLUSION

As Canada adjusts and adapts to a fast-changing global economy, our ability to compete will determine our future prosperity. Competitiveness is not part of any "business agenda" to transform the Canadian way of life. Rather, it is the foundation upon which a better economic performance, a fairer society, and an improved environment necessarily rest. We are convinced that Canada must put in place a competitive strategy that marshals the incomparable assets we have as a people and a country. This will require better coordination and concerted action on the part of all economic players on a number of fronts, including fiscal management, education and training, research and development, and international trade. Canada's business leaders are prepared to do their part to ensure that our country responds successfully to the challenge.

We recognize that meeting the competitiveness challenge will impose heavy responsibilities on Canada's major enterprises. A long history of inward-looking business strategies and reliance on a protected domestic market have dulled the competitive instincts of too many Canadian businesses. A more aggressive and outward-looking approach will be required in the 1990s. Our companies and managers must make an unprecedented effort to improve productivity, to compete successfully in the global marketplace, and to achieve excellence through a renewed commitment to innovation, research, and human resource development.



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The Business Council on National Issues is the senior voice of Canadian business leaders on public policy issues in Canada and abroad. Composed of the chief executives of 150 leading Canadian companies, the Council carries out an active program of research, consultation, and advocacy in four principal areas: the national economy and competitiveness; foreign affairs and the global economy; the environment and sustainable development; and, political governance. The member companies of the Business Council are active in every major sector of the Canadian economy, employ over 1.5 million Canadians, and manage over \$1 trillion in assets.



The Challenge of Competitiveness

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