

CANADIAN UNITY: THE BENEFITS

BUSINESS COUNCIL ON NATIONAL ISSUES

October, 1992



CANADIAN UNITY: THE BENEFITS

As a single economic and political unit, Canada has an important presence in the world economy. More than a century of shared economic history has fostered many linkages among Canada's regions and provinces and an extensive flow of east-west commerce. By any measure, Canada has built up an impressive record of economic, as well as social, achievement.

1. CANADA'S HISTORIC ACCOMPLISHMENTS IMPRESSIVE

- ◆ Canada has the second highest standard of living among the 24 countries of the OECD.
- ◆ According to the United Nations Human Development Index, Canada had the highest quality of life of all UN member countries in 1991.
- ◆ We have built a tolerant society respectful of democratic principles, human rights, and the rule of law. According to The Economist magazine, Canada has the most sought-after passport of any country in the world.
- ◆ From 1961 to 1990, Canada's rate of economic growth was second only to Japan's among the seven leading industrial countries, the G7.
- ◆ Between 1960 and 1990, Canada had the fastest rate of employment growth of any OECD country.



CANADIAN UNITY: THE BENEFITS

- ◆ Canada traditionally has had one of the most stable political systems in the world. This has been a powerful source of competitive advantage.
- ◆ From a base of barely 27 million people, we have built the seventh largest economy in the industrialized world.¹
- ◆ We have benefitted from universal education and health care, and our record on social justice is considered one of the best in the world.
- ◆ We are a major trading nation, a partner with the United States in the world's largest bilateral free trade area, and one of the most respected participants in a wide variety of international economic organizations.
- ◆ In international circles, we have an outstanding record as supporters of world order, and our contributions to United Nations peacekeeping efforts have been exemplary.
- ◆ Over the years, our system of government -- a parliamentary democracy within a federal system -- has shown a remarkable resiliency to accommodate the incredible changes associated with Canada's development from 1867 to 1992. We have maintained a unique ability to balance the desire for effective economic and political association on the one hand, and for adequate expression of cultural, economic and political diversity across Canada on the other.

¹ Excludes the former Soviet Union.



2. BENEFITS OF CANADIAN UNITY

Regions or countries opt for economic and political integration primarily because they want to capture benefits they cannot achieve as separate units. Both Canada as a whole and the regions comprising the country have gained from the development of a single Canadian economic market and political system. The benefits of such integration fall into four main categories:

- Market integration
- Sharing of costs
- Pooling of risks
- Increased global influence

A. Market Integration

The development of an integrated Canadian common market has led to enhanced economic growth, higher real incomes, a better standard of living and job mobility.

- ◆ A higher level of economic integration serves to eliminate barriers that prevent companies and industries from being as efficient as they could be. It also fosters a competitive environment that encourages firms and individuals to exploit new opportunities. With market integration,



CANADIAN UNITY: THE BENEFITS

firms can specialize and achieve productivity gains, thereby increasing the living standards of citizens. Thus, economic growth and real incomes typically rise with economic integration.

- ◆ The free flow of labour within Canada provides important economic advantages for our citizens. The right to work anywhere in the country increases the job opportunities available to many Canadians, and thus raises individuals' income-earning potential and ability to contribute to the general welfare. When workers move to jobs in which they are more productive, both individual and national incomes rise. Labour mobility also contributes to a more efficient allocation of resources and is an important mechanism by which a national economy can adjust to industrial change.
- ◆ Canada's mobility rates are among the highest in the world -- second only to the United States. On average, 4.5% of the population changes province of residence in any five-year period. During the 1980s, an average of 320,000 persons changed province of residence every year. The 1986 census found that the number of labour force participants who changed province was equal to 8% of all job changes made in that year.
- ◆ The free flow of investment within a well-integrated common market, in addition to raising productivity, plays a role in accelerating the transmission of new technologies and innovations.
- ◆ Economies of scale resulting from a fully integrated Canadian domestic market increase the overall efficiency of the national economy, thereby



CANADIAN UNITY: THE BENEFITS

raising aggregate living standards. Barriers and policies that stand in the way of full domestic economic integration have the opposite effect.

- ◆ Firms able to compete within a large, integrated home market are better placed to succeed in international competition.

The Canadian common market has fostered the development of important linkages among regions.

- ◆ Canada's dependence on international markets has increased in recent decades. Despite this, east-west linkages within Canada remain a vital part of Canadian economic activity.
 - According to the Economic Council of Canada, interprovincial trade in goods and services still accounts for a larger proportion of Canada's gross output than international trade.
 - Interprovincial trade directly accounted for about 2 million Canadian jobs (out of about 12.5 million employed) in 1990. The jobs of millions more workers are based at least in part on interprovincial trade and commerce.
 - Ontario and Quebec have developed very important economic linkages. John McCallum estimates that bilateral trade in goods and services between the two provinces exceeds \$65 billion.²

² John McCallum, "Canada's Choice: Crisis of Capital or Renewed Federalism", C.D. Howe Benefactors Lecture, 1992, p.12.



- In the 1980s, Quebec exports to Ontario represented 11.7% of its gross provincial output. Ontario's exports to Quebec amounted to 7.5% of its output. In the four years prior to the Canada-United States Free Trade Agreement, trade between Ontario and Quebec grew at a faster rate than their trade with the rest of the world. Ontario's growth rates for shipments to Quebec and the rest of the world were 35% and 25%, respectively. For Quebec, growth rates for shipments to Ontario and the rest of the world were 38% and 31%, respectively.³
- Six provinces -- Prince Edward Island, New Brunswick, Nova Scotia, Quebec, Manitoba and Alberta -- ship more of their exports to other Canadian provinces than to foreign countries.
- Interprovincial trade in goods within Canada represents a larger percentage of our gross output than inter-country trade in goods within the 12-member European Community.

B. Sharing of Costs

Gains result when governments agree to co-operate, harmonize and share responsibilities within an economic union in order to provide lower-cost services or increased services for the same cost. Areas where costs, or "overheads," are reduced with economic and political integration include defence, communications, airports and other infrastructure, weights and measures, technical standard-setting, and a common currency. Among the

³ Statistics Canada, The Daily, April 29, 1992, p.6



key areas of cost-sharing which define Canada's existing economic union are the following:

- ◆ The existence of a single currency and monetary authority, which adds enormously to the efficiency of the Canadian economic union through lower transaction costs.
- ◆ National laws affecting key aspects of the environment for Canadian economic activity, including import regulation, competition policy, banking, intellectual property, and consumer product safety.
- ◆ National standardization in areas such as weights and measures, which facilitates trade.
- ◆ National income-support programs such as Unemployment Insurance and the Canada/Quebec Pension Plan, which enhance the mobility of Canadians across the country.
- ◆ An extensive network of hundreds of interprovincial and federal-provincial agreements -- covering areas such as securities regulation, training and tax collection -- constitutes a vital part of the fabric of the Canadian common market.

C. Pooling of Risk

Risks are shared among regions within an economic and political union. An economic and political union comprised of several provinces creates a



more diverse national economic base. This helps to cushion the impact of economic shocks on any one region, and creates a basis for stabilization programs and inter-regional transfers.

- ◆ A single economic union, superimposed on a regionally diverse economic base such as Canada's, is less vulnerable to the effects of economic shocks and cycles than a smaller economic unit with a narrower economic base. In Canada, for example, the impact on national income and welfare of declining natural resource prices may be at least partially offset by stronger performance in industries producing manufactures and tradeable services.
- ◆ A more diversified economy is better able to withstand negative external shocks and to cushion disadvantaged regions and individuals.
- ◆ Equalization payments to poorer provinces, and the ability to make inter-regional transfers more generally, would be compromised if Canada's economic and political union was fragmented.

D. Increased Global Influence

As a single economic and political entity, Canada is the seventh largest economy in the world. It is a member of the G7 and carries significant clout within the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and many other international bodies. Canada's influence within international institutions would be diminished if



CANADIAN UNITY: THE BENEFITS

the economic union were fractured, or if a process of national economic disintegration were allowed to take place.

Canada is the seventh largest exporter in the world, accounting for just under 4% of global merchandise trade. GATT also ranks Canada as the seventh biggest importer in the world, representing about 3.8% of all global merchandise imports.

As a major importing country, Canada enjoys significant influence in international trade negotiations because of the size of its market. If Canada broke up into two or more countries, the resulting separate entities would have less influence in international trade bargaining because their markets would be smaller than the integrated Canadian market.

- ◆ One of the strongest arguments for Canadian economic and political integration is that the regions and individual provinces, together in a united Canada, have more bargaining power in dealing with key trading partners and in international institutions than would be the case if the country were fragmented.

- ◆ The advantages of integration are evident in international trade negotiations. Canadian negotiators are able to offer our trading partners improved access to the broad, diversified Canadian market. If Canada were divided into smaller separate jurisdictions, each would have a smaller market to bargain over, and thus exercise less influence in international trade negotiations than Canada as a whole now enjoys.



CANADIAN UNITY: THE BENEFITS

- ◆ A divided and fragmented Canada, preoccupied with constitutional issues or forced to contend with possible break-up, would be less capable of making a contribution to building a more secure, prosperous and environmentally sound world. If we remain mired in constitutional discord and paralysis, we will be less able to contribute to such worthwhile endeavours as the United Nations, international peacekeeping activities, Third World development, and international initiatives to improve the environment.