

First scenario (and I quote): "A major section of the economy could be specialized in providing high-labor-content, 'down market' goods that compete with the products of whatever countries are newly industrializing at the time. Canadians will then either have to accept the relatively low standards of living that flow from the production of those goods or they will have to allow those industries to pay high wages by shielding them from foreign competition. In the latter case, the living standards of Canadians who buy high-cost, locally produced goods and whose taxes pay subsidies and low-interest loans will be lowered."

Second scenario (and again I quote): "Canada could well become a backwater: an inward-looking country that has turned its back on foreign trade by trying to encourage domestic production in order to reduce the importance of trade to the economy. This scenario is reminiscent of the Argentine experience. In the late 1920s, Argentina had a resource-based economy that was similar in many ways to that of Canada. The two countries had almost the same level of per capita real income. Argentina then chose an inward-looking policy based on protectionism and subsidization of local manufacturing. Since 1925, Argentina's real GNP per capita has grown by 65% while Canada's has grown by 265%."

Third scenario: "Canada could experience a serious balance of payments problem, which it could be forced to 'solve' with exchange controls that greatly restrict the ability of Canadians to buy what they want, to travel where they want, and to invest their money where they want."

Fourth scenario: "Canada could have a severe case of the economic disease currently called 'Eurosclerosis'. Some of the characteristics of this disease are high unemployment, low rates of return on capital, low levels of investment, a rising tide of

protectionism — because of a lack of confidence in the ability to compete internationally — and a series of subsidies, supports and other policies that greatly reduce the economy's real income and its capacity to adapt to change."

Don't go away, there's one more scenario, and here it is: "Canada could find its living standards so low relative to those in the United States that subsidies to Canadian cultural activities would be dismissed as overly expensive luxuries, and people would begin to ask if the economic cost of a politically independent Canada was just too high."

I'll get back to that point in a moment.

What must Canada do to be economically successful in the year 2000? According to Lipsey and Smith, "it will have to specialize industrially in 'up-market' product lines that provide high values added, and so yield high living standards. This means that Canadian industry must not specialize in products that depend on a high content of low-paid labor. These products can only survive in open international competition if labor costs are low. For a small country such as Canada, achieving efficient levels of output requires specialization and rationalization."

And that means flexibility.

But we have a long way to go. We spent most of the seventies and part of the eighties procrastinating about our economy. Putting off hard decisions only made things worse. Our competitiveness eroded. We were reluctant to invest in research and development. Our share of world trade declined. In 1968, for example, Canada ranked fourth among the world's trading nations, just ahead of Japan. We've now dropped to eighth and Japan exports twice as much as we do.