

Minister of Industry,
Science and Technology and
Minister for International Trade



Ministre de l'Industrie, des
Sciences et de la Technologie et
ministre du Commerce extérieur

Statement

Déclaration

93/33

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**NOTES FOR AN ADDRESS BY
THE HONOURABLE MICHAEL WILSON,
MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY AND
MINISTER FOR INTERNATIONAL TRADE,
TO THE C.D. HOWE INSTITUTE POLICY ANALYSIS COMMITTEE
"PRODUCTIVITY, PROSPERITY AND PERSEVERANCE:
THE CANADIAN CHALLENGE"**

**TORONTO, Ontario
May 13, 1993**

I'm going to start with a quotation I came across recently that sums up the theme of my message better than I could myself. It goes like this:

High employment, high income and high production ... together represent a high standard of living. They are not a gift that can be handed down by the Government. They can be provided only by new and vigorous types of co-operative action between federal and provincial governments, between producers and management and labour, and between government as a whole and industry as a whole.

These words say it so well that I must give credit to the original source. They were spoken on November 20, 1946, and the speaker was C.D. Howe.

They would have been just as appropriate this year spoken by Don Mazankowski. Or, for that matter, 100 years ago by the Honourable G.E. Foster, who was Minister of Finance in 1893. Appropriate because they express truths about Canada and its economic situation that are timeless in their validity.

To the extent that we have lived by these common-sense precepts, we have done well. But when we strayed from them we quickly got into trouble. Our history bears that out, up to and including the latest chapters. And that is the ground I would like to cover with you tonight.

Canada made its way through the 1950s, the '60s and the early '70s with considerable economic momentum. We made our money in what the actor John Houseman used to call in those stockbroker commercials "the old-fashioned way". We earned it. We were a productive economy and a competitive one. And we didn't travel on a credit card -- we paid our way.

In those years, the Canadian economic vessel was on the right course. The stars we steered by were stable prices, balanced public finances and a commitment to liberalized trade. The propeller was co-operation -- government and the private sector working together for the common good. It got us where we wanted to be. Between 1950 and 1973, real incomes grew at an average rate of 4.3 per cent per year¹, compared with half that rate in the decade that lay ahead.

We started to go astray in the 1970s. It happened gradually, a degree at a time. What began as a policy misstep here and a neglected opportunity there, became a definite trend. In less than a decade this trend developed into a major change of course

1 Department of Finance, *Charting the Economic Course in a World of Change*, p. 7.

away from the economic policies that had served us so well. What were we doing differently in that period?

To start with the basics: we forgot what it was that made the Canadian economy perform well. We lost sight of the importance of price stability and fiscal stability to productivity. We ignored the link between productivity and competitiveness, and the health of a modern economy. Our competitors, unfortunately, did not.

Secondly, we forgot that competitive edges have to be constantly resharpened. We did not reinvest enough in new capital, new technology, better training or more relevant education. Because our traditional industries were doing so well, we did not diversify fast enough into new sectors and new markets. And we didn't pay attention to the fact that other countries were doing all these things.

Thirdly, we lost sight of the principle that C.D. Howe put at the top of the list -- co-operative action: getting our act together, building collaboration between producers, management and labour.

We became so wrapped up in constitutional wrangling among ourselves that we forgot about competing with the outside world. We became so preoccupied in "divvying up" the Canadian economic pie, that we neglected our more fundamental common interest in making it bigger.

And, as a result, Canadians stopped earning their standard of living in the 1970s and began to borrow it. We borrowed from every nook and cranny of the world.

There is one aspect of this story that I want to dwell on for a moment because it is important in the context of where we stand today and where we go from here.

The changes of course we made in those years went largely unnoticed by most Canadians. Economic analysts, business leaders and others who many regarded as spoilsports did suggest that the vessel now seemed to be on course downstream, in the general direction of the falls. But everyone was too busy enjoying the ride to listen. A blind spot about the relevance of things like productivity, competitiveness and deficits to the real lives of people, was part of the problem.

Getting these realities into national focus has to be part of the solution.

It's important for Canadians to understand where we've come from in recent times, where we stand now, where we ought to be and what we need to do to get there.

Where we are is still uncomfortably close to the falls. We are on the right heading now, but it will not be a quick journey or an easy one. Setting economic policy is like steering a supertanker. Once a given direction is taken, it achieves its own momentum. It takes a long time to turn the vessel around.

Fifteen years is a long time to be headed the wrong way. Since 1984, we have been working hard to get back on track.

On November 8, 1984, I had the honour to present Parliament our new Conservative Government's Agenda for Economic Renewal.

Nothing in An Agenda for Economic Renewal would have sounded very strange to C.D. Howe, and I think he would have liked it. It set out a plan for sound government finances and a vision for public-private sector co-operation to increase productivity. The fact that it was considered a bit radical at the time was only a measure of how far off course Canada had fallen over the previous years.

I believe that the current government can look back on that first declaration of economic policy with satisfaction. The vision was right then and it is right today. We have remained faithful to the vision and we have accomplished much. Reforms in trade policy, tax policy, privatization, inflation control and deregulation have immeasurably strengthened Canada's economic base, but much more remains to be done to realize our vision of a productive, competitive economy.

One area where we have yet to fulfil our agenda is in the area of deficit reduction. While our performance on deficit reduction was not as forecast in 1984, I will not shrink from defending the Government's record. Real progress has been made. When we came to power we inherited a spending juggernaut that had become accustomed to 14 per cent annual growth over the previous 15 years. Our government has held program spending increases to about 4 per cent, lower than the rate of inflation over the same period. To maintain the discipline, we have legislated spending controls. Program spending has dropped 2½ percentage points as a share of gross domestic product (GDP) since 1984/85.

Public-sector deficits still haunt our economic prospects. While federal deficits are now much lower as a portion of the economy than in 1984, the same cannot be said of provincial deficits. Current public-sector deficits are much too high. Together they place an unsupportable burden on capital markets and taxpayers alike.

What is different now is the level of public understanding. Governments can lead public opinion, but they cannot pursue policies that the public does not understand. For far too long, public-sector deficits were seen as a "paper" problem, distant

from the concerns of real people. Those days are over. Recognition of the destructive impact of cumulative deficits has spread to circles that we could not have imagined in the mid-1980s. This is a real accomplishment of our government and is an advantage that we must build upon.

Public understanding alone is not a sufficient condition for solving the problem, but, as I have learned through experience, it is a necessary one. There are tough decisions ahead at every level of government. However, I am optimistic. Governments are now reflecting a strong consensus among Canadians that we must deal with the debt and deficit problem -- now.

Don Mazankowski's April budget, coming in the wake of a tough and wintry December economic statement, keeps us on that course despite a weak global economy. Not only have there been no new taxes or tax increases, but we have cut personal and corporate taxes to aid the recovery and competitiveness. More than \$30-billion worth of spending has been cut. Federal fiscal policy is headed in the right direction.

But Canada is not out of danger yet -- and we are not yet getting all our oars in the water together. Even when we do get our stroke together we have a long way yet to go. Our collective public-sector debt, at 88 per cent of GDP, is much too high. Canada's total foreign debt at more than \$300 billion makes us one of the world's biggest foreign debtor nations. Our national productivity performance did not keep up with other countries during the 1980s, and with the United States in particular.

These are warning signals -- more than that, they are danger signals, red alerts -- which we ignore at our great peril. It's wake-up time for Canadian business, labour and government. This is no time for gradualism. We must respond immediately, and we must do so with a combined plan for action by the federal and provincial governments.

If there is one objective that takes precedence over all the others, it has to be the improvement of Canadian productivity. We must make our economic engine more efficient -- we must get a higher ratio of output to input. Achieve that goal and much of the rest will follow.

Better productivity starts an upward spiral. Better productivity brings better profit margins, more cash for investment, higher real wages and a better standard of living.

As we become more productive we become more competitive. As we become more competitive we reduce our current account deficit and we generate a greater flow of revenue to pay down the overall deficit. Better productivity means better economic times.

And the record shows that. The 1950s and '60s were good years for Canada. In that period, labour productivity increases averaged 4 per cent. In the 1980s it was 1½ per cent. Multi-factor productivity growth was flat.

Getting productivity up is a challenge that requires action at both the macroeconomic and microeconomic levels.

In the matter of public policy we must build on a commitment to two unshakable principles.

1. No government, federal or provincial, must be allowed to grow in size and cost beyond our ability to support it without borrowing. We must reduce both federal and provincial spending as a percentage of our national income.
2. Governments -- all governments -- must hold the line on taxation. That too is crucial. If we are to regain our global competitiveness, tax rates in this country cannot rise any further. The strategy for deficit reduction must be based on controlling and reducing government spending.

To achieve these goals, and to avoid nullifying each other's efforts, Canada's governments, federal and provincial, must get their acts together. They must co-ordinate their policies on spending and taxation and on borrowing.

There was a time when this subject couldn't be raised in polite conversation. In these leaner years it has become completely mentionable. Provincial governments are talking openly now about the need for co-operation, with each other and with Ottawa. And, as Don Mazankowski said in his budget speech, he has invited his provincial colleagues to a meeting to get this vital work started. This collaboration is essential.

We paint the broad strokes on the canvas with macroeconomics. It takes action at the microeconomic level to fill in the details. And, as Ross Perot keeps reminding Americans: that's where the devil is.

There are a multitude of microeconomic facets to the productivity challenge. There are many sectors of our national way of life and ways of doing business that require attention.

The cutting edge of the effort has to be the private sector. That's where the knowledge of the problems is. That is where action has to begin.

It was to draw up a real-world agenda, that we launched the Prosperity Initiative. This was not yet another government study. It was an exploration of the challenges we face, conducted by eminent Canadians, none of them in government, but

people from diverse backgrounds from different parts of the country.

This group listened to Canadians in every walk of life and every region. They produced an action plan for prosperity. That blueprint, with 54 specific recommendations aimed at all sectors of society, was delivered to the Government in October.

It calls for a partnership effort by Canadians, to build our prosperity on the solid foundation of productivity.

Let me emphasize that the Action Plan is an active plan. It has been influential. It is now part of our national agenda. In fact, many of the objectives that I will be talking about tonight flow directly from that document. In addition, I want to mention just a few specific actions that have been taken since October.

- We have provided federal support for the creation of a Canadian Network for Total Quality, a private-sector partnership in pursuit of quality. The purpose is to help Canadian businesses tap into the expertise they need to lead the world in quality.
- The federal government has agreed to join with private-sector partners and the provincial governments in building a high-speed, broad-band "information highway." In terms of nation-building, this is the 20th Century version of the building of the Canadian Pacific Railroad. The project will be led by companies in the telecommunications and computer fields: Stentor, Unitel, IBM Canada, Newbridge, Gandalf, DMR and others.

The Action Plan contains strong recommendations for action on education. This area is inseparably linked to our economic performance, and I want to discuss it in detail here.

The quality of our educational and training systems demand constant evaluation in the same way that we look at every other competitive factor -- in relation to our current needs and in relation to what other nations are doing. We must constantly review techniques. The work of upgrading the quality of Canadian education must be continuous.

And it must be national work -- work by the nation.

Because the truth is that competition between countries is, at one level, competition between education systems -- ours versus theirs -- at every level from kindergarten to postgraduate.

During the Prosperity consultations, two messages kept coming through. In education, Canadians want nothing but the best. They are willing to pay for it. They know they are already

paying for it. And we are certainly paying enough. This country spends 7.8 per cent of its GDP on education. The problem is not that we are not spending enough on education. The problem is that we are not getting value for it.

And that is the second message. Canadians are downright dissatisfied with the quality of education in this country. The discontent is general and well-informed. It comes from students, from parents, from business, from labour and from educators. It manifests itself in a growing uneasiness about high-school drop-out rates, low rates in functional literacy and numeracy, and a general lack of preparedness for the modern workplace.

Canadians don't want to see the federal government getting directly involved in education. They do believe that it is logical and desirable for the federal government to provide some leadership in this field. They see this to be critical to our competitiveness and our standard of living. The Government of Canada can make quality education and training what it needs to be: a Canada-wide cause.

The goal is clear enough. We want a quality, results-oriented system for education and training in this country.

The federal government can be a catalyst for collaboration in making this happen. It can and should bring together what we're calling these days "the stakeholders": students, parents, business, labour, and the provincial governments. I believe that the federal government, acting on behalf of all Canadians, has a responsibility to lead the way -- and a responsibility, too, to press the provinces to implement the changes that are required.

Another area in which federal leadership is needed is the development of national standards. And by that I don't mean federal ones. I mean standards for measuring quality and progress that would apply from coast to coast; leadership in developing a system that focuses on excellence and on results.

The place to start is with a decision about what we, as Canadians, want our education and training systems to achieve. Having made that decision, we must reorient the system to fit. Doing things in that order -- rather than the other way around -- will get us to a system focused on results.

During the Prosperity consultations, some hard and searching questions were raised about the system. They were common from one end of the country to the other. The most basic concern is the end product. Canadians are demanding action, and they are looking to both the federal and provincial governments for solutions. Canadians individually are not getting the quality of education and training they need to make it in the world of work.

Collectively, they are not getting the quality they need to compete internationally.

Canadians believe the business community should get more involved in developing curricula.

Canadians say that if we want to get quality results we have to ensure that pre-school children are ready to learn. We must do what needs to be done to ensure that kids from disadvantaged homes get help in overcoming handicaps in learning. Because if we don't do that, disadvantage, with its social and economic costs, will be passed on from one generation to the next as another unpaid debt.

We have a shorter school year in Canada than in many other countries -- 185 days compared with 240 in Japan, for example.² That practice dates back to a time when most children were needed to help on the farm in the summer. We shouldn't lengthen the year for its own sake. But we should, if that's what it takes to accommodate quality education.

We also compete on training. A better trained work force is a more productive work force. The country that deploys it comes in with an insurmountable edge.

It is time to start thinking about training as a lifelong process -- training before the first job, training during jobs, training between jobs. It is time to look at better training as a common interest -- to be pursued co-operatively by management, labour, government and educators.

Another area in which we compete is the quality of management. Relative to the competition, it's time for managers to ask some tough questions while looking into the mirror. Compared with our opposite numbers in Osaka or Frankfurt or Atlanta, how do we rate as managers? How do we rate on innovation and on receptiveness to new technology? Compared with companies in other countries, do quality, flexibility of process and dedication to results rate high in our management values? In the drive for higher productivity, this is where the rubber meets the road.

When it comes to the quality of management, the buck stops with the managers, and no one else.

Let's also understand whose desk it lands on. When we talk about the need to improve management, we're not talking about other folks in other sectors. We're talking about everyone -- in both the private and public sector. Canadian management, collectively, must do a better job.

2 Diane Francis, *Financial Post*, May 6, 1993.

And closely related to that indicator is our performance in research and development (R&D).

In Canada we have a curiously unbalanced record. Governments spend \$8 billion a year on R&D and basic research. Our tax incentives for R&D are probably the best in the world. Proportionately, Canada's public-sector support for civilian R&D is close to the average among our major competitors.

But in private-sector R&D and innovation, we are further back in the pack. It's up to industry to change that -- no one else can.

In the matter of social infrastructure, we have some things going for us. One is the Canadian medicare system. As our neighbours to the south have been discovering, in health care we do much more than they do for much less. It is a Canadian competitive edge.

But no one is saying that about our regulatory system or the disincentives to work that are built into our unemployment insurance and welfare systems. Or about our system of standards and certification. Getting rid of these handicaps is a complex challenge that cannot be tackled unilaterally. They involve every level of government -- federal, provincial and municipal. They engage the interest of deeply entrenched constituencies. But they are issues we must deal with now, and in a global context.

I should add that when I say "we", I don't mean just government. These frameworks of policy don't build themselves. They are shaped by the constituencies that take the trouble to get involved. You have to get in there or your views will not register.

The quality of our trade policy is now and always has been a major influence on our national competitiveness.

The objective of that policy must be to turn a trading nation into a nation of traders. We are far from that yet.

We have 40,000 manufacturing plants and mills in this country. Only 15 per cent export, and most are big firms. But there are big markets out there waiting to be pitched directly by smaller contenders. That's how small companies get big. And smaller companies can compete internationally. I can give you examples of small, specialized Canadian firms that are doing business with giants in the United States, Germany and Japan.

There are individual sagas of small business success. There is a company in Burnaby, British Columbia, with 50 people on the payroll -- Interstyle Ceramics Industries Ltd. It developed the world's first 3-D glass decorating tiles. Exports to the United

States alone account for 20 per cent of its income, and it is also shipping to Asian markets.

Phoenix Biomedical Products Inc. of Mississauga employs 45 people. Its business is laboratory equipment. It has designed a better Petri dish and it is selling it to a world market. Exports to Europe, Asia, the Middle East and Latin America account for a large share of sales.

I could go on -- one of the great aspects of this job is that I get to hear about the successes that don't often make it to the news. There are two common lessons to be learned from all these companies. Size is not an obstacle. And innovation moves mountains.

Penetration of international markets is something that companies have to do for themselves. But there are things government can do to help -- supplying the global market intelligence networks needed to find opportunities and exploit them, for example.

And as they explore these new markets, Canadian businesses should be examining the merits of strategic alliances, which are so much a feature of world trade today. They should be thinking about co-operation as well as competition. They should consider which mode makes sense in a given situation.

They should also be picking their targets carefully. The old military principle of concentration of effort applies here. Small economies with relatively smaller firms can't be everywhere on the map.

We must make the most of improved access to markets. In particular we must take full advantage of opportunities to benefit from technology transfers and associated investment flows. This is the key to improving value-added trade here in our own market.

Finally, we must give free trade a home in Canada. And I mean that in two ways. First, let us, as a country, embrace free trade rather than shrink from it. Let us see it for what it is: an opportunity, not a threat. The countries and companies that have done so are the winners today.

Second, let us move forward with the overdue work of bringing free trade to our own Confederation; the barriers between Canadian provinces still stand. They cost us plenty -- \$6 billion a year, according to the Canadian Manufacturers' Association. The federal and provincial governments have agreed to tear down the walls by 1995. It is vitally important that we do so, for as long as we keep these anachronisms in place, we are thwarting ourselves in a race that is tough enough without self-inflicted wounds.

These are all challenges of adaptation -- and we should not underestimate them. But there is no reason either for pessimism. Canada didn't make it to the ranks of the Group of Seven leading industrialized countries (G-7) by doing the same old things in the same old way, decade after decade. Our history is one of keeping up with change.

If you've been watching, you know we're doing it still.

In terms of leading-edge growth, there has been a constant evolution in the structure of industrialized economies throughout this century. The commodity economy gave up leadership to the mass-manufacturing economy. That in turn gave way to the high-technology, knowledge-based economy, which is where we are today. Its mainstay sectors include computers, semiconductors, health and medical services, telecommunications and instrumentation. These are the engines of the new economy. That is where the most dynamic growth is coming from. The good news is that Canada is not only part of this new economy but a leader in converting to it.

I'm not at all sure that Canadians understand the extent of this transformation. In fact, I could point to examples of this lack of understanding on any nightly news broadcast. Editors reflect the bias of their viewers when they show manufacturing assembly lines as the background to stories about the economy.

The fact is over 71 per cent of Canadians don't work in manufacturing or agriculture or construction: they work in the service industry. That industry includes everything from the neighbourhood pharmacist to ecologists. The service industry is home to most of the knowledge-based economy.

The knowledge-based economy includes many manufacturing firms, but most knowledge industries can be found in the services sector. Yet many popular commentators dismiss increases in the services sector employment as merely hamburger-flipping jobs. The fact is that most of the job growth in the last 30 years has been in services -- a trend that is unlikely to change in the future.

The services sector boasts most of Canada's knowledge workers of today. They are their companies' greatest assets. But they are also key to our prosperity because their knowledge-based value added is the foundation of competitiveness in the goods-producing sector. Their knowledge makes possible the design, marketing, distribution and even disposal of all the goods now produced by the manufacturing and food processing sectors. They make it possible for our manufacturers to compete on the basis of distinctive design, quality and service, rather than simply on price. This in turn helps them to command higher prices for their goods. Yet many Canadians still nurture the view that jobs

in this sector are somehow less meaningful than jobs in manufacturing.

Canada is strong in the knowledge industries that constitute the engines of growth in the new economy. They enrich and invigorate every other sector, including the traditional industries that are still our major assets -- that still contribute mightily to our economic growth.

A final thought about our current situation before I close.

The school of hard knocks is a tough place to get an education, but it offers a highly relevant curriculum. The recession has taught Canadians a lot about productivity. The question is, will the lesson be retained?

It's not an academic question. We've been in this situation before. We came out of a painful recession in the early '80s. In those years too, business and government drove themselves hard. By 1987, the economy was on a roll. At that point we let up on the oars, perhaps more than we should have. Hindsight is always 20-20. And by hindsight we can see that it would have been better to paddle harder than ever.

We've got a chance now to turn hindsight into foresight.

The economy has started to come back. Labour productivity grew by 1.8 per cent in 1992. The Organization for Economic Co-operation and Development says that Canada's productivity growth this year will be among the highest in the G-7. It is a lot easier to make the adjustments we need to achieve productivity in a growing economy than in a declining one.

The challenge now is to resist the temptation to take a break, to keep the pressure up, to continue to drive ourselves. And, when times are good, to do so, without the wolf at the door. This is a time for discipline and perseverance.

I would like to see more companies active internationally. And not just because it would improve our exports and competitiveness. Companies that compete year in, year out, with the best from other countries keep their edges sharp. Success in that arena is achieved by world-class performance. It is achieved by talented and aggressive people taking on the best in the world. Entrepreneurs using state-of-the-art technology to meet their customers' needs in imaginative ways. That's the formula for success. And the crucible for that chemistry is international competition.

Competitiveness is ultimately about people. Overcoming the tragedy of unemployment will require competitive companies

expanding and hiring. There is no other way. Governments cannot hire everyone -- or at least not for long.

Public-sector deficits do not produce durable jobs -- but they do have costs as we are all now beginning to understand. Attempts to balance the budget and control inflation were not undertaken because of some misguided need for tidiness. We did it, and do it, to get the climate right for full employment. But this alone is not enough. As C.D. Howe noted in 1946, "government at its best can only provide the good climate for economic growth. The growth itself depends on the efficiency of labour and management and their willingness to work together for higher standards of living, and on their mutual determination to give value for costs."

I have set out the course that I believe we must steer to achieve prosperity. With great effort we have put the ship on that heading. The challenge now is to resist the temptation to coast. The challenge is to work together to maintain momentum.

Perhaps I could leave you with some of C.D. Howe's thoughts on the aim of government policies that I think are as fresh and relevant today as they were when he first uttered them in May 1948.

The times in which we are living call for initiative and resourcefulness We must be constantly alive to the changes taking place in the world and quick to seize every opportunity that will build up our economy It cannot be done overnight but I am confident that, with the co-operation of industry, of government and of [other] organizations ... we can build toward a better Canada and a better world.

This is a formula that helped us to enjoy prosperity in the past. Like most Canadians, I know it can do so again.

Thank you.