



Micro

Volume 6, Number 3
Autumn 1999

Micro-Economic Policy Analysis Branch Bulletin

Canada in the 21st Century

Industry Canada Marks the Millennium

As a new millennium approaches, Canadians are going through a time of dramatic economic change. To examine fully the medium to longer-term opportunities and challenges of these developments, Industry Canada asked a group of experts to provide their "vision" for Canada in the 21st century on several important issues. The authors first identified major historical trends and developed scenarios to illustrate how trends in their areas might unfold over the next ten to fifteen years. They then identified the medium-term consequences of the developments for the Canadian economy. Topics covered included global economic trends, international economic relationships, demographic developments, investment and innovation, productivity and living standard issues,

environmental quality, labour market issues, and business and government responses to economic challenges. This issue reports on the release of these vision papers as the *Canada in the 21st Century* series.



To showcase these vision papers and foster a general debate on the economic challenges facing Canada in the new millennium, Industry Canada, in partnership with the Centre for the Study of Living Standards, organized a major conference on September 17-18, 1999 in Ottawa. Some 300 participants, drawn from governments, academia and industry took part in the conference. This issue of MICRO provides a brief overview of each paper as well as a summary of the basic themes that emerged in each session of the conference.

Visit our website at strategis.ic.gc.ca and select *Economic Analysis & Statistics* to see or download the full text of *MICRO* and the research publications of the Micro-Economic Policy Analysis Branch.

INDUSTRY CANADA RESEARCH AND PUBLICATIONS PROGRAM

RECENT RELEASES

OCCASIONAL PAPER SERIES

No. 21: *University Research and the Commercialization of Intellectual Property in Canada*, Wulong Gu and Lori Whewell.

DISCUSSION PAPER SERIES

No. 7: *Implications of Foreign Ownership Restrictions for the Canadian Economy - A Sectoral Analysis*, Steven Globerman.

WORKING PAPER SERIES

No. 26: *Intrafirm Trade of Canadian-based Foreign Transnational Companies*, Richard A. Cameron.

No. 28: *Technology and the Demand for Skills: An Industry-level Analysis*, Surendra Gera, Wulong Gu, and Zhengxi Lin.

No. 29: *The Productivity Gap Between Canadian and U.S. Firms*, Frank C. Lee and Jianmin Tang.

No. 30: *Foreign Direct Investment and Productivity Growth: The Canadian Host-Country Experience*, Surendra Gera, Wulong Gu, and Frank C. Lee.

FORTHCOMING

DISCUSSION PAPER SERIES

No. 8: *Determinants of Canadian Productivity Growth: Issues and Prospects*, Richard G. Harris.

No. 9: *Is Canada Missing the "Technology Boat"? Evidence from Patent Data*, Manuel Trajtenberg.

WORKING PAPER SERIES

No. 31: *Are Canadian-Controlled Manufacturing Firms Less Productive than their Foreign-Controlled Counterparts?* Jianmin Tang and P. Someshwar Rao

DISTINGUISHED SPEAKERS

January 21, 2000, Barbara Fraumeni, US Bureau of Economic Analysis, *E-commerce research at the Bureau of Economic Analysis*

January 28, 2000, Keith Banting, Queen's University *What's a country for? — globalization and social policy in the 21st Century*

February 18, 2000, Ernst Berndt, Sloan School, MIT *Factors Affecting Labor Productivity*

March 3, 2000, Robert Brown, Finance Canada *Business Taxation — Issues & Concerns*

MICRO is a quarterly newsletter highlighting micro-economic research findings, published by the Micro-Economic Policy Analysis Branch of Industry Canada. This edition was prepared under the general editorship of William Horsman. Abstracts of Industry Canada research volumes, and the full text of working papers, occasional papers, discussion papers and *MICRO* can be accessed via STRATEGIS, the Department's online business information site, at <http://strategis.ic.gc.ca>. For more information about our research publications, or to place an order, contact the Micro-Economic Policy Analysis Branch, Industry Canada, 5th Floor, West Tower, 235 Queen Street, Ottawa, ON, K1A 0H5.

Telephone: (613) 952-5704; e-mail <micro.news@ic.gc.ca>; or facsimile: (613) 991-1261. ISSN 1198-3558.

Canada in the 21st Century

Global Economic Trends Affecting Canada

The first session set the scene by examining global trends and their medium term implications for Canada. The first paper in the vision series, *Global Trends: 1980-2015 and Beyond* by

policy development in other areas. Growing income polarization and the problems faced by immobile labour factors point to a greater role for government assistance for those unable to adjust, to strike a

slowdown, we must focus on the way government and business work together and on the way we organize our work. In the area of trade policy and increasing integration, greater efforts could be made to diversify our markets and reduce our exposure to negative developments in the US, such as resurgent protectionism. The panel suggested this could be done by developing stronger trading links and negotiating free trade agreements with parties other than the US, such as Japan or Latin America.

“The globalized international economy of the next generation is unlikely to be as stable as the world economy of the Bretton Woods period.”

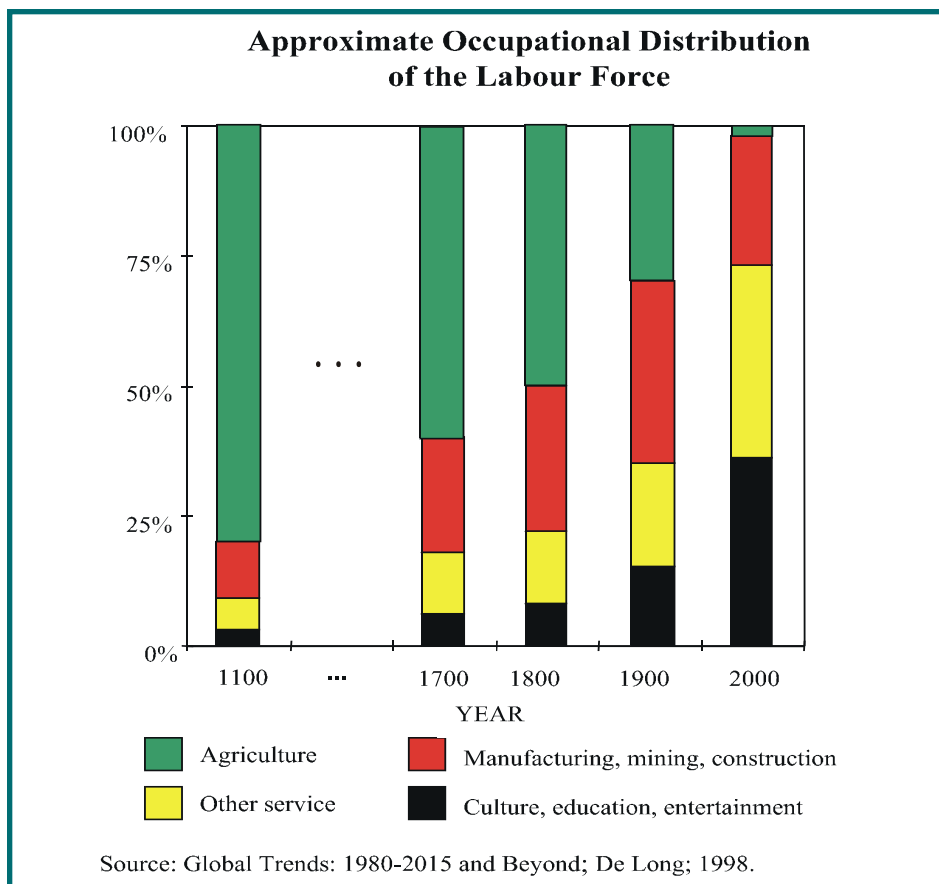
J.B. De Long

J. Bradford De Long, highlights the influence of two major trends on the course of global economic development: globalization and the worldwide productivity slowdown that began in the mid-1970s.

According to Professor De Long, globalization is likely to lead to three developments: the decline of countries’ ability to manage their own macro-economies to meet domestic objectives, the reappearance of large-scale international capital flows with their attendant benefits and risks, and a reduction in the influence and power of national union movements.

While the panel agreed with De Long’s general assessment of the trends facing Canada, they took issue with what one discussant described as De Long’s fatalism in the face of these trends. Overall, they argued that the loss of policy instruments in some areas because of globalization can be offset by

balance between the benefits and costs of growing interdependence. In looking at the productivity



Demographic Challenges Facing Canada

Vision paper Number 4, *Demographic Trends in Canada, 1996-2006: Implications for the Public and Private Sectors* by David Foot, Richard Loreto and Tom McCormack, examines

the baby boomer generation moves into its peak self-employment years. These changes in the labour supply are likely to be accompanied by some significant, demographically-related shifts in

everything that it is claimed to be. Although government policy cannot affect the age structure, it could alleviate some impacts through appropriate policy changes. Society has choices in a wide range of areas that can affect the economic implications of age structure. Early retirement policies can affect employment. Length of the work week, levels of pension contribution and indexing are all public policy issues that are under our control as a society. We have choices to make. Thus, some of the implications that the authors predict reflect what would happen only if government policies fail to take demographic trends into account.

“In determining the impact of demographics on economic behaviour, age explains ‘two-thirds of everything’.”

D. Foot, R. Loreto and T. McCormack

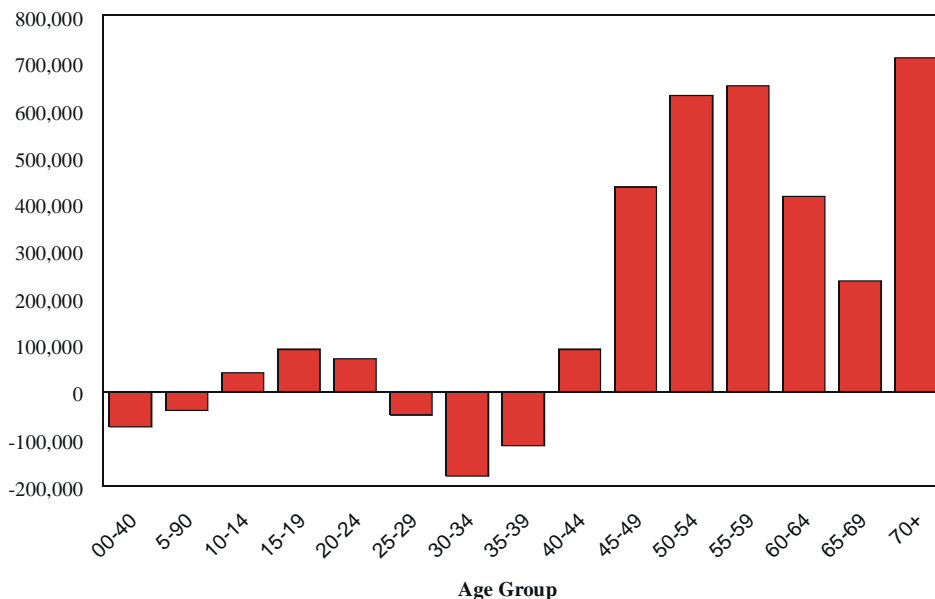
the implications of the aging Canadian population for the domestic economic environment. The authors argue that the age structure is the primary demographic determinant of economic behaviour, stating that “In determining the impact of demographics on economic behaviour, age explains ‘two-thirds of everything’.” They also argue that age structure is immune to government policy and that even high levels of immigration would be unlikely to have a significant impact. One implication of Canada’s demographic structure is that, by 2006, significant shortages or workers under the age of 35 might occur in some service sector activities where it is not easy to substitute technology for labour. In addition, self-employment is likely to increase in future years as

spending patterns toward leisure, health services and financial services.

The panel discussion generally agreed that while evolving age structure is important, it is not destiny, nor is it the two thirds of

Change in Canada's Population by Age

1996 to 2006



Source: Demographic Trends in Canada, 1996-2006: Implications for the Public and Private Sectors; Foot, Loreto and McCormack; 1998.

Maintaining a Healthy Labour Market

Vision paper Number 9, *Individual Responses to Changes in the Canadian Labour Market*, by Paul Beaudry and David Green, examines the reaction of young workers to the dramatic labour market changes of recent years. The authors document the significant deterioration in the position of recent labour market entrants and project a continuation of the negative labour market trends for young workers, accompanied by a further increase in school enrolment rates. As well, the steady rise in female participation and employment rates appears to have ended. Over the long run, the authors see two conflicting forces:

globalization and increased competition from low-cost labour countries might make life even more difficult for young and low-skilled Canadian workers in the future. But at the same time, unskilled males are likely to face less competition from new labour market entrants, since the pressures on labour supply from demographic trends and increasing female participation are subsiding.

Vision paper Number 7, *The Implications of Technological Change for Human Resource Policy*, by Julian Betts, reviews labour market issues arising from

investment in computer-related technologies. The author finds that technological change has not produced a significant decline in jobs in Canada. As in other countries, wages and employment have risen more in innovative than in non-innovative firms within a particular industry. Recent technological advances in microelectronics have also increased skill requirements, contributing to a widening wage gap between university-trained and less-educated workers. In addi-

tion, wages of both low- and high-educated groups. Although Canada shows the same wage differentials as the United States, it may not be for the same reasons. As a result, we must focus more clearly on how the labour market in Canada functions as new technology is introduced, rather than follow only market forces.

For example, we cannot just educate people, we have to consider simultaneously redistributive policies because it is not clear that the responsibility for

“The key to success is that local educational establishments obtain constant feed back from local businesses to ensure that courses and programs keep pace with the requirements of technology.”

Julian Betts

tion, there are indications that new technologies are adversely affecting older workers, who have less incentive than younger workers to invest in retraining.

Panel discussants indicated that Betts' paper neglected important issues such as soft technology and the organization of work, reflecting a preference for dealing with concepts that are easy to quantify. They noted that one implication of Beaudry and Green's argument would be that rising levels of education are bad news for labour, because the increased percentage of highly educated workers causes a decline

flexibility should fall entirely on workers. The panel also endorsed Betts' recommendations for improvements, such as stronger community colleges, and suggested that this is key to improving productivity. The panel also questioned whether taking labour for granted was likely to be a successful strategy, and concluded with a call for more attention to conflict management in the process of introducing new technology.

Productivity and Living Standard Scenarios for the new Millennium

This session focused on a presentation by Richard Harris, entitled *Determinants of Canadian Productivity Growth: Issues and Prospects*, which provided an overview of the productivity issue. (This paper will be published in Industry Canada's Working Paper Series.) Professor Harris pointed out that the rise in living standards since the industrial revolution is a key phenomenon of economic development and, in his view, probably understated. He also emphasized that the cal-

bearing on future productivity growth: demography and its impact on savings rates; globalization and the extent to which further returns can be realized from integration in additional areas such as services; and the role of the "new economy" in stimulating productivity growth.

Comments by the panel emphasized that the importance of productivity derives from its contribution to economic well-being broadly defined, and that it is the primary driver of improved living standards

ductivity on various key components of living standards. Panellists also noted that rapid productivity growth in the United States is concentrated in two equipment sectors. If these are excluded from the calculations, Canada does not fare so badly in comparison. However, this does not tell us why the gap in these two sectors is large and growing.

The panel examined several measures of investment and found that Canada persistently lags the United States in investment in R&D and machinery and equipment. On a technical note, the panel indicated that official estimates of total factor productivity (TFP) and labour pro-

“Trade, investment and human capital formation are the broadest drivers of productivity growth within an overall framework in which knowledge dreation creates the opportunities for growth.”

Richard Harris

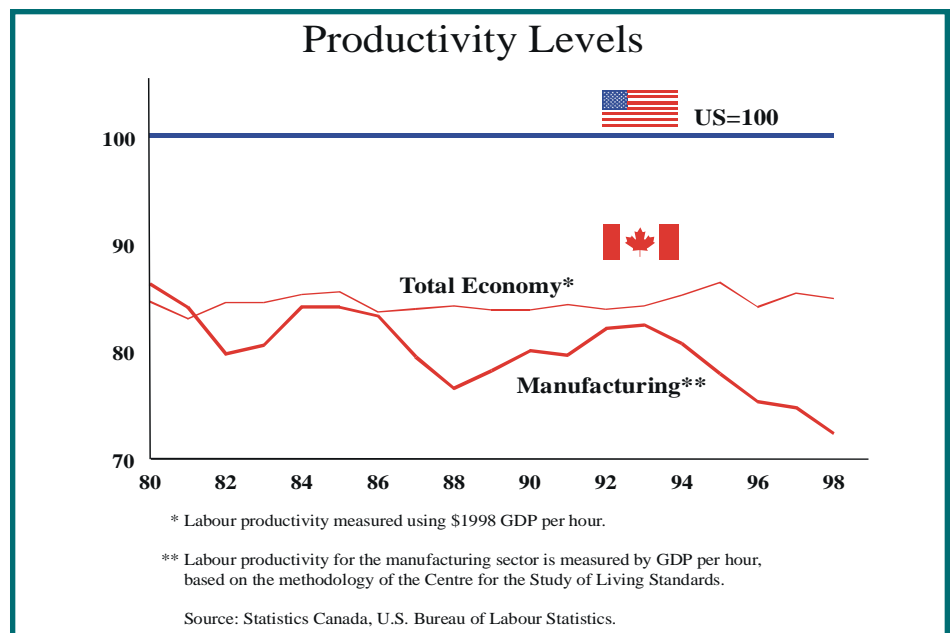
culatation of multi-factor productivity is very technical and that a lot depends on how the calculation is done. For example, measuring the impact of key factors such as general process technology is extremely difficult. As well, using aggregate productivity data may not be the right approach, since there may be vastly different levels of productivity between firms in a given sector.

In spite of the different approaches to explaining and measuring productivity, Harris argued that investment in machinery and equipment, human capital development, and openness to trade and investment are the main drivers of growth, within an overall framework in which innovation creates the opportunities for growth.

Consequently, he concluded that three factors will have an important

in the long run. The key question then is: what drives productivity and what policies will foster it? Andrew Sharpe discussed the links between productivity and economic well-being, illustrating the impact of pro-

ductivity growth rates in Canada (unlike those in the US) are inconsistent with neo-classical economic theory which says that the difference between the growth rates in TFP and labour productivity should be in the



long-run a constant fraction of the growth rate in the capital-labour ratio. This suggests that TFP growth is mismeasured in Canada (growth rates in labour productivity and capital-labour ratio are relatively straight-

forward to measure). In particular, it was noted that the growth of the capital stock in Canada is underestimated, leading to an overestimate of TFP growth. However, regardless of how productivity is measured, there

was a consensus that there is a serious gap in productivity levels between Canada and the United States, and this has implications for our relative standard of living.

Sustaining a Quality Environment for Canadians

Vision paper Number 8, *Economics and the Environment: The Recent Canadian Experience and Prospects for the Future*, by Brian Copeland, casts the spotlight on the environmental

the Great Lakes, where government policy has been focused and effective. An institutional innovation process is now in place and government departments are required to establish sustainable development

improvements, such as a change of emphasis from regulations to incentives, especially market-based instruments. They also recommended the provision of funds to legally uphold common law environmental and property rights, so that externalities are incorporated into prices.

The panel stressed the fact that governments can encourage the private sector by building capacity in key institutions and by playing a role in basic scientific research and development. It was also noted that firms that have carefully considered the environmental aspects of their operations tend to be more innovative and productive.

“Per-capita carbon emissions in Canada are high, and are expected to increase.”

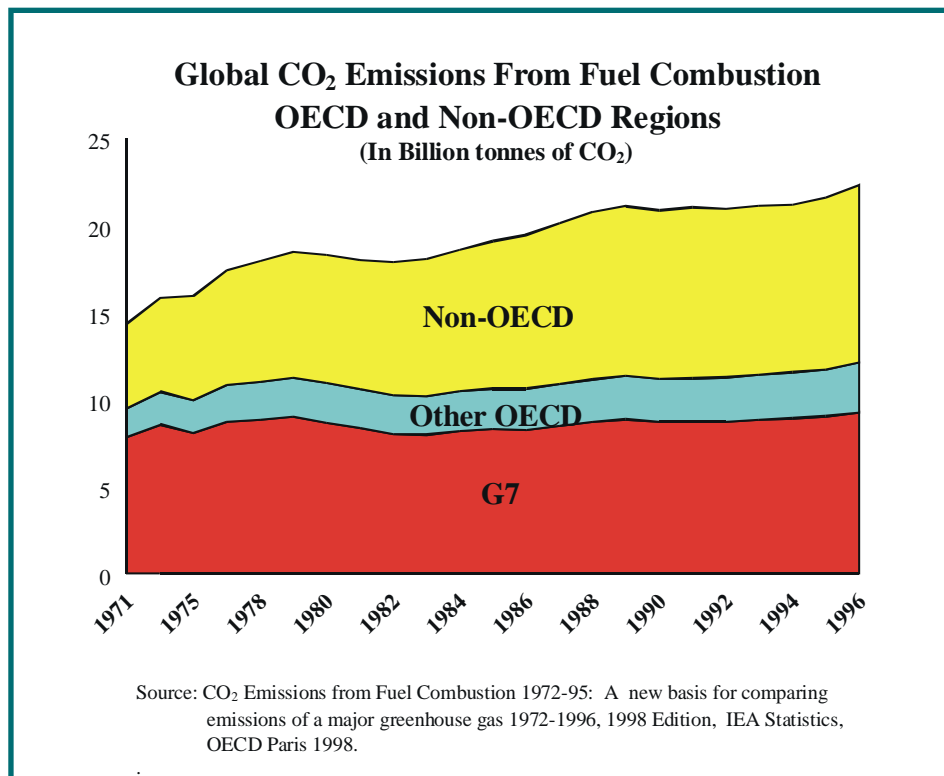
Brian Copeland

component of the nation’s economic wealth. The author finds that Canadian environmental policy has been a mixture of successes and failures. In reforming Canadian policy, the author sees as a central requirement commitment devices that would make it more difficult for governments to retreat from sustainability objectives in the face of pressures to deal with short-term income and employment concerns.

However, the most serious environmental challenges are probably global. Multilateral solutions are required to address problems such as greenhouse gas emissions, ozone-depleting gas emissions and threats to biodiversity. As consumption levels increase, particularly in the rapidly growing economies of Asia, severe pressures will be placed on the global environment.

The panel discussion noted that there have been improvements in some areas, such as hazardous waste disposal and water quality in

strategies. With an eye to additional improvements, panellists suggested better collection of basic information on the environment to facilitate effective policy development. They recommended a number of



Fostering Investment and Innovation in Canada

Vision paper Number 5, *Capital Investment Challenges in Canada*, by Ronald Giammarino, addresses the question of whether or not there is under-investment in Canada. The author concludes that the relatively poor productivity performance, low level of R&D investment and slow development of high-technology industries in Canada, by comparison with many OECD countries, are indications

enhance secondary school performance, and the development of Internet tools and applications. The second would be to build trust between economic actors through local institutions that would evaluate major projects and make their results available to citizens of affected communities. The third would be to improve the quality of life and the environment, perhaps by promoting the use of electric vehicles in

of an investment bubble. However, Manuel Trajtenberg presented an analysis of patent data which shows that Canada is underinvesting in R&D relative to other industrialized countries. The quantity, quality, industrial distribution and ownership of Canadian patents suggest that there is a serious innovation problem in Canada.

As well, panellists stressed the importance of investment in research in universities and other institutions that nurture discoveries. They also agreed with an emphasis on developing managerial schools to improve corporate governance. With respect to the DeBresson and Barker paper, the panel expressed some concern over how the proposed policy initiatives would be developed and whether they would involve tax increases. In general, panel members acknowledged that the paper set out reasonable policy goals, but suggested even more institutional flexibility and innovation, particularly in the area of education.

“Essentially, Canada seems to be missing the [technology] boat...”

Manuel Trajtenberg

that market failures may be impeding investment. He argues that corporate decision-making is not as efficient as it could be and that this also constrains investment.

To create a better investment climate, a number of challenges must be addressed. First, we must take into account the higher international mobility of capital by keeping taxation rates in line with those of other industrialized countries and direct government expenditures at infrastructure investments that will enhance the quality of life and raise the efficiency of capital and labour. Second, R&D and other investments that have significant spillovers need to be supported. Third, environmental policies must not place Canadian firms at a competitive disadvantage.

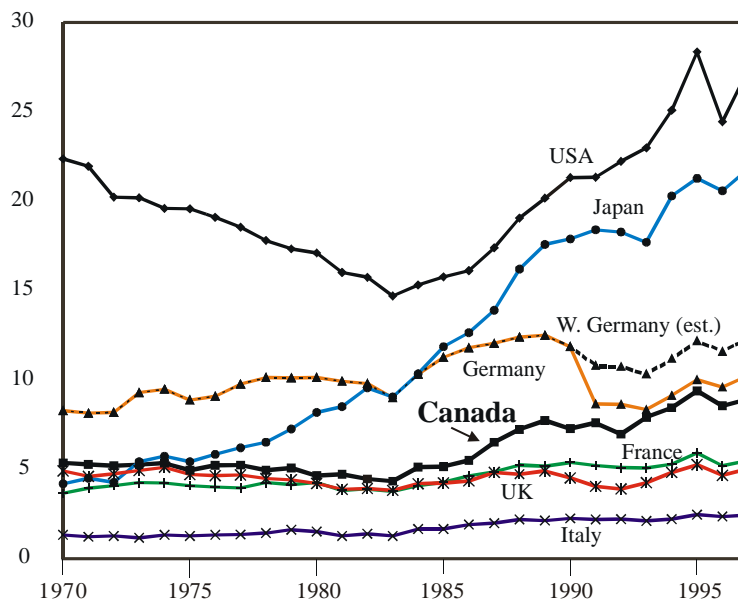
Vision paper Number 6, *Looking to the 21st Century—Infrastructure Investments for Economic Growth and for the Welfare and Well-Being of Canadians*, by Christian DeBresson and Stéphanie Barker, focuses on identifying promising long-term infrastructure investment opportunities. The first would be to increase Canada’s participation in the global learning economy, for example through investments in pre-school learning, programs to

city cores and introducing urban recycling programs. The fourth would be to reposition Canada in the world economy by establishing multi-disciplinary centres of excellence that would conduct research on global economic and social issues.

Panel members argued that the evidence does not support Giammarino’s conclusion that there is a general investment problem, other than in R&D. In fact, there may be indications

Patents per Capita: Canada vs. the G7

Patents per 100,000 population



Source: Is Canada Missing the “Technology Boat”? Evidence From Patent Data; Trajtenberg; forthcoming.

Canada's Evolving International Trade and Investment Relationships

Vision paper Number 3, *North American Economic Integration: 25 Years Backward and Forward*, by Gary C. Hufbauer and Jeffrey J. Schott, traces the growth of trade, investment and other commercial links between Canada and the United States, and speculates on the evolution of North American economic relations. The authors are optimistic about the prospects for further North American economic integration. They believe that free trade forces will continue to pre-

tional commerce, should be pursued by Canada through both multilateral discussions at the World Trade Organization (WTO) and the OECD, and through regional initiatives involving the Asia-Pacific Economic Cooperation forum, the North American Free Trade Agreement and the proposed Free Trade Area of the Americas .

Panel members were generally concerned with what the papers failed to address and felt that they should have

ellists made reference to recent WTO decisions on Canadian industry support programs which imply that any subsidy program in an exporting industry amounts to an export subsidy.

They questioned what position Canada will take on the shift to rule-making bodies. For example, should enforcement of related measures such as labour standards take place in the context of the WTO, which some see as the most effective arena, or in the context of another body such as UNC-

“Over the next 25 years...the border between Canada and the United States will be no more intrusive than the German-Dutch border today.”

Gary Hufbauer and Jeffrey Schott

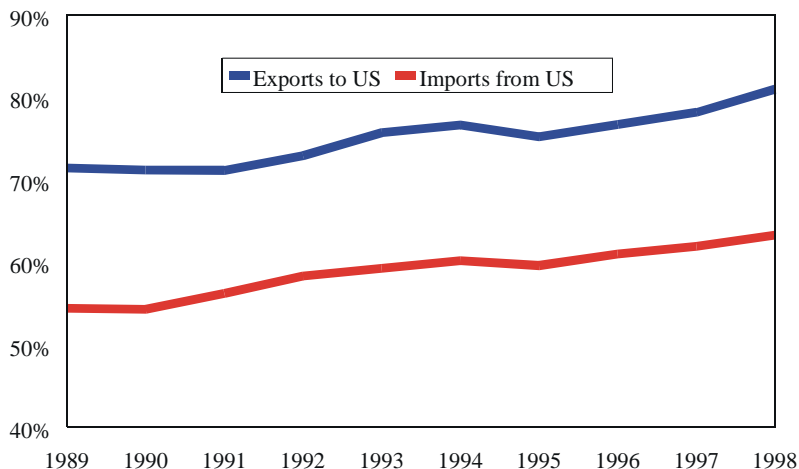
vail over protectionist sentiments in the United States and that economic progress in North America will bring about a further increase in Canada-United States trade, which by 2005 or 2010 could be 20 to 30 percent above what it would have been in the absence of recent trade agreements. In his presentation, Hufbauer argued that in order to be competitive in this scenario Canada should do away with the corporate income tax and remove the trade and investment barriers remaining between the two countries.

Vision paper Number 2, *Broad Liberalization Based on Fundamentals: A Framework for Canadian Commercial Policy*, by Randy Wigle, argues that as a result of policy liberalization and the advent of new information technologies, Canada has a strong interest in removing impediments to international trade because of its small domestic market and its need for foreign investment and technology. The author concludes that further liberalization, involving the extension of national treatment into new areas of interna-

looked farther ahead. They noted that since the Uruguay Round the multilateral system has evolved toward a system of rule-making, which will address domestic policy issues and prove much more threatening to sovereignty. This will raise questions about the desirability of further liberalization and its attendant costs. As an illustration, pan-

TAD or the ILO? The panel noted that despite predictions that free trade would cause a convergence of productivity between Canada and the United States, liberalization has not closed the performance gap.

Canada's Trade in Goods and Services with US as share of total Canadian trade



Source: based on data from Statistics Canada.

The Private Sector Response to the Economic Challenges Facing Canadians

Vision paper Number 10, *The Corporate Response - Innovation in the Information Age*, by Randall Morck and Bernard Yeung, examines the corporate response to the major forces driving

competition in some segments of the banking and financial sector, which partly explains the financing problems of small firms. Equally addressable are failures in markets for education, training and funda-

that Canada has a serious innovation shortfall. In particular, organizational innovation is hard to achieve, and we don't understand well how the organization of work impacts on other outcomes.

Panellists emphasized the importance of distinctiveness as a way to get a leg up on the competition and earn monopoly profits in markets that are rarely homogeneous or monolithic. They argued that managers and corporations have not sought distinctiveness enough, probably because of Canada's abundant natural resources and the convenience of the U.S. market. In view of this, the importance of corporate culture as an area of potentially fruitful research work was underlined. Similarly, panel members agreed that governments should also be distinctive and compete with one another.

“The more a firm generally mimics a market economy, the better its chances of prospering in the information economy.”

Randall Morck and Bernard Yeung

economic change. The authors suggest the need for market-type incentives within organizations so that firms can imitate the market's ability to foster efficient information generation and processing. Policy should be directed only at significant market problems that governments can usefully address.

One such problem is inadequate

mental R&D. These inhibit innovation and justify the provision of public subsidies. More generally, the authors point out, government itself has become a competitive business—governments must deliver valuable public goods at competitive tax rates or risk an outflow of capital, ideas and skilled labour.

The panel discussion underscored

The Response of Government to the Economic Challenges Facing Canadians

Vision paper Number 11, *Institutions and Growth—Framework Policy as a Tool of Competitive Advantage for Canada*, by Ronald Daniels, examines the response of government. The author

institutional and policy framework that is competitive with that of other jurisdictions. He identifies four broad requirements of a competitive legal and institutional landscape: a stable government and cur-

reduced scope of activities, are less vulnerable to rent-seeking by vested interests; high investments in education; and framework policies that reduce market transaction costs incurred by individuals and firms.

The panel discussion focused on the following question: Can government make a difference and in what areas? In general, panellists concluded that government policies matter and can have an impact, either positive or negative. In fact, because the government's fiscal position has improved, we do have

“It is essential that the government lead in creating and sustaining an informed policy debate.”

Fred Gorbet

believes that governments are under increasing pressure to establish an

agency; strong but limited governments—which, as a result of their

more choices than we have had in a long time—we are not as constrained as some may think.

The panel discussed whether there is still room for international differences in social policy and concluded that there is indeed. In the post-war period, we have seen a steady liberalization of trade regimes coupled with an expansion of social security systems. In the process, different countries have built different systems. The panel came to the conclusion that inevitable convergence or determinism in social policy is not sustained by available evidence, either in the EU or NAFTA. There may be convergence in some areas, but in other areas restructuring, rather than convergence, prevails. The panel concluded that government has a role to play and scope for action in social policy, though the approach is changing.

As for economic policy, panel members argued that governments should continue to focus on the fundamentals of good macro-economic performance. Although much has been achieved, one could question whether the mix of monetary and fiscal policy is optimal, and in particular ask whether too much emphasis is being placed on monetary policy. As well, the overall economic framework requires government action. This means that the government must make ground rules as clear as possible; for example, it needs to be more explicit in its industrial policy on issues like bank or airline mergers.

The panel concluded that it is essential for the government to take the initiative in fostering and sustaining an informed policy debate. Government has a responsibility to lead, to take ideas and to build a public policy agenda. As well, the

government needs to provide an honest assessment of what resources are available. For instance, the medium-term budget outlook is unreal, because everyone knows there will be surpluses. In addition, there is too much focus on tax cuts in the current debate, and it is important to recognize that there are no silver bullets. We must ensure that issues such as tax cuts are not positioned as “moral” issues and that an informed discussion take place.

Finally, the panel emphasized that in such debates, there is no clear boundary between economic and social policy. The division between economic and social policy is not clear cut and there is a need to “break down the silos” that tend to isolate these issues from each other.

Featured Speakers

The conference also featured three lunch/dinner speakers:

Has the New Economy Finally Revived Productivity Growth?

Robert J. Gordon (Northwestern University) examined the recent strong growth in output per hour in the United States to determine

whether this marks the end of the slowdown in productivity growth and the beginning of a “new economy” revolution in productivity.

Professor Gordon found that this

is not the case, as the improvement in measured productivity since the mid-1990s is highly concentrated in the durable goods sector, and more

particularly in the production of computers. It appears that the spurt of productivity growth is almost entirely the result of a significant drop in computer prices over the

last few years. In fact, allowing for other factors, productivity in durable-goods manufacturing other than computers and in the manufacturing of non-durable goods is growing even more slowly than before.

He concluded that the fact that productivity growth is so narrowly confined to computers suggests that there is no evidence of a broad productivity revival resulting from the use of computer and information technologies.

“Computers may be pervasive, but they have not created a revival of productivity growth...”

Robert J. Gordon

Public Perceptions of Canadians on Economic Issues

Frank Graves of Ekos Research referred to recent polling data that suggest Canadians are increasingly optimistic about their personal financial security, twinned with the

by the concept of "productivity". The general public is better informed than expected about the meaning of this economic yardstick. However, there is a diver-

believe that social programs are important human investments which increase Canada's productivity by ensuring a healthy, secure population. Thus Canadians explicitly link social and economic policy and see them not as rival but complementary agendas. Canadians are also relatively sophisticated about productivity, realizing that there is no simple solution to these questions and favouring a strategy involving multiple tools in several key sectors. In addition, 74% believe that increasing productivity would narrow or have no real effect on income equality.

"About 75 to 80% of Canadians tell us that they think that improving economic productivity is an important priority for the federal government..."

Frank Graves

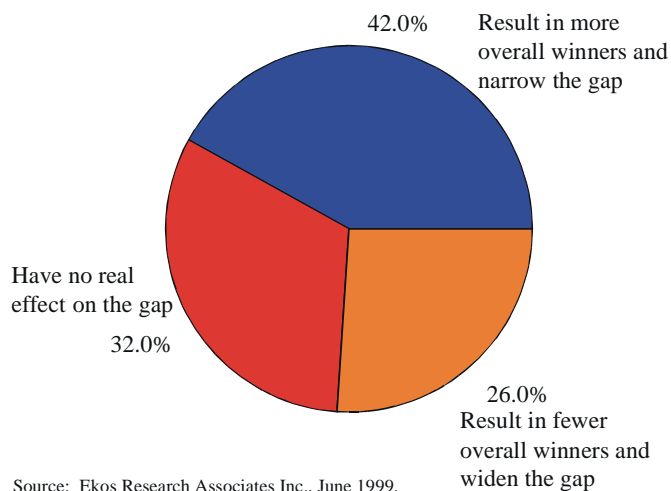
belief that the country will be doing better. The proportion feeling that they have lost control over their economic future is declining. Some 49% of Canadians think that their quality of life and standard of living has improved in the past 10 years, compared to 23% who think it has worsen. The survey findings show an emerging appetite for "bold new visions" and waning enthusiasm for "steady as she goes".

In terms of priorities for the federal government, 57% feel that it is now more focused on economic priorities like jobs and economic growth. Some 40% agree with this approach, but 45% would prefer the government to pay more attention to social priorities. Quality of life and the health care system rate highly as desirable priorities among average Canadians, although elites insist more on tax cuts. Graves characterized the two approaches as "Main Street" versus "Bay Street".

Canadians are not intimidated

gence in what Canadians think about productivity. Elites look at it in terms of income and standard of living, while average Canadians see it as a tool for improving quality of life. Some 83% consider that raising Canada's economic productivity is essential to improving our standard of living, while 73%

"Thinking about the gap between rich and poor, what effect do you think a Government of Canada focus on improving the country's level of productivity would have on the gap? Do you think it would..."



Source: Ekos Research Associates Inc., June 1999.

Why Canada Needs a Monetary Union with the United States

Thomas Courchene (Queen's University) presented his argument that the floating Canadian dollar is not serving the country's economic interests well, and the

tions, and thus away from Canadian ones, and that they will discourage the development of human-capital-intensive industries in Canada.

preferable.

In response to fears that moving to a fixed-rate monetary regime or currency union would involve a loss of sovereignty for Canada, Courchene argued that such a loss would be more apparent than real. He pointed out that it was during the fixed-rate period of the 1960s that Canada developed its comprehensive social policy infrastructure.

He concluded by warning that events elsewhere in the Americas are forcing the issue. There is already a trend toward "dollarization", that is, the adoption of the US dollar as a commercial currency, both in Mexico and in Argentina, which may constrain the potential for a North American currency union. This means that Canada needs to be part of any public debate on the evolution of North American currency arrangements to ensure that the monetary union option remains on the table.

“The cost of monetary independence is becoming increasingly apparent...”

Thomas Courchene

solution could be to work toward establishing a North American currency union.

He contended that floating rates make real exchange rates more volatile, do not appear to offer effective buffers against external shocks, and can result in prolonged currency misalignments. The risks of such weakness and volatility are that they may discourage productivity improvements in Canadian firms that export or compete with imports, that they will tend to bias investment toward United States loca-

According to Courchene, greater exchange rate fixity with the U.S. dollar would encourage wage and price flexibility in Canada as firms and workers became more conscious of their competitive positions in North America, stabilize prices for Canadian financial and real assets, and reduce currency conversion and other transaction costs on cross-border trade and investment. Of the available options, ranging from exchange rate targets to a formal North American monetary union, a currency union would be

Conference on "Canada-US Manufacturing Productivity Gap"

January 21-22, 2000, in Ottawa

The Centre for the Study of Living Standards (CSLS) will be organizing a major international conference in Ottawa, January 21-22, 2000 on the trends, causes and consequences of the Canada-US manufacturing labour productivity gap. Fifteen papers by well-known Canadian, American and European productivity experts will be presented, with discussion by leading economists. All persons interested in this key economic issue are invited to attend. For more information and registration, contact Andrew Sharpe, Executive Director, CSLS, at 613-233-8891 or fax 613-233-8250 or visit the CSLS website at <www.csls.ca>.

INDUSTRY CANADA PUBLICATIONS PROGRAM ORDER FORM

Please mark the publications you would like to receive and complete the shipping instructions on the next page.



Working Paper Series

- No. 24 Canadian Government Policies Toward Inward Foreign Direct Investment
- No. 25 A Structuralist Assessment of Technology Policies — Taking Schumpeter Seriously on Policy
- No. 26 Intrafirm Trade of Canadian-Based Foreign Transnational Companies
- No. 27 Recent Jumps in Patenting Activities; Comparative Innovative Performance of Major Industrial Countries, Patterns and Explanations
- No. 28 Technology and the Demand for Skills: An Industry-Level Analysis
- No. 29 The Productivity Gap Between Canadian and US Firms
- No. 30 Foreign Direct Investment and Productivity Growth: The Canadian Host-Country Experience

Occasional Paper Series

- No. 18 Reducing Regulatory Barriers to Trade: Lessons for Canada from the European Experience
- No. 19 Analysis of International Trade Dispute Settlement Mechanisms and Implications for Canada's Agreement on Internal Trade
- No. 20 Aboriginal Businesses: Characteristics and Strategies for Growth

Discussion Paper Series

- No. 6 International Market Contestability and the New Issues at the World Trade Organization
- No. 7 Implications of Foreign Ownership Restrictions for the Canadian Economy

Micro-Economic Monitor

- Second Quarter, 1999 Canada's Growing Economic Relations with the United States
Part 1 -- What are the key dimensions?
- First Quarter, 1999 Improving Productivity: The Key to Higher Living Standards
- Fourth Quarter, 1998 Canada's Regions and the Knowledge-Based Economy: A Compelling
Journey to a Promising Future
- Third Quarter, 1998 Shattering the Glass Box?: Women Entrepreneurs and the
Knowledge-based Economy



Canada in the 21st Century Series

- No. 1 Global Trends: 1980-2015 and Beyond
- No. 2 Broad Liberalization Based on Fundamentals: A Framework for Canadian Commercial Policy
- No. 3 North American Economic Integration: 25 Years Backward and Forward
- No. 4 Demographic Trends in Canada, 1996-2006: Implications for the Public and Private Sectors
- No. 5 Capital Investment Challenges in Canada
- No. 6 Looking to the 21st Century - Infrastructure Investments for Economics Growth and for the Welfare and Well-Being of Canadians
- No. 7 The Implications of Technological Change for Human Resource Policy
- No. 8 Economics and the Environment: The Recent Canadian Experience and Prospects for the Future
- No. 9 Individual Responses to Changes in the Canadian Labour Market
- No. 10 The Corporate Response - Innovation in the Information Age
- No. 11 Institutions and Growth: Framework Policy as a Tool of Competitive Advantage for Canada

Please complete the shipping instructions:

SHIPPING INSTRUCTIONS	DATE SENT:
NAME	
ORGANIZATION	
ADDRESS	
CITY	PROVINCE
POSTAL CODE	COUNTRY

And send or fax this form to:

Publications Officer
Micro-Economic Policy Analysis
Industry Canada
235 Queen Street
Ottawa, Ontario
K1A 0H5

Phone: (613) 952-5704
Fax: (613) 991-1261

e-mail: mepa.apme@ic.gc.ca