

Panel on Policy Levers to Improve Manufacturing Productivity Performance

A. Sulzenko Thanks very much Bryne. As the first speaker I have the privilege of going in front of everyone else and not having to respond to any of their points. But I also have the responsibility of being really brief so that there's time for the last speaker.

About this time last year, if you think back, there was still a debate in this country on whether Canada faced a productivity challenge. A lot of hard work has been done by many people during the course of this last year, especially in this room, and I think there's now a consensus among academic, business and government opinion leaders that the challenge is real. So we made a lot of progress in the last year and in fact since most of you have been here since early morning you probably haven't had a chance to read the papers, but this is the front page from the Citizen and I'm gratified to tell you that there's a story on the front page relating to a paper presented at this conference.

I think the debate can now shift more to what are the key drivers of our productivity performance and, based on that, what are the policy levers that will most influence those drivers in the right direction. So the debate is now shifting more towards the policy side. I don't think this panel on policy today, however, is likely to develop a consensus on this. We'll have somewhat different views I'm sure, as this conference has already demonstrated.

Before moving on to those levers, let me give you a sense of what our research suggests are in fact the key drivers. Not surprisingly, it's the usual suspects from the production function, physical capital, innovation (and by that I mean much more than technology, I mean organizational and management capacity), and human capital. As we know very well now in 2 of these areas Canada is consistently under-performing relative particularly to our U.S. competitors. On human capital I think the story is more mixed.

Going beyond this, our research suggests that there is something more going on and that is that there is much less what I'd call structural dynamism in the Canadian economy when we compare ourselves to the world's most dynamic economy south of us. The evidence for this is clear in some respects in the manufacturing sector where it's been pointed out in a number of research papers, for example, that in the U.S. 2 sectors of U.S. manufacturing doubled their share of output in only 10 years. And when we compare that to the Canadian situation structural change has been breathtakingly slow. There's also some evidence now in the service sector of a similar phenomenon when we compare the take-up rates in the 2

countries on e-commerce for example. So our hypotheses is that Canada is not moving quickly enough into the new high-growth, high-value, high-wage and high-productivity sectors that increasingly define the knowledge based economy and therefore, it's not just a question of staying where we are in terms of the gap in performance with the United States; we run the risk of that gap actually increasing over time. The issue for policy makers, is not only what can be done to put the right incentives in place to increase investment in physical capital, in innovation and in human capital, but perhaps as importantly or maybe even more importantly, what can be done to remove the constraints from the creative destruction process that goes on in an economy so that business decision makers, from entrepreneurs right through to pension plan managers, have the right sets of incentives to invest in dynamic, high growth pursuits as compared to lower return pursuits.

Turning now to policy, I think it's fair to say that it's really about getting a lot of things right and in mutually reinforcing alignment from fiscal and monetary policy to tax and business frameworks to micro-economic policies. I won't dwell on the macro and tax policies, as my colleague Don Drummond is up next, except to say 2 things. One, from our perspective getting our macro stance right is absolutely essential, but at the same time it's insufficient in itself if we want to maximize our productivity and growth potential. And two, on tax, the debate needs to be broadened to corporate tax issues, as these have an important and more direct impact on business performance than personal tax.

Within my own department our principal areas of focus have been threefold. First, on modernizing business framework laws so that Canada is a leading edge country for business. We've done a lot in the last few years on intellectual property, for example, hopefully in the next month we're going to table amendments to the Canada Business Corporations Act, thereby modernizing the basic business framework legislation. The second area is in promoting innovation, and in the last few years much of that emphasis has been on the research capacity in the university sector and in the period ahead the emphasis will be much more on commercializing that knowledge by the business sector. And thirdly, in promoting the development and use of critical enabling technologies. In the last number of years that has largely been in the information technology area and now increasingly in the other great enabler of the 21st century, in biotechnology.

I think the real challenge for, for policy makers in their respective fields of competence is how to put in place the right set of incentives, and in some cases take away disincentives, to increasing the pace of industrial adjustment to high value, high productivity pursuits. And this applies not

only to our macro and our micro economic policies, but I believe to social policy as well. My concern, and this is a very much a personal view, is that if we don't look at our policy choices through that kind of prism, over time as Canada's economy integrates increasingly with that of the U.S. in this North American space, Canada will be heavily invested in lower growth, lower value, lower wage activities compared to the U.S.'s high growth, high value, high wage activities. Now these would make wonderfully complementary economies, but I ask you the question, is that where we want to be down the road... increasingly as the farm team for the big leagues? Thank you.

APPLAUSE