There were no easy answers for Godfrey (left), Labarge, Martin and Stanford

The hollowing-out

Four experts analyze Canada's competitiveness

As political debate intensified last week over such issues as the weak dollar and the loss of Canadian head offices, journalists from Rogers Media properties, including *Maclean's*, sat down with four experts for a round-table discussion on Canada's competitiveness. The panelists were Suzanne Labarge, vice-chairwoman of RBC Financial Group; Paul Godfrey, CEO of the Toronto Blue Jays; Roger Martin, dean of the University of Toronto's Rotman School of Management, and Jim Stanford, economist with the Canadian Auto Workers union. Highlights:

Question: *By a lot of measures, Canada is doing quite well: the deficit is gone, the debt is down, employment is at a record high. Yet other indices show we're falling behind competitively in the world. What does this mean to the average Canadian?*

Martin: It means Canadians have to live with fewer goods and services than they'd have been able to buy if we'd kept up with some of the other industrialized, higher-performing countries. If our standard of living, measured by GDP per capita, had remained third in the world, which is what it was in 1990, instead of sixth, as it was in 2000, the average Canadian would have produced $2,000 more a year, U.S. So for a family of four: something in the order of $13,000 Canadian more output than they've produced, and that flows back into wages and the ability to purchase more.

Q: *And yet, we're working longer hours, so where's the problem?*

Martin: That's something I'm trying to unravel in one of my jobs, which is running the Ontario task force on competitiveness. It's unclear whether it's because we're in less productive industries, or because we have fewer of our people working as a percentage of the total population, or because the size of our companies is too small, or because of the way our companies operate. That's why I think that in this whole attempt to raise our standard of living, the innovation agenda, it's hard to know what to do if you don't know exactly what the problem is.

Q: *Do the Canadian Auto Workers have an answer?*

Stanford: I think we've got ideas of what the answer isn't. For a long time, we've talked about competitiveness in terms of tightening our belts, getting more disciplined, cutting off the slack, making things easier for business, lower taxes, less regulations, that kind of thing. And we've pretty well done all of those things over the last 10 or 15 years. We've really restructured our whole economy in a very pro-business, pro-market, pro-trade direction.

Yet, as Roger points out, we're still lagging in terms of our growth rates, in terms of our ability to nurture high-value, high-technology industries in Canada. So it is a bit of a puzzle, and one thing I think we've got to do is get out of the mindset that being competitive means being cheaper, and making things cheaper and easier for business. It's about the structure of your industry, it's about your knowledge, your skills, your capacities as a society. It means business and labour and government and communities and educational institutions sitting down and thinking, "What can we as a society do to make ourselves more productive, more capable?"

Q: *How does it look from the Royal Bank's perspective?*

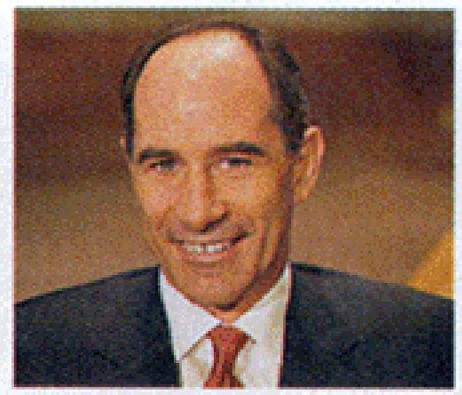
Labarge: We get concerned about what we call the hollowing-out of corporate Canada. When you've got 30 per cent of the TSE 300 disappearing in two years, 60 per cent of it bought by Americans or other foreigners, we know we've got an issue, that we're not bringing up the small companies behind to fill in. Where Canada wins is when you've got head offices and head-office-type jobs. So there are a lot of questions, but the big one is: "Why do we have far fewer small companies that turn into large companies than most countries in the world?" That's the future of our country, if we can make that happen.

Godfrey: It's sad that as a country, we've searched for many years and we still have the same questions being asked today that we did a decade ago. The fact is, until there's better productivity in this country, we are going to continue to struggle. I can tell you that as far as professional sports is concerned, the Canadian dollar, in comparison to the U.S. dollar, is going to wipe out the industry within 10 years. In the last five or six years, we've seen three professional sports teams disappear because they paid most of their expenses in U.S. dollars, and they get almost all their revenues in Canadian dollars. The Canadian government pays lip service to the value of the Canadian dollar, but they really don't step in and do enough to support it.

Stanford: I think we should all take a little bit of Valium on the subject of the dollar. For most people, on a day-to-day basis, whether the loonie is 64 cents or 70 cents or 74 cents doesn't affect your standard of living because what we buy and sell in

CEO Godfrey

Banker Labarge



Academic Martin

Economist Stanford

Peter Bregg/Maclean's

Canada are, by and large, goods that are made in Canada. For particular industries, like Paul's, it obviously poses difficulties; for others, it poses benefits. I think it's, in some ways, linked to the hollowing-out of corporate Canada. If all Canada has to offer is access to the U.S. market, I can get that from any of the 50 states and Mexico to boot. Why should I be in Canada? That's a deeper structural question. I think it ties into the value of the loonie and to the whole question of our productivity.

Martin: I really agree with this notion that we've been sort of cheapening things down to try and become more prosperous. The key to prosperity is having companies that are constantly innovating. It is tremendously important to have all the companies in the Canadian economy say, "Unless I'm doing what I did last year in a more sophisticated way, unless I'm upgrading the product, upgrading the processes that we use to produce the product, etc., we'll fall behind." If the answer is simply to knock down trees and ship them across the border, that isn't sophisticated.

Q: *Do we have a strong enough national vision to bring all the sectors together? Should this be government's role?*

Godfrey: It should be government's role to do that. And governments have paid lip service to it for years. They've called meetings of all the various individual groups and after that they think their job is done and they walk away from it. There's been a lack of follow-through. Having spent time in government, I realize that a politician's long-term view is until the next election.

Stanford: Let me give one case study of the difficulty of getting the long-term view and that sense of vision together. We've got the auto industry in a serious downturn right now. We've been working in our union with some other stakeholders to try and pull together a kind of a vision-making enterprise, if you like, with the federal government, provincial government, industry, parts makers, technology—pull people together and say, "Look, what was working for Canada is not working now."

We're looking at losing a third of our auto assembly, we're looking at several plant shutdowns, and most worrisome, we're not getting the new plants that are coming in, with the new producers and the new technologies. Of the 16 assembly plants built in North America since 1990, Canada's got one. They're all going to Mexico or the U.S. Deep South. What does that mean for us in the long term? Well, try it. The politicians, as you say, are focused on getting elected. We had two industry ministers at the federal level who are interested in getting elected themselves as leader. Can't get on their radar screen. In Ontario, we've got a government that's still committed to that "tightening the belts" philosophy of competitiveness. Then you've got the companies themselves who are all looking after their own interests instead of taking a vision.

Q: *And what about labour?*

Stanford: We want to see high-wage jobs, and that's why we can't be the champion. Part of our problem in the auto industry is that there's no Canadian champion for it. That reflects this hollowing-out problem again. We depend on foreign companies for the assembly operations; we've got some strong Canadian parts producers, but they tend to think continentally, not Canadian. There's no constituency to pull that vision together, so we've got what is, I think, our most important export industry in a serious problem, and we can't even get our act together to figure out what the problem is, let alone how we start solving it.

Martin: On the hollowing-out, though, and the brain drain question, I feel that Canadians tend to be obsessed that it's happening to us uniquely. It's a global phenomenon. There's this great rearrangement going on of where things are done in the world that's resulting in more brains going different places. But the notion that there's somehow a systematic drain from one place to the next is, I think, less accurate than saying there's a brain rearrangement going on and there's a rearrangement of corporate headquarters as well. m