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**Micro-Economic Agenda:  
Jobs & Growth**

By  
Kevin G. Lynch  
Associate Deputy Minister  
Industry Canada

Presentation to DMs Advisory Group on Second Half of  
Mandate  
June 30, 1995



# ***Micro-Economic Agenda: Jobs & Growth***

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# ***Microeconomic Framework for Jobs & Growth***

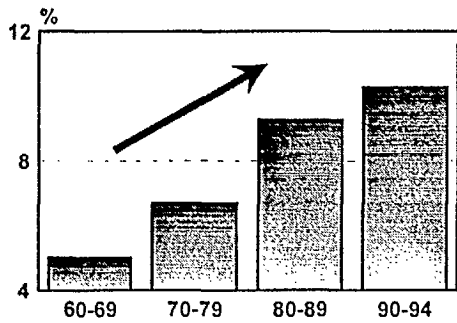
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# Challenges

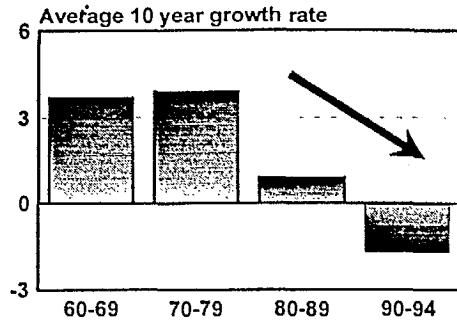


### Unemployment Rate



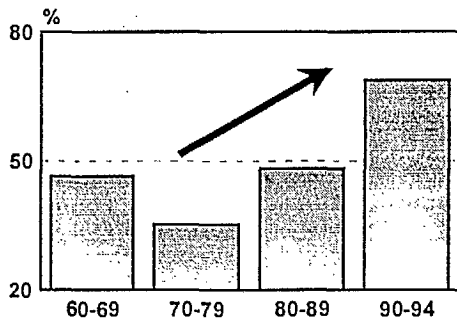
Source: Statistics Canada

### Real per Capita Income Growth



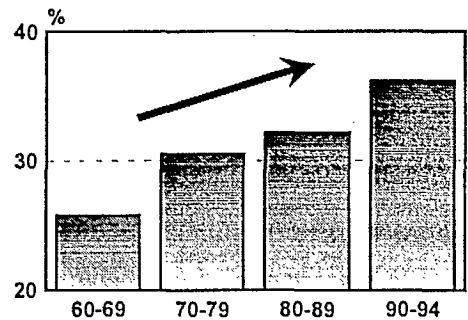
Source: Statistics Canada

### Debt to GDP



Source: Statistics Canada

### Taxes to Income



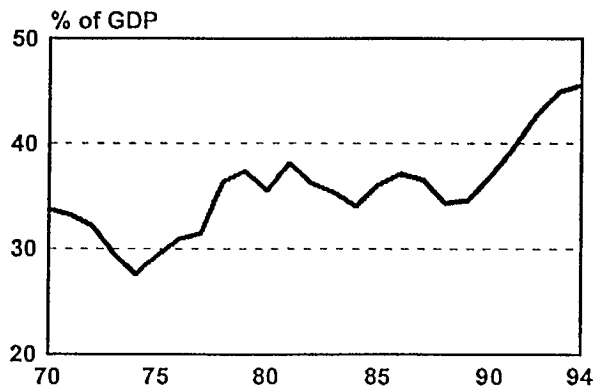
Source: Statistics Canada

The country's long-term economic and social problems are rooted in an unsustainable combination of rising taxes, stagnating incomes, high debt and climbing unemployment.





### Canada's Net International Debt



Source: Finance Canada

Canada's economic performance has also been compromised by large and rising external indebtedness.

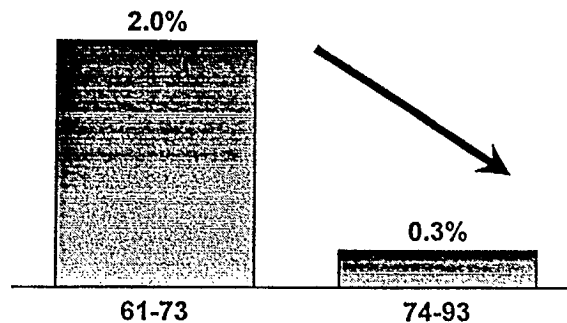
**Result:** In 1994, foreign net debt servicing (\$26 billion) was larger than merchandise trade surplus (\$15 billion).





**Total Factor Productivity Growth Rate**

Avg annual growth rate



Source: Fortin, P. and E. Helpman (1995)

Productivity growth, fundamental to economic growth and improvements in living standards.

Fall off in productivity growth starting in early 1970s, primary cause of major structural economic problems.

Canada had lowest rate of growth in productivity among G-7 countries over the last decade.

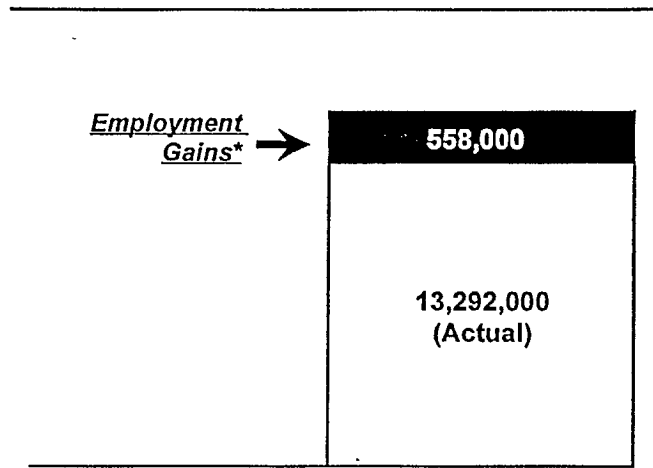
What would Canada look like today if total factor productivity growth had stayed at 2% a year since the 70s?

- Employment?
- Income?
- Deficit?





**Employment: 1994**



\* Assuming there was 2.0% annual total factor productivity growth during the 1974-94 period, rather than the actual 0.3% TFP growth

**There is no conflict between productivity and jobs.**

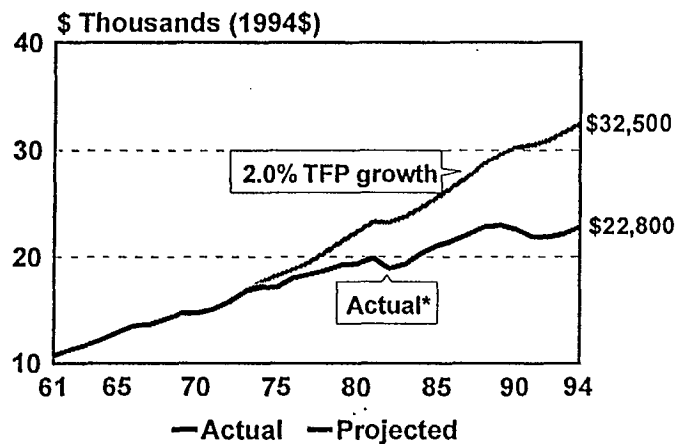
**Without the productivity fall off, an additional half million Canadians would be working today.**







**Real per Capita GDP**



\* Actual: 0.3% TFP growth

With annual productivity growth of 2%, per capita income doubles in 35 years. With 0.3% annual productivity growth, it takes 231 years.

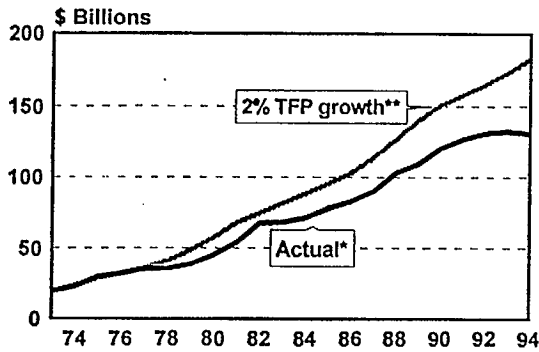
Without fall off in productivity growth, per capita income today would be 42% higher.

Canadians' economic and social expectations in 70s and 80s were met through borrowing.



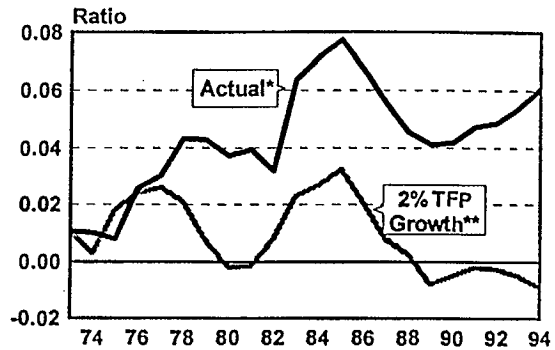


Federal Revenue



\* 0.3% TFP growth  
 \*\*Applies higher productivity-generated income to federal tax system

Federal Budget Deficit to GDP Ratio



\* 0.3% TFP growth  
 \*\*Applies simulated federal revenue to actual federal spending with adjustment for debt & servicing

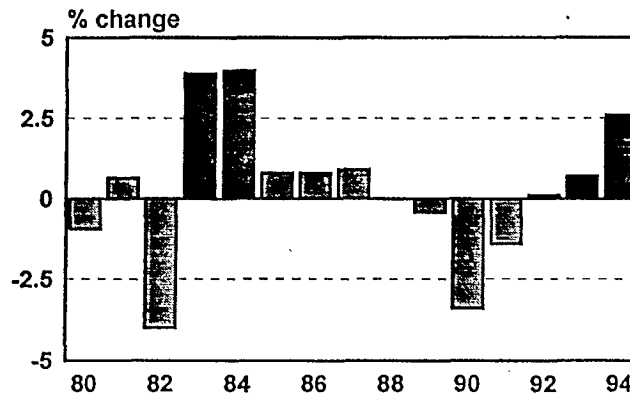
**Without productivity slowdown:**

- Federal revenue could be 39% higher, or 18% of GDP.
- Deficit could be balanced with current spending plan in place.
- Debt could be 7.7% lower.
- Taxes could be lowered.





**Productivity Growth: Business**



Source: Statistics Canada

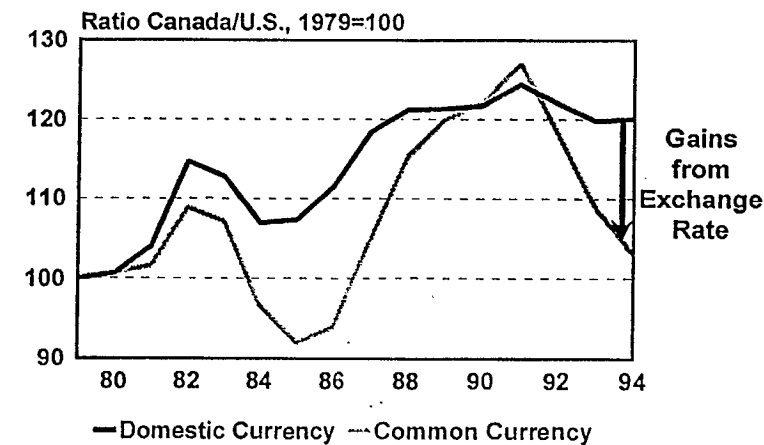
Productivity is crucial and recent numbers are good, but:

- Current productivity rebound not significant deviation from past business cycle trends.
- In fact, productivity growth was stronger coming out of the early 1980's recession.
- Not certain we have turned productivity corner yet.





## Unit Labour Costs



Canada has recently improved its international competitiveness sharply, but:

- Coming out of both recessions, falling dollar has been the major factor in competitiveness improvement.
- Roughly 90% of recent competitiveness gain is due to depreciation of our dollar rather than productivity gains.

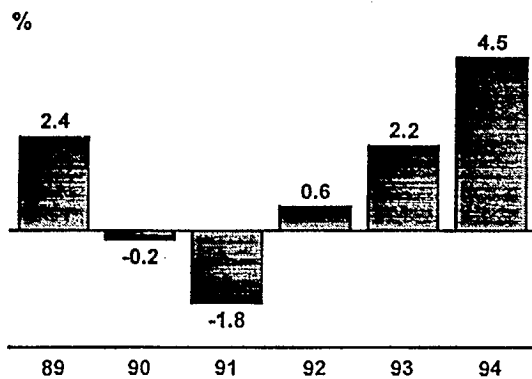
A weak dollar, like debt, is not a foundation for sustainable economic growth.

Have not fully turned competitiveness corner yet.



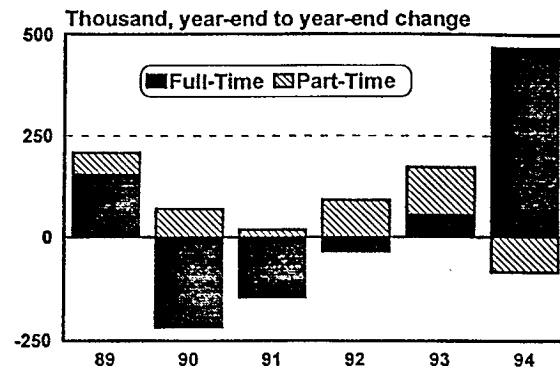
## 1994 was a banner year

### Real GDP Growth



Source: Statistics Canada

### Job Creation



Source: Statistics Canada

In 1994, we finally recovered from 1990s recession.

- Growth strong (4.5%) and job creation large (466,000 full-time jobs).
- Merchandise exports soared (+21%) and trade surplus increased to \$17.1 billion, largest since 1984.
- Business investment grew 7.7%, profits rose 46% and business confidence peaked.
- Unit labour costs declined -0.7% and fourth quarter 1994 capacity utilization rate reached 84.8%, highest since last recession.

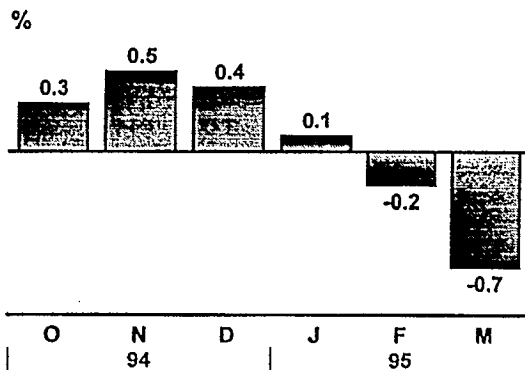
But, similar robust growth in 1984 turned out to be cyclical, not sustainable.



## But, growth slowing & job creation stalled

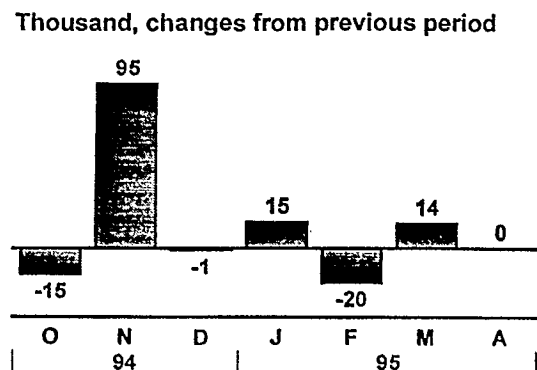


Real GDP at Factor Cost



Source: Statistics Canada

Job Creation



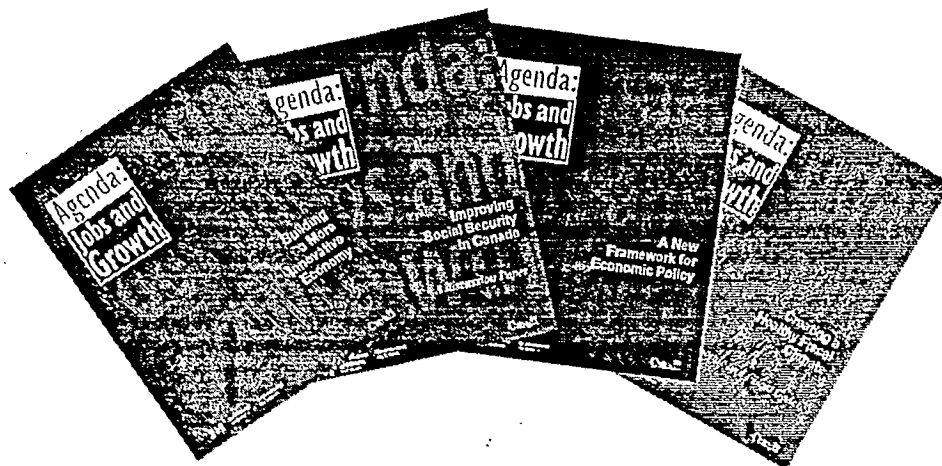
Source: Statistics Canada

Already seeing signs of possible weakness in cyclical expansion.

- In first half of 1995, growth has weakened and job creation has stalled.
- Consumer confidence is slumping.
- Export sector (manufacturing, commodities) strong; domestic sector (construction, consumption) weak.

Cyclical slowdown will highlight, once again, the underlying structural problems of the economy.



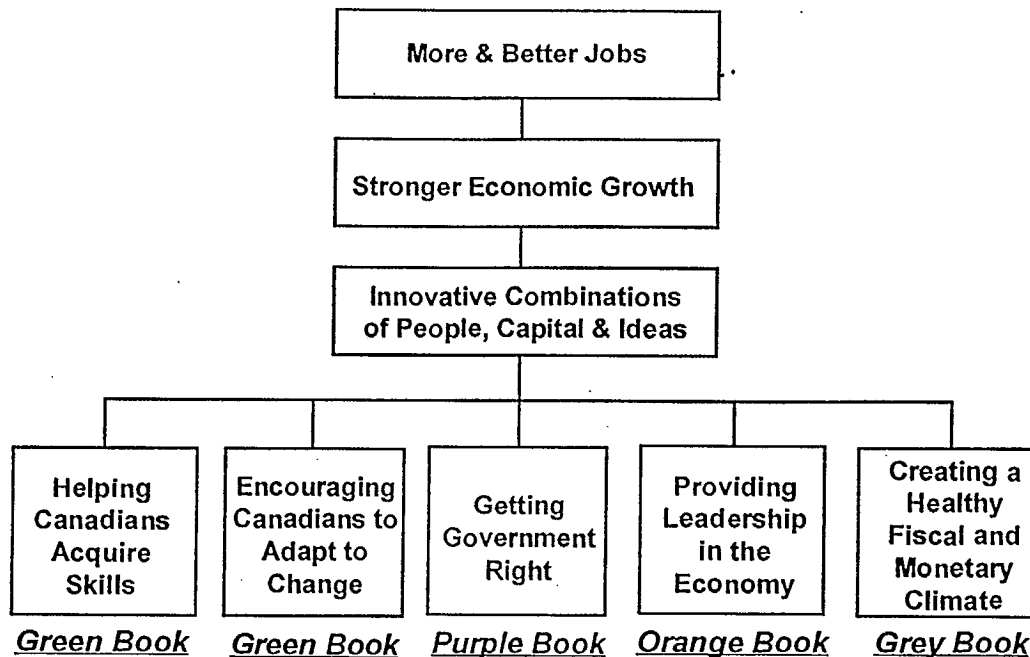


Late 1994 government released its Agenda: Jobs and Growth series:

- Purple Book:* A New Framework for Economic Policy
- Grey Book:* Creating a Healthy Fiscal Climate
- Green Book:* Improving Social Security in Canada
- Orange Book:* Building a More Innovative Economy

Critical need for productivity improvement -- the common underlying theme.





Federal role under this framework:

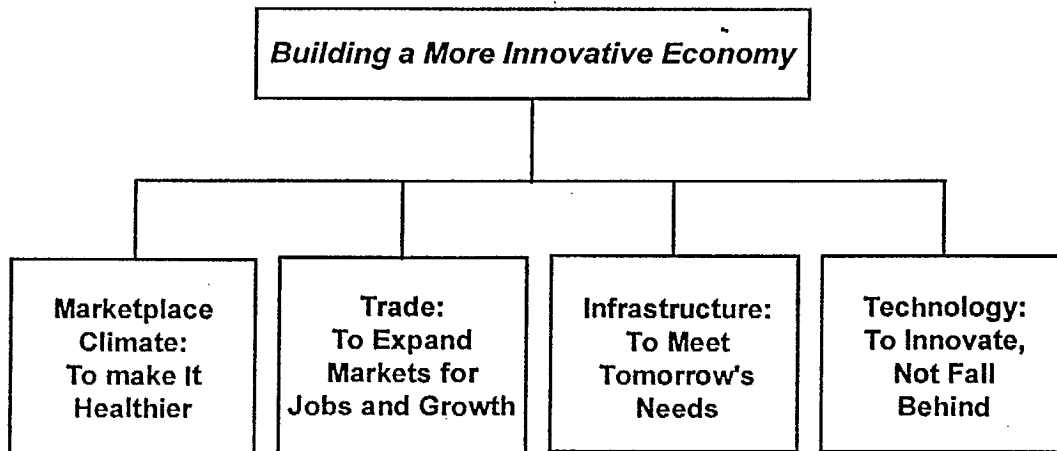
- Foster the integration of people into the labour market.
- Rebuild the social security system.
- Improve efficiency/effectiveness of programs, services & policies.
- Foster trade and innovation.
- Put federal finances on a balanced track.

Framework valid -- jobs & growth require success on multiple fronts.

Framework like rheostat -- can turn up the heat if more rapid progress on jobs and growth is required.







The Orange Book laid out both a *micro-economic framework* and a first step *action plan*.

Action plan was a modest first step: 57 action items involving some 15 federal departments and a number of agencies.

Status: Solid record of achievement six months into implementation phase (see annex):

- 60% of initiatives will be completed by the fall
- 38% are in progress and on track
- 2% are under review

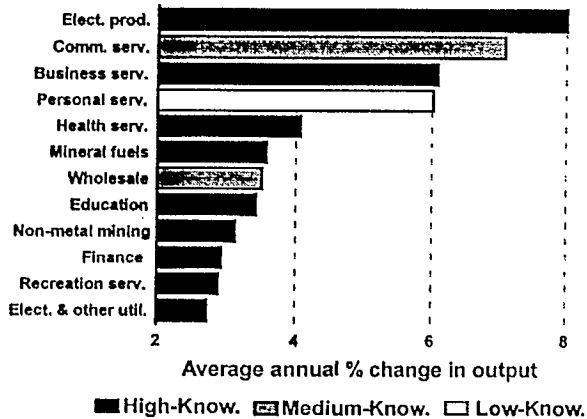
Microeconomic framework remains valid -- cyclical weakness suggests need to turn up the rheostat in priority areas.



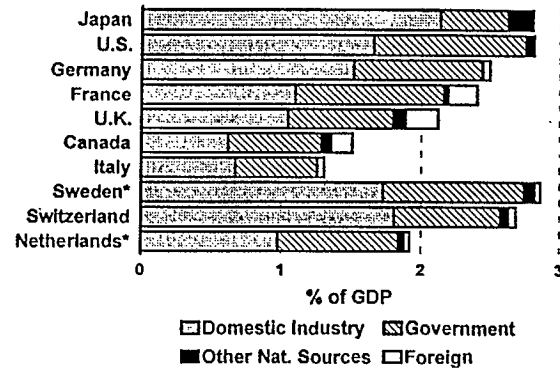
# National technology/innovation performance is poor



Top Twelve Growth Industries: 1986-91  
by Knowledge Intensity



GERD by Source of Funds: 1992



\* 1991 data  
Source: OECD

No conflict between technology/innovation/knowledge and jobs.

Sectors with greater technology use and knowledge-based approaches have been creating the most jobs.

**Problems:** On average, Canadian firms are:

- Weakly/conservatively managed;
- Slow adopters of new technologies; and
- Very poor developers of their own innovations (R&D, new products, new management techniques).

**Action:**

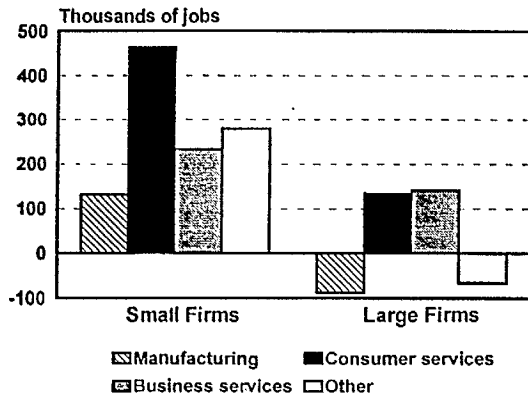
- Stimulate private sector innovation.
- Need technology action plan that reduces our technology diffusion and adoption deficits.



## Market climate/impediments to growth

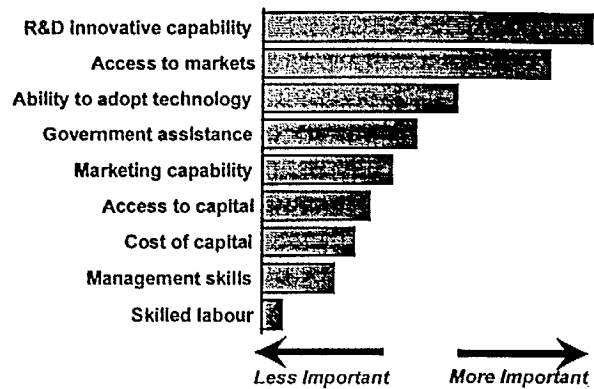


Jobs Created: 1981-88



Source: Statistics Canada

Factors Contributing to Small Business Growth



Source: Statistics Canada

Small and medium-sized businesses remain engine of job creation.

### Problems:

- Small business has several weaknesses (financing, use of technology, access to markets, management).
- Government dealings with small business very different than with big business:
  - climate issues key (paperburden, regulation)
  - little support for traditional programs

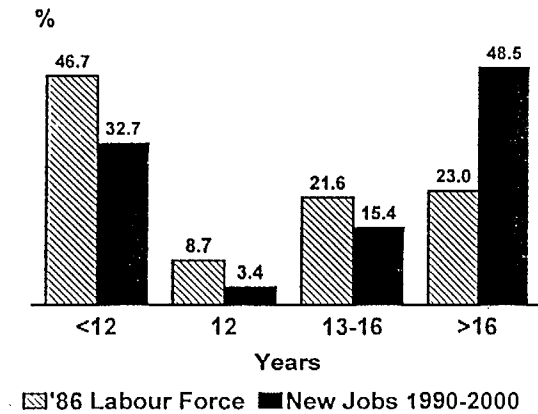
### Action:

- Improve marketplace climate to assist small business growth, including reducing impediments.
- Reduce financing gap using federal and private sector institutions.



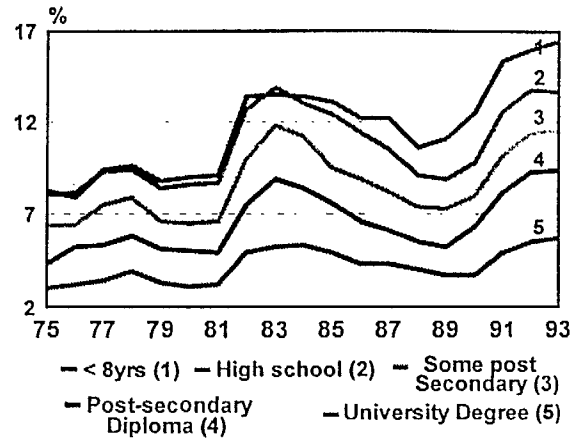


Changing Occupational Skill Requirements



Source: COPS 1992 (VC)

Unemployment Rates by Educational Attainment



Source: Statistics Canada

Knowledge is the driving force behind future productivity gains.

Problems:

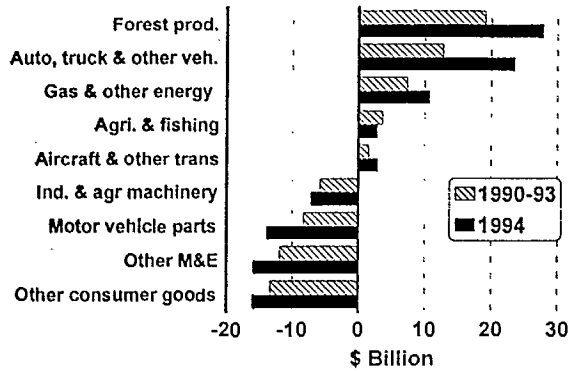
- Dynamic, and less dynamic, sectors of economy demanding ever-higher levels of education and training.
- Those without the ability to learn new skills, or the opportunity to do so, risk being marginalized.
- Those without basic education risk being excluded from economic life in future.

Action: Bring Canada's training (particularly private sector) to world leading levels.



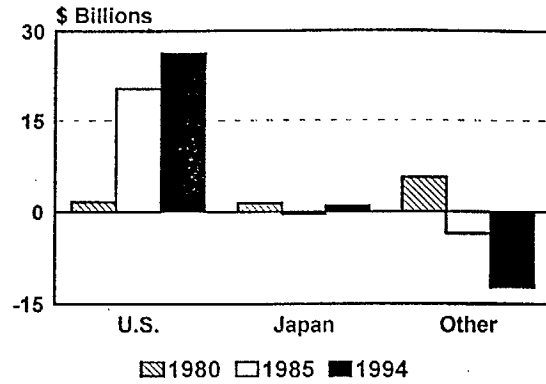


### Merchandise Trade Balance



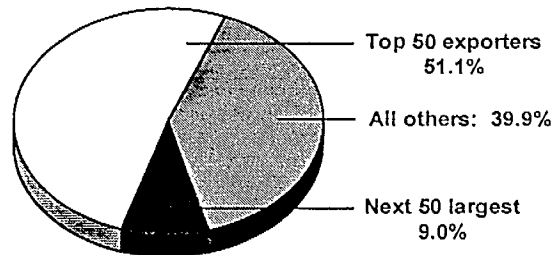
Source: Statistics Canada

### Merchandise Trade Balance



Source: Statistics Canada

### Merchandise Exports : 1992 by Size of Exporter

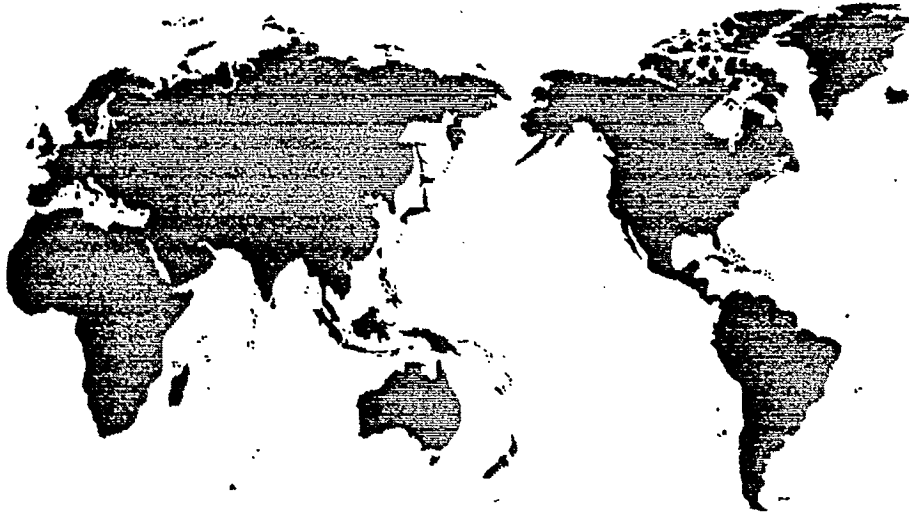


Exports major job creator; world trade growing faster than our economy.

**Problems:**

- Too few firms export too limited a range of products to too few markets; and
- Dependence on US market makes Canada very vulnerable.

**Action:** Expand and broaden trade base, including services (tourism).



Growing economy requires constantly improving infrastructure, especially in areas to support new economy and trade.

Problems:

- Canada is world leader in telecommunications, but competition is fierce -- position cannot be taken for granted.
- Transportation infrastructure overbuilt in areas, weak in areas, inefficient in others.

Action:

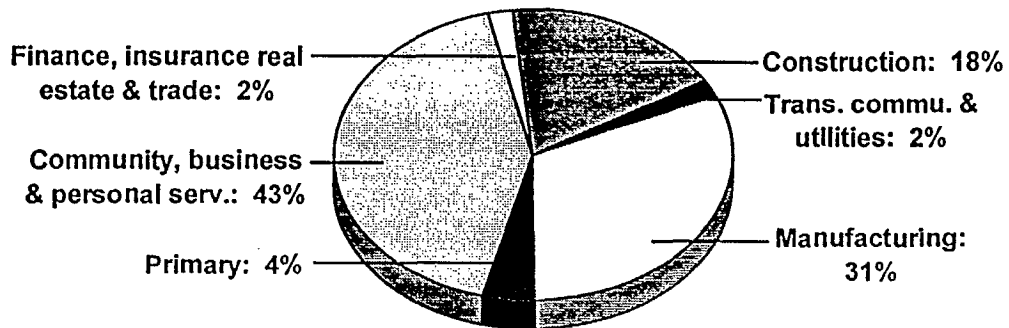
- Agenda of regulatory and other reforms to encourage private sector improvement of infrastructure.
- Information highway can be ramped up, both the infrastructure and the content.





**1994 Job Creation**

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1994 demonstrated the job creating capacity of the economy (466,000 full-time jobs), despite the loss of 22,000 public service positions.

Economy creating good, high wage jobs with a future -- managerial and other professionals accounted for over half (54%) of the new jobs created.





### Ten Year Job Creation Potential

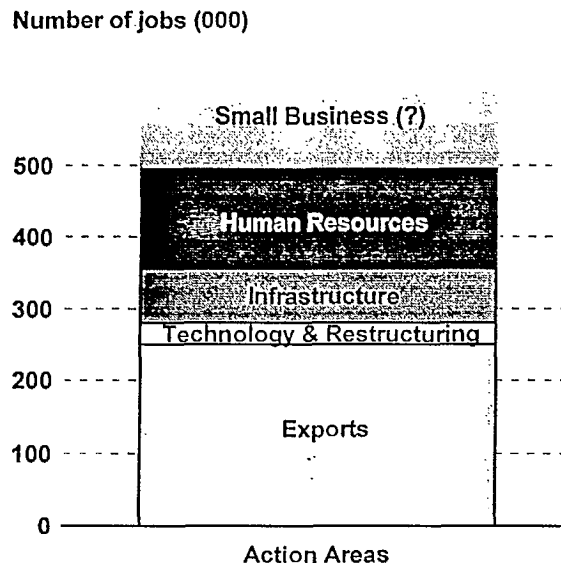


Illustration of jobs payoff (cumulative over 10 years) from modest improvements in:

- **Exports:** 1% increase per year over 10 years (250,000 jobs)
- **Technology:** Shift to high-technology/knowledge (30,000 jobs)
- **Infrastructure:** Complete information highway (75,000 jobs)
- **Human Resources:** Raise level of training by 1 year (146,000 jobs)
- **Marketplace Climate:** Small businesses continue to be the engine of employment growth in this country (framework policies, tourism, etc. can have impact)

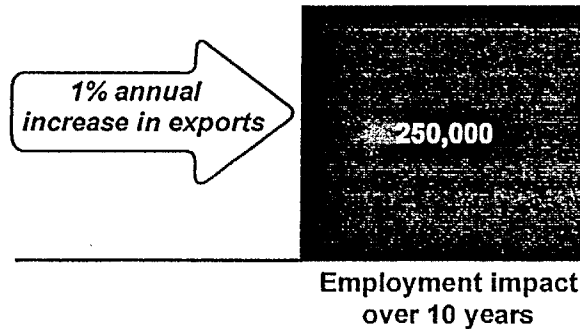
This shows there is scope for further job creation by turning up rheostat in priority areas.







Possible Impact of Trade Initiatives on Jobs

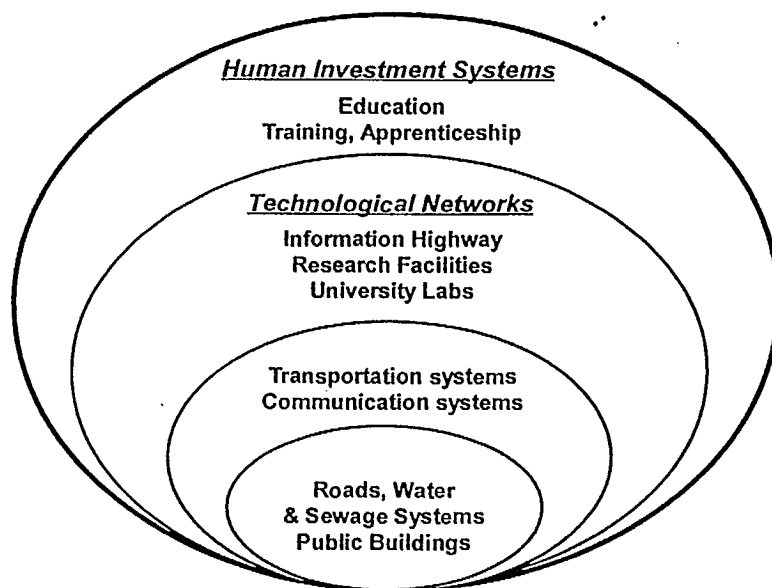


A sustained one percentage point increase in export growth would result in an additional 24,200 jobs per year or approximately 250,000 jobs over 10 years.

A 10 percent increase in total international direct investment could raise exports by 7.5 percent, producing more jobs.

Trade and knowledge reinforce each other, leading to more and better jobs.





Human capital and S&T, part of infrastructure that supports economic activity in the new economy.

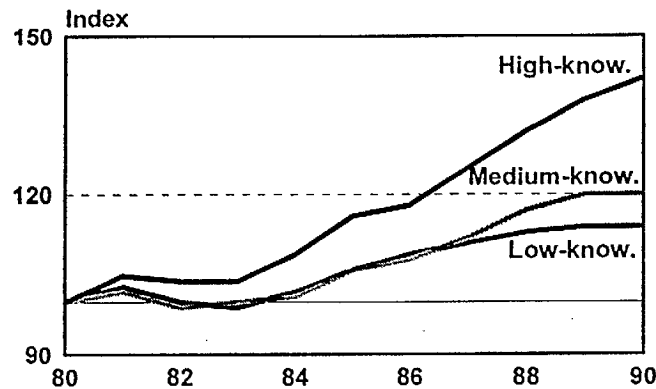
A 10% annual increase in infrastructure spending by the private sector, especially in key areas such as information and communication infrastructure, could create 70,000 jobs.

For example, in information highway area, the policy framework over next 10 years will generate a \$15 billion private sector investment to bring fibre optic connections to the curb -- thousands of new jobs.





### Job Creation: Knowledge Intensity



Source: Statistics Canada

**Technology does not destroy net jobs.**

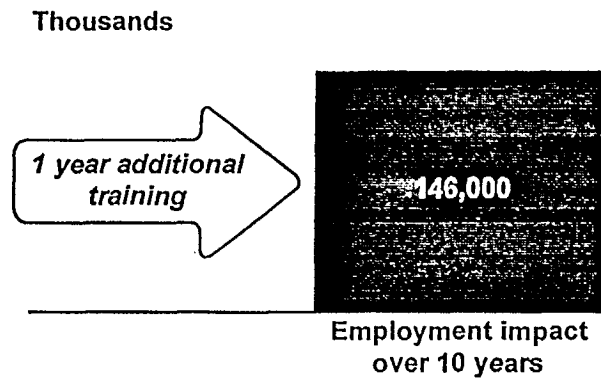
**A 1% rise in market share of high-knowledge sectors with an equivalent decrease in the share of low-knowledge sectors could lead to 30,000 net new jobs.**

**Net job creation results from 180,000 additional jobs in the high-tech sectors at the expense of 150,000 jobs in the low-tech sectors.**





**Possible Impact of Raising Education Level**



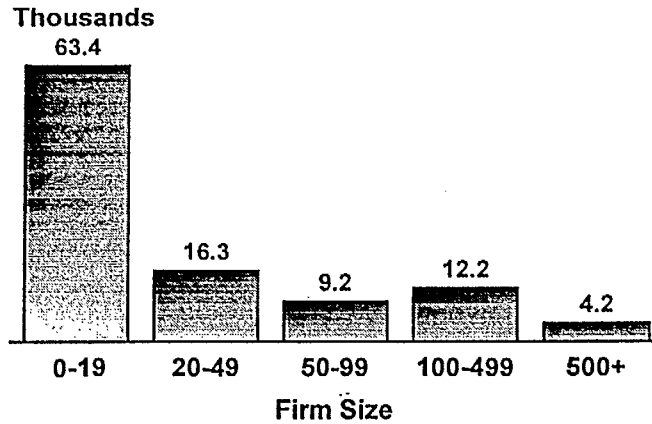
Raising the average education/training level in Canada by one year could reduce the unemployment rate by 1 percentage point, resulting in 146,000 jobs.

Improvements in technology and infrastructure will have greatest impact on productivity, jobs and growth, if complementary human resource strategies are in place.





**Job Creation by Firm Size: 1978-92**



Source: G. Picot, J. Baldwin & R. Dupuy

Firms with fewer than 50 employees created 80,000 jobs, on average from 1978 to 1992, or 1.1 million jobs over the entire period. Small businesses accounted for approximately 87% of new jobs created during the 1980s.

Improving the business environment for small business should be a priority. Favourable climate will enable small businesses to continue as engines of employment growth.





**Micro-economic framework identified for sustainable job creation and growth works. Keys to jobs and growth are in:**

- Marketplace climate
- Trade
- Infrastructure
- Technology
- Training

**But, we have just started on this new approach:**

- Purple Book set out new approach in October 1994.
- Orange Book released in December 1994; it provides both a framework and an initial program of action.
- Opportunity to build on Orange Book initiatives -- turn up the heat in priority areas under the framework.

**Real job creating opportunities lie with implementing our current action plan and deepening/extending the action plan under our microeconomic policy framework.**



**Implement/communicate first half of the mandate on jobs/growth initiatives & plan for second half**



**1. Proposed Plan of Action**

Communicate first half action plan: microeconomic framework for jobs & growth is in place. First phase initiatives flowing from this framework only now taking effect. Need communications strategy: roll up concrete achievements from first half of mandate action plan(s) -- focus this on small business, and other target groups.

**2. Extend and Deepen Action Plan**

Identify areas within microeconomic framework for further action, especially with economy slowing.

<b>The New Micro-Economic Policy Framework</b>	
<i>Current Actions (to be filled in)</i>	<i>Future Actions (to be filled in)</i>
<i>Marketplace Climate</i>	
<i>Trade</i>	
<i>Infrastructure</i>	
<i>Technology</i>	
<i>Training</i>	

**3. Present plans of action on (1) and (2) for consideration by Ministers in September. In short, fill in the two columns in the matrix above.**





# *Annex*

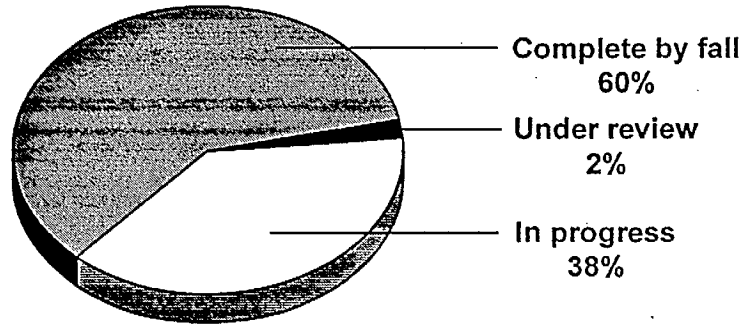


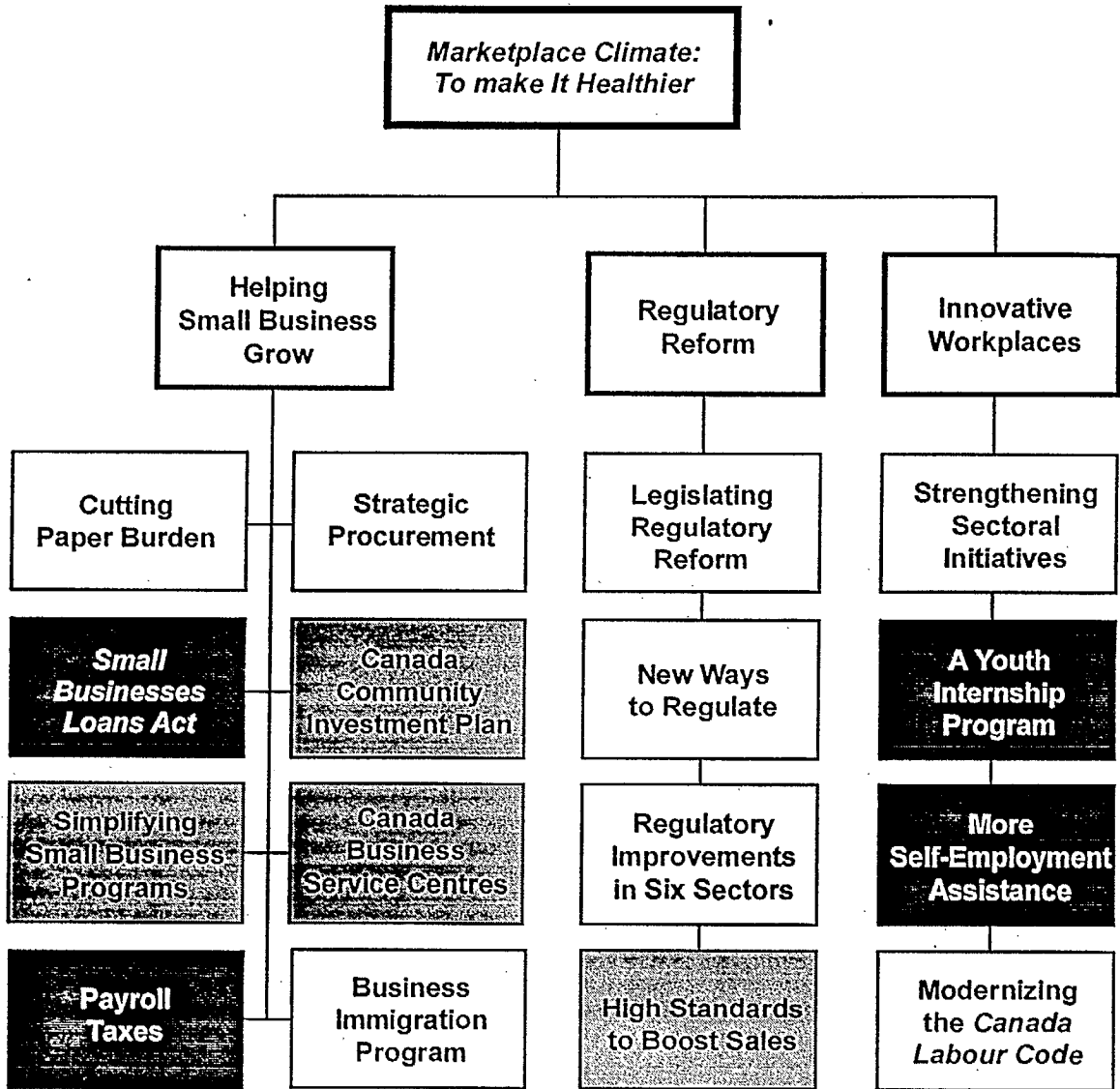




**Summary:  
Status of Initiatives**

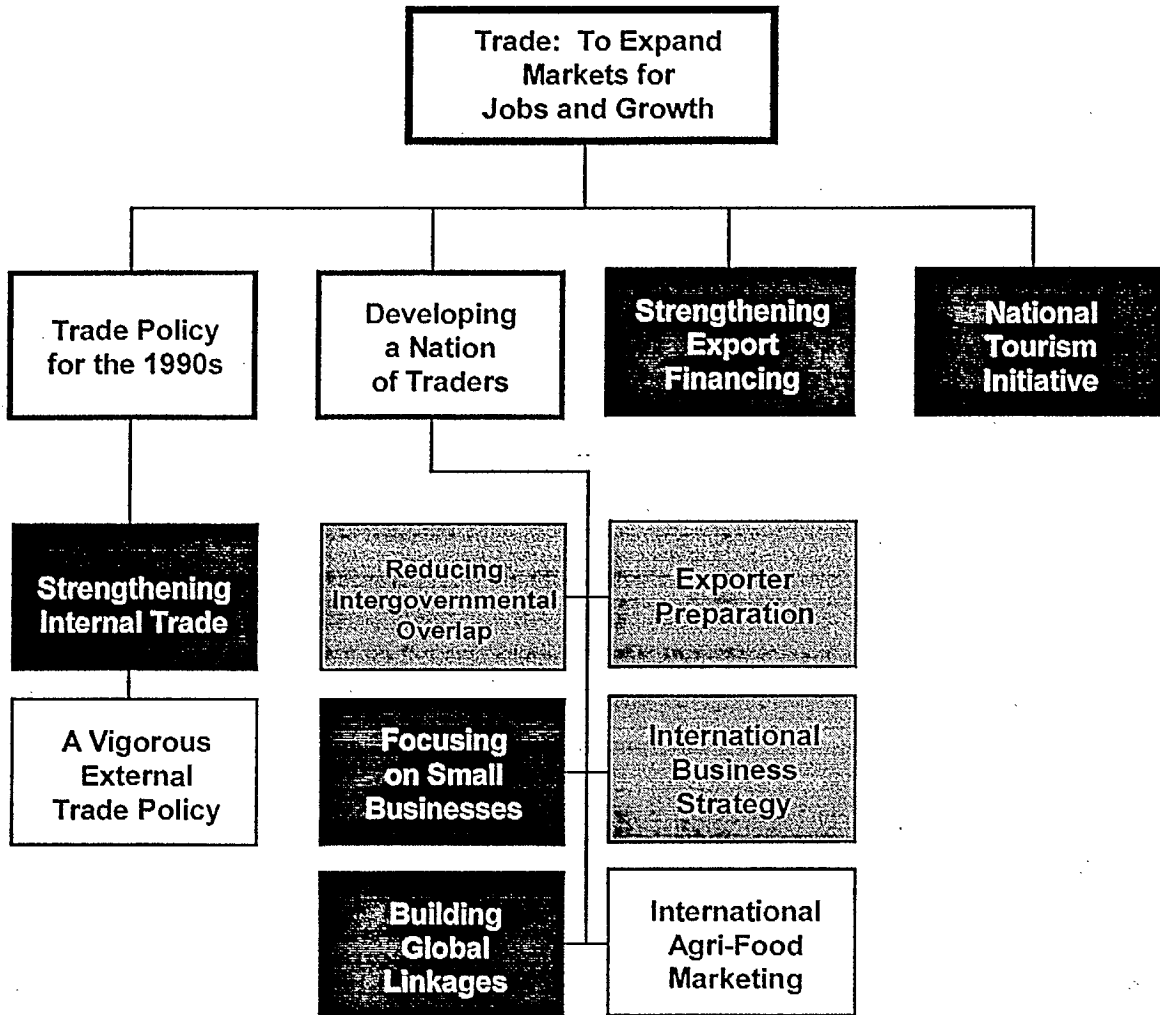
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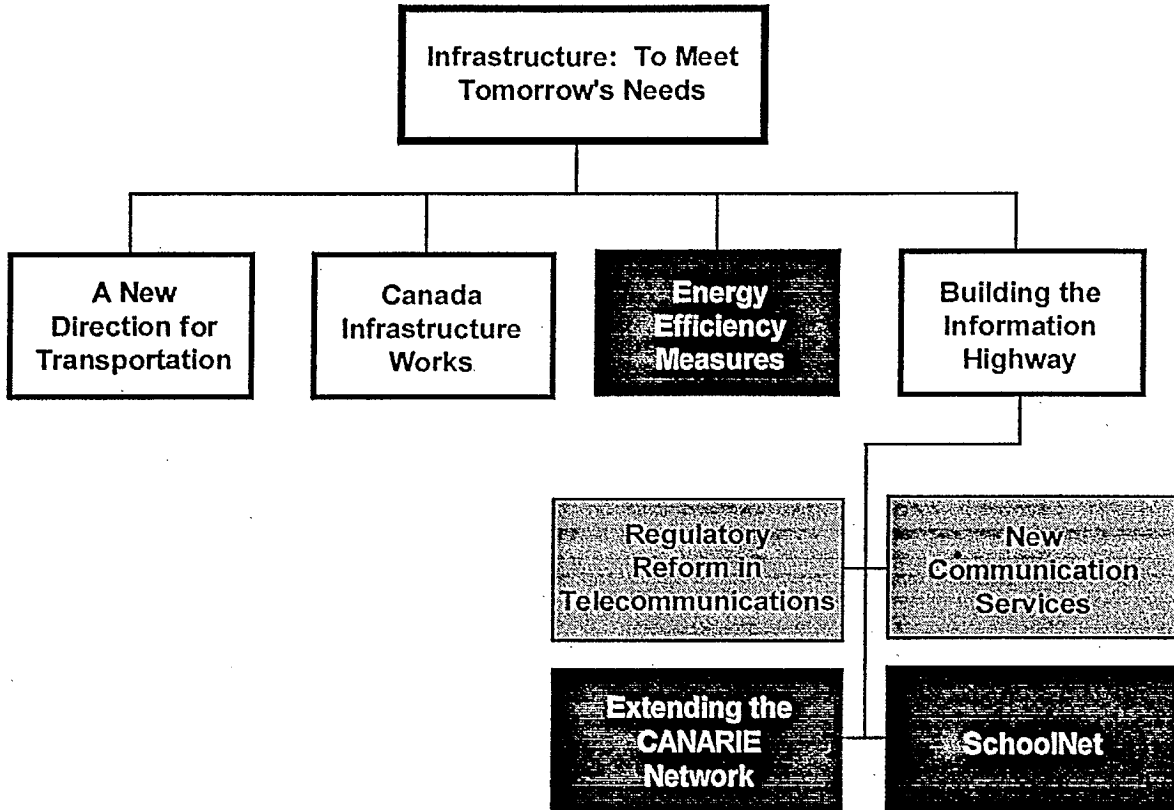


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 In Progress  
 Under review





Done
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