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## Productivity and Innovation

Thank you.....

Congrats to Institute for Competitiveness & Prosperity for a most comprehensive report, Beyond the Recovery. It is timely and pertinent. As Roger has described, it presents a disturbing assessment of our current position, breaks out the contributing factors and draws some helpful conclusions. In contrast to all the positive comments about Canada these days, the Report is a “wake-up” call. It is a compelling piece of work.

In that regard, I have spoken frequently in recent years of the very positive “Canada Story”

- Strong deficit and debt position
- relatively strong economic growth
- good inflation record
- strong banking system
- stable political system, strong judicial system,
- leading energy, mineral and food resources supplier
- plenty of water
- etc, etc

When I conclude, people will usually say “Sounds great, but surely there are some weak spots”. My response is that there are----the exposure to the global economy, heavy reliance on the US economy and.....our productivity and innovation performance. I go on to say that this has caught the attention of government, academia and the business community. This report is a great example of that and it addresses both of these last two points. The first is out of our control.

Let me deal with the US concentration issue before moving to the more substantive issues related to productivity which is the main thrust of the Report.

Definitely we should be diversifying our trade destinations and the government is now focussed on that. But we can't lose sight of the vital importance of maintaining secure access to the US market and the threats to that.

Border management is critically important. We have seen many examples of how emergencies and the US response can cause havoc at the border. Canada needs a comprehensive plan to deal with this.

We need to develop a vision with the US on what our border should be and how we will collectively manage it. This will require changes in Canadian practises, particularly those directed to entrants from third countries. These need to be tightened in ways which will give the US confidence that Canada is not a weak point in North American security as the terrorist threat increases, which I believe is inevitable. We must also reach agreement on risk management practises that allow regular low risk traffic to move quickly. This will likely involve greater use of technology to monitor this type of traffic and investments in infrastructure designed to separate high risk traffic from low risk.

Potential bottlenecks at chokepoints on the border must be addressed. A clear example of this is the privately-owned and aging Ambassador Bridge which carries about one quarter of our exports to the US.

We must respond strongly to protectionist actions by the US, a likely possibility as Congress responds to grassroots pressures. The Buy American actions are a clear example of this, which ironically hurt the US as much as us. Seventy percent of our exports to the US are in business inputs so the US took a double hit. It resulted in an increase in the costs which hurt their domestic consumers and also resulted in a loss of competitiveness on those products which were exported. That latter impact, particularly on job loss, is not understood in the US.

These three issues are the principal areas of concern in our trade relations. Other trade matters which were the cause of much concern prior to NAFTA and the FTA have essentially disappeared.

My biggest concern in relation to the Canada Story relates to our productivity gap with the US. The Report usefully sets out the size of the gap, identifies the likely causes and quantifies them. Further, it concludes with a number of recommendations to deal with them.

This gap is not insignificant. It is \$9300. The Report states that, by closing it, personal disposable income would increase by \$12,200 and government revenues would increase by \$106 billion.

Or put another way, closing the gap would increase GDP by about 20%. In a world where we are grinding out 2 to 3% growth rates, that is very significant.

But this is not something that government can change on its own. It requires a national commitment and the desire on the part of government, the private sector- both business and labour - and the educational community to close it.

The Report refers to a virtuous circle in which the four drivers of prosperity, attitudes, investment, motivation and structures must all work together. Any weak points in this virtuous circle will undermine the broader effort. Put another way, any lack of commitment from any of the players will also undermine that virtuous circle.

What will happen to this Report? I have been directly involved in two previous efforts while in government, the competitiveness study by Michael Porter which focussed on industrial clusters and the Prosperity Initiative which was based on 185 open meetings across Canada and which developed a number of recommendations, along similar lines as this Report. And there have been others.

Certainly they have not been wasted. They have all contributed to base from which governments have generated policy. But there was never a call to arms that drew the reports' conclusions together into a national effort to seriously take on the challenge.

I think that the time has come for that. The gap is large. It is growing. And it is of a size that should attract concern and a demand for action.

A national effort is required. It must be fully supported by all levels of government, the private sector-business and labour- and the educational system. All major political parties should want to support it. This is not a partisan issue. It involves our national interest. The effort must have continuity and be seen to withstand any change in government. After all, what political party can oppose policies which will increase GDP by 20%!!! Our future prosperity and standard of living is at stake if we cannot reverse this shortfall.

This project must be raised to Canada's "Man on the Moon" initiative.

I agree with Kevin Lynch's recommendation for a Research and Innovation Council. This should not just be another government body to demonstrate that they are concerned about the issue. They have made that clear in recent years.

The Council must be presented as the centrepiece of a major national commitment by governments, business, labour and the education community, supported by all major political parties that recognizes that this is the single most important problem that the country is facing. If we, as a country, cannot improve our performance in innovation, research, and productivity, we will not be able to afford the other social, national security and defence and cultural policies that are so important to our people.

The Council must have a clear mandate. This mandate must reflect a clear collaborative effort. In developing the Council, great effort must be spent in gaining the broadest "buy-in" from the various parties involved. The outcome should clearly demonstrate that this is a national priority and that the support of these stakeholders is a reflection of their commitment to succeed in improving our performance to show that we can compete with the best in the world.

The Council must identify and obtain agreement on the strengths and weaknesses, obstacles and gaps that are restraining our performance.

It must draw conclusions, make recommendations on performance and then challenge the stakeholders to do their part in leading change. It can help by identifying and promoting best practises.

This should not be allowed to become a finger-pointing or bashing effort. Improvements in productivity should be seen as a win/win proposal. This is not about squeezing the last few cents in a bargaining negotiation. It is about changing education content, collaboration among stakeholders, thinking ahead, competing globally, being agile, focussing on the needs of clients, identifying and adopting best practises and many other factors [All components of innovation]. This should not be the stuff of conflict or confrontation. The focus should be on how, working together, we can win. And use analysis drawn from Reports like Roger has presented to highlight those components that we can really change.

The federal government should take the lead on this. But they should not impose their desired result. The final product must be the result of a collaborative dialogue. Certainly as much agreement as possible on the objectives of the exercise and the vital necessity of improving our performance should be established at the outset. But the various components should be the result of extensive and open dialogue. The one thing

which must be agreed at an early stage is the importance, sense of urgency and timeframe for an agreed mandate for the Council, the scope of its activities and the timing of its launch. Implicit in this should be a commitment from the stakeholders to work productively with the Council in support of its conclusions and recommendations.

I said earlier that it is important for the Council to have the support of major political parties. Ideally, all political parties would support the proposal. This does not have to be the focus of political debate. The objectives should rise above partisan differences. It is also important that the Council be seen to be a permanent fixture on the national scene. Yes, from time to time its recommendations will be the source of controversy, but that should not be allowed to undermine support for the fundamental objective.

Organizations like the Institute for Competitiveness & Prosperity can play an important part in this process. Regular reports, critiques and recommendations can contribute to the work of the Council and they can also add to the public understanding of the issues by the general public

The success of our country in improving our performance in research, innovation and productivity will depend in part on the support of individual Canadians of the overriding need for this. So communications must also be an important priority of the Council. This should involve working with stakeholder groups in all fields as well as reaching out to the general public. Stakeholder groups should feel that they are partners in this work and should play a key part in developing and disseminating the messages.

The establishment of the Council and my comments and how I think that it might best be launched is my prime message this morning. But let me make a few other comments.

The relationship between the educational world, business and students I believe needs some rethinking.

I am not going to be prescriptive here, but let me make a few comments.

The theory that is taught and hopefully learned at our post secondary institutions is important. But I do think that more thought should be given to how best to do this. We have the coop programmes at a number of universities. There are other examples of this type of interaction with the private sector as part of the educational process. The theory that is taught is sometimes pretty sterile when heard in the context of a lecture.....no slight meant to any of the great faculty here today!!!! But when the student sees that theory in action in real life, it jumps off the page and can be pretty exciting. Professors

should experiment on how to develop this interaction better. It might well lead to changes in how to present their teaching and most certainly will lead to a more stimulating experience for their students.

Government is, in aggregate, the largest purchaser in the Canadian economy. I think that we must use this reality in a more strategic way. It is in the interests of any large purchaser to use this to assist its suppliers to become more productive, to develop new technologies and to be more innovative, both in developing products and in servicing them as a client. This requires a longer perspective on the relationship than is normally the case.

There are important opportunities and also examples where strong partnerships have developed between Government and their suppliers or where an industry partners with government to address a problem or opportunity.

Our provinces, collectively, are one of the largest purchasers of health products in the world. Could they not collaborate with industry to develop products, for example, medical devices, that they see as being needed for the next generation of healthcare requirements?

CIDA is continually exposed to the needs of the developing world. Could they not be pressed to identify opportunities for Canadian business and then develop and supply these in some form of partnership.

I am very much in favour of the initiatives which the federal government is contemplating in the telecom and communications field. Could governments, as purchasers, reinforce those policy objectives by their actions and thereby help or push their domestic suppliers to move more quickly to upgrade their product offering.

The oil spill in the Gulf of Mexico is putting our oil sands in a more favourable competitive position. Could governments increase their engagement with the sector to more aggressively address the environment or other technological challenges and secure a more favourable reputation for that very strategic industry as the US rethinks where it should secure its energy future.

These are a few ideas but I think that you get my point. Governments should view industry more as partners, and vice versa, as we consider how to address this productivity deficit.

Let me conclude. As I said earlier, we must view the productivity /innovation challenge as a virtuous circle. It is a national challenge. It is not just a government challenge or an industry challenge or an education challenge. We must develop a sense of partnership among all the players. We must all see this as a priority and find ways to work together to make that virtuous circle work. I have expressed a few ideas on how different stakeholder groups can work in partnership. There are other examples that various stakeholders may develop.

But my overriding point is that a new national Research and Innovation Council must have an oversight responsibility to identify opportunities for improving productivity and then challenge all stakeholders to take the actions necessary to achieve that national objective. If we don't raise the awareness of the challenge and the means by which we must work to meet it, we risk seeing further slippage in our performance. We will also not take full advantage of the good work of this Report.