

The Ransby Report
February 1, 2007 – Volume 11-3

Productivity (cont'd)

Readers of these reports during the past few years may recall several articles which we have written regarding Canada's lagging productivity growth. It has been our view, that unless this trend is reversed, Canada's long-term prosperity as well as our standard of living, will be threatened. Unfortunately, as we enter 2007, there still appears to be little change in the immediate outlook of either the trend in productivity or in economic policy to deal with the issue.

In the past few years Canada has enjoyed flush times; strong employment growth, low inflation and interest rates, robust corporate profits and buoyant government revenues. However, much of our new-found wealth has been derived from strong global growth, and subsequent rising commodity prices which have benefited Canada disproportionately. This will continue to be the case for some time but as we all know, it will not last indefinitely. Furthermore, the resulting strength of our currency (relative to its level in the late 1990's) has made it difficult for many of our non-resource exporting industries. We simply must begin to address the issue of our productivity and competitiveness if we are to avoid many of the economic problems which plagued us during much of the 1980's and 1990's.

Needless to say, this issue has not gone unnoticed by a number of high-profile economic and business groups. One of those groups is the Conference Board of Canada which has recently published a lengthy study, as well as recommendations, on the subject. Without going into the study in detail (it is over 100 pages long!), I certainly agree with the tone; government policy and focus must be better balanced between encouraging consumption and the redistribution of income on one hand, and on generating a stronger and more competitive economy on the other. For several years, and partly because we have had minority governments for the past two years, much of the attention has been directed to the more politically-attractive former issues.

The issue of improved productivity strikes fear into the heart of many people since it conjures up the image of less people, working harder for longer periods of time. However, the Conference Board contends that Canada is, by and large, a hard-working country, and that "sweat shops" are not the answer. Rather, they have identified several problems which if rectified would reverse the current weak trend in a major way.

Several of the remedies that the Board recommends are:

- Canadian companies must be more global in scope, not just focused on the United States.
- We must break down the inter-provincial barriers to trade. In this regard, they are very pleased with the recent bi-lateral trade agreement between Alberta and British Columbia.
- We must sharpen our focus and make Canada's competitiveness a major priority, both with respect to selective education centres and in backing selected industries. Implicitly, this suggests there would be winners and losers, something that, politically, would be difficult if not impossible to implement.

- There must be a major change in the taxation power of the cities which is where the majority of people now live. Since cities are creations of the provinces, this implies that the senior levels of government would have to reduce their “take”. Once again, this would take political courage since presumably it would reduce the latter’s own taxation and spending powers.
- Canadians must work smarter, and the country must create a climate which is even more supportive of risk-taking and entrepreneurship.
- There must be additional funding to post-secondary education. The Board maintains that Canada’s universities are still significantly under-funded compared to our international competitors. Yours truly agrees with this conclusion. However, unless we create a better tax environment and offer greater career opportunities for our graduates, they will leave, and we will only have provided the training for them to generate incomes and taxes elsewhere.

With the federal political scene being as tenuous as it is, I would be surprised if anything major would be done at the moment. Furthermore, with the current high level of commodity prices, we may have bought a bit of time. Still, the clock is ticking, and it is to be hoped that the country will start soon to address this looming issue. Studies such as the Conference Board’s should help to move the ball forward.

E.J. (Ted) Ransby, P.Eng., CFA
Chairman & Chief Investment Strategist
GWL Investment Management Ltd.

Did You Know?

Give us this day our daily bread.

- The Lord’s Prayer.

This line from The Lord’s Prayer had more than symbolic significance. It has been estimated by some historians that, in biblical times, bread constituted as much as 50 per cent of the average person’s daily caloric intake.

The views expressed in this commentary are those of GWL Investment Management Ltd. (“GWLIM”) as at the date of publication and are subject to change without notice. This commentary is presented only as a general source of information and is not intended as a solicitation to buy or sell specific investments, nor is it intended to provide tax or legal advice. Prospective investors should review the offering documents relating to any investment carefully before making an investment decision and should ask their representative for advice based on their specific circumstances. GWLIM is a subsidiary of The Great-West Life Assurance Company. Great-West and GWLIM are members of the Power Financial Corporation group of companies.
ã GWL Investment Management Ltd. 2007