



LOOKING **WEST** 2008



# Competitive Mindset: Are Western Canadians Ready to “Go for Gold”?

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November 2008

GOING FOR GOLD

The Western Canadian Economy  
in the International Arena

**Canada***West*  
FOUNDATION

# GOING FOR GOLD

Western Canada's economic prosperity is not only good for the West, but for Canada as a whole. But the West cannot rest on its laurels. Like the athletes training for the forthcoming Winter Olympics in Vancouver, western Canada needs to be at the top of its game if it is to continue to compete successfully in the international economic arena, especially as its competitors step up their games. If we are not successful, our standard of living will fall.

The GOING FOR GOLD Project is examining how best to position western Canada in the global economy through a series of research papers, consultations and a seminal economic conference in Vancouver in the fall of 2009.

The GOING FOR GOLD Project has been made possible with the support of:



Western Economic  
Diversification Canada

Diversification de l'économie  
de l'Ouest Canada

Canada

Additional funding has been provided by the Provinces of British Columbia (Economic Development), Alberta (Employment, Immigration and Industry), Saskatchewan (Enterprise and Innovation), and Manitoba (Competitiveness, Training and Trade).

**About Looking West 2008:** The Looking West 2008 Survey is part of the Canada West Foundation's GOING FOR GOLD Project. The survey was administered by Probe Research between January 2 and February 8, 2008 from their Winnipeg call centre, DataProbe. A total of 4,000 residents were interviewed, with 1,000 from each of British Columbia, Alberta, Saskatchewan and Manitoba. One can say with 95% certainty that the results are within +/- 1.55 percentage points of what they would have been if the entire adult population of western Canada had been interviewed; for individual provinces, results are within +/- 3.1 percentage points.

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## Executive Summary

*With an aging population and slowing labour force growth on the horizon, it is important to the West that the education and labour market outcomes of Aboriginal youth are improved and for Aboriginal residents to become more fully engaged in the workforce.*

Public policy can be vital to facilitating or impeding economic competitiveness. The Canada West Foundation's GOING FOR GOLD Project is examining the public policy options that will help western Canada "bring home the economic gold medal of long-term economic prosperity." This report brings together economic theory regarding the public policy options that promote and impede economic competitiveness, current economic statistics relevant to these policy topics, and related public opinion data from the Canada West Foundation's Looking West 2008 Survey. In doing so, we juxtapose theory, current realities and public sentiment, identifying areas of congruence and divergence.

**Going for gold will require western Canada to expand its knowledge economy.** This requires placing more emphasis on a highly skilled workforce, advanced education, innovation, and research and development. Western Canadians are quite supportive of investing more in post-secondary education, research and development, and science and technology. The idea that there is a strong link between creativity, innovation and prosperity has gained traction among some theorists and researchers. However, the public has yet to adopt the view that arts and culture is an area of strategic economic investment.

**Going for gold will require the West to retain its young population and attract young people from elsewhere in Canada.** Faced with a graying population, western Canada's ability to prosper will be enhanced if it is able to retain its young population and attract additional young, working age people. Relatively few western Canadians anticipate moving within the next five years. However, the survey results indicate that roughly one million westerners predict that they will move out of province in the next five years.

**Going for gold will require western Canada to increase Aboriginal employment opportunities.** The Aboriginal population will play a key role in western Canada's future prosperity. Aboriginal residents are, on average, younger than non-Aboriginal residents. With an aging population and slowing labour force growth on the horizon, it is important to the West that the education and labour market outcomes of Aboriginal youth are improved and for Aboriginal residents to become more fully engaged in the workforce. Despite this, of the 15 public policy areas that survey respondents were asked to prioritize, creating more employment opportunities for Aboriginal people ranked near the bottom in the 11<sup>th</sup> spot.

**Going for gold will require western Canada to increase the number of skilled workers from abroad.** Strong economic conditions and the relatively low rate of unemployment in the West in recent years have helped make labour shortages a top issue among business



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leaders and policy-makers. Although no single public policy response can “solve” skilled labour shortages, immigration and the attraction of skilled workers from abroad are widely recognized as ways to ease the problem. Despite this, of the 15 public policy areas that survey respondents were asked to prioritize, attracting more skilled workers from other countries ranked near the bottom in the 12<sup>th</sup> spot.

**Going for gold will require tax policy reform, particularly on corporate taxes.** Experts on tax policy and competitiveness argue that Canada’s global economic competitiveness is hindered by relatively high taxes—notably corporate income taxes, corporate capital taxes, and provincial sales taxes on capital inputs—as well as the structure of the tax system. The survey results demonstrate that lowering business taxes is not a top priority for western Canadians. Economic research generally says that tax measures aimed at favoured industries or firm types are undesirable compared to broad-based measures. However, the survey results show that western Canadians are supportive of targeted measures, such as tax incentives for resource industries and science and technology industries.

**Going for gold will require western Canada to invest in transportation infrastructure.** High-quality infrastructure—which includes transportation infrastructure—is one of the basic requirements for global economic competitiveness. Canada’s immense size and its status as one of the world’s most trade-oriented countries mean that a modern and efficient transportation infrastructure is even more vital in ensuring the smooth flow of goods and people. Western Canadians are quite supportive of greater investment in transportation infrastructure and the survey results suggest that the public sees transportation investment to be related to economic competitiveness.

**Going for gold will require western Canada to expand its international trade relationships.** International trade is positively associated with economic growth and increased living standards; a core principle of international economics is that free trade improves a country’s economic well-being. The survey results demonstrate that western Canadians are generally positive about trade. However, assessments are not universally positive: a significant number of western Canadians feel that increased international trade has been bad for the environment, for Canadian workers, for Canada’s social programs, and for Canadian culture.



*Western Canadians are very enthusiastic about freer internal trade: over 8 in 10 western Canadians agree—and over 5 in 10 strongly agree—that interprovincial trade barriers should be removed.*

*As governments move forward to promote economic competitiveness, both in the western Canadian region and nationally, it is critical that they adopt a long-term perspective.*

**Going for gold will require western Canada to reduce interprovincial trade barriers.** The balance of opinion among those who conduct research on issues of economic competitiveness is that barriers to internal trade in Canada are bad public policy. Western Canadians are very enthusiastic about freer internal trade: over 8 in 10 western Canadians agree—and over 5 in 10 strongly agree—that interprovincial trade barriers should be removed

**Going for gold will require Canadians and their governments to recognize that rural economic development initiatives serve social, rather than economic, policy goals.** Although protecting and developing rural economies is arguably not required to ensure that western Canada will be well positioned to compete internationally, governments are hard-pressed to simply leave these economies to their own devices. As the survey results show, the general public is very supportive of protecting rural economies.

**Going for gold will require western Canada to be open to foreign investment.** Foreign direct investment (FDI) is beneficial to Canada's competitiveness in the global economy. FDI creates direct, stable, and long-term links between economies; it encourages the transfer of technology and knowledge; it enables the host economy to promote its goods and services more widely in international markets; and it works as an extra source of funding for capital investment. When asked to indicate their support for allowing high levels of foreign investment in Canada, western Canadians are almost equally divided between positions of support and opposition.

This report identifies a number of areas where there is discrepancy between economic theory or recommendations of experts on one hand, and public opinion on the other. It is incumbent upon public policy researchers, governments, the media, and businesses to engage in open dialogue with the public to work toward reducing these discrepancies. While areas of diverging opinion ought to be addressed, policy-makers must respect the breadth of opinions held by western Canadians and recognize that people are adept at viewing economic policy from different perspectives, not all of which are economic in nature.

Lastly, it is important to remember that economic competitiveness is not an end in itself, but is an integral part of the strong economic foundation required to maintain and, more importantly, improve the quality of life in Canada. As governments move forward to promote economic competitiveness, both in the western Canadian region and nationally, it is critical that they adopt a long-term perspective. Public policy will influence western Canada's long-term economic prospects, and by extension the region's quality of life. Governments and the public alike must make strategic policy choices to allow western Canada to "go for gold."



*Competitive Mindset: Are Western Canadians Ready to "Go for Gold"?*

## I. Introduction

Public policy can be vital to facilitating or impeding economic competitiveness. The Canada West Foundation's GOING FOR GOLD Project is examining the public policy options that will help western Canada "bring home the economic gold medal of long-term economic prosperity." As part of this project, the Looking West 2008 Survey asked 4,000 western Canadians their opinion on a variety of economic policy issues. The results provide a public opinion context for the policy options that will be debated in the years ahead.

This report brings together economic theory regarding the public policy options that promote and impede economic competitiveness, current economic data relevant to these policy topics, and related public opinion data from the Looking West 2008 Survey. In doing so, we juxtapose theory, current realities and public sentiment, identifying areas of congruence and divergence. We also consider which types of individuals are most likely to be the main supporters and opponents of particular policy options, and where relevant, we comment on some of the political challenges of particular policy options.

Readers interested in additional analysis of the Looking West 2008 Survey are invited to review the following reports:

*Moving Forward: Western Canadian Attitudes About Mobility and Human Capital*

*A Trading Region: Western Canadian Attitudes About Trade*

*Strategic Investments: Western Canadian Attitudes About Government and the Economy*

*A Confident Time: Current Economic Perceptions of Western Canadians*

*Hot Topics: Western Canadian Attitudes Toward Climate Change*

These reports are available free of charge at [www.cwf.ca](http://www.cwf.ca).

This report comes at a time when Canadians are preoccupied with a serious economic slowdown. At a time of heightened concern over short-term economic prospects, it can be difficult to shift our perspective to the long-term. As troubling as the current situation may be, we cannot afford to lose focus. Canadians have successfully faced turbulent times in the past and the current slowdown shall pass. Getting the policy environment right today will help Canada remain strong in the face of new challenges that will undoubtedly emerge down the road.



## 2. Going for Gold Will Require Western Canada to Expand its Knowledge Economy.

The knowledge economy has been described as one “based on the production, distribution, and use of knowledge and information”<sup>1</sup> and “increasingly based upon a world of knowledge in which human capital, skills, and innovation are more necessary than ever in order to be competitive.”<sup>2</sup> Knowledge-based economies are characterized in part by increased demand for highly skilled workers, increased investment in education and training, increased investment in information and communications technologies, and increased investment in research and development (R&D).

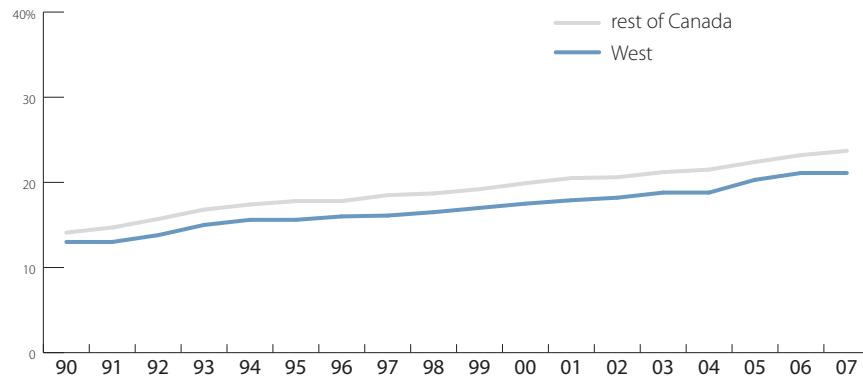
In the 1990s, patterns of economic growth in the world’s advanced economies diverged; cross-country research on the factors behind the divergence indicates that investment in information and communication technologies, increased educational attainment of the workforce, and increased investment in education and training gave faster growing countries a boost over this period.<sup>3</sup>

Along with other advanced economies, Canada is categorized as “innovation-driven” with respect to the determinants of international economic competitiveness. Factors that contribute to an innovative economy include the quality of scientific research institutions; private sector company spending on R&D; collaboration between universities and industry on R&D; availability of scientists and engineers; and the ability of companies to obtain new technology by conducting their own research and creating their own new products, as opposed to licensing or copying technology of foreign companies.<sup>4</sup>

### 2.1 Educated Population

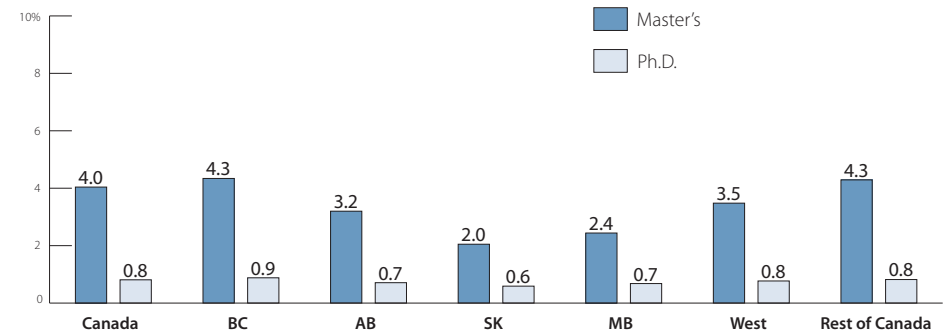
A highly educated workforce is a must for success in the knowledge economy. In many ways, Canada stacks up quite well compared to other countries when it comes to education. For example, when looking at all types of post-secondary education, Canada is the leader among OECD nations. Canada has the highest proportion of people aged 25 to 64 with some type of post-secondary education—certificates or diplomas as well as university degrees.<sup>5</sup> Narrowing the scope to university education, Canada’s rank is lower, yet still strong, at fourth among OECD countries in terms of the percentage of the population aged 25–64 with a bachelor’s degree or higher.<sup>6</sup> The proportion of the Canadian labour force with a university education has increased steadily from 1990 to 2007. In 2007, 21.1% of the labour force in western Canada had a bachelor’s degree or higher (see Figure 1). The figures for the West are slightly lower than in the rest of Canada, particularly Ontario.



**Figure 1: Percentage of Labour Force with a Bachelor's Degree or Higher, 1990-2007**

Source: Derived from Statistics Canada Labour Force Survey data (CANSIM Table 282-0004).

Although Canada has a highly educated population, there is room for improvement at the very highest levels of education. Canadian universities produce the fewest Ph.D. graduates per capita of the G8 countries, and approximately half the number of master's degrees and one-third fewer doctoral degrees per capita than US institutions.<sup>7</sup>

**Figure 2: Percentage of Labour Force with Advanced Degrees, 2006**

Source: Derived from Statistics Canada, 2006 Census of Population, Catalogue no. 97-560-XCB2006011.

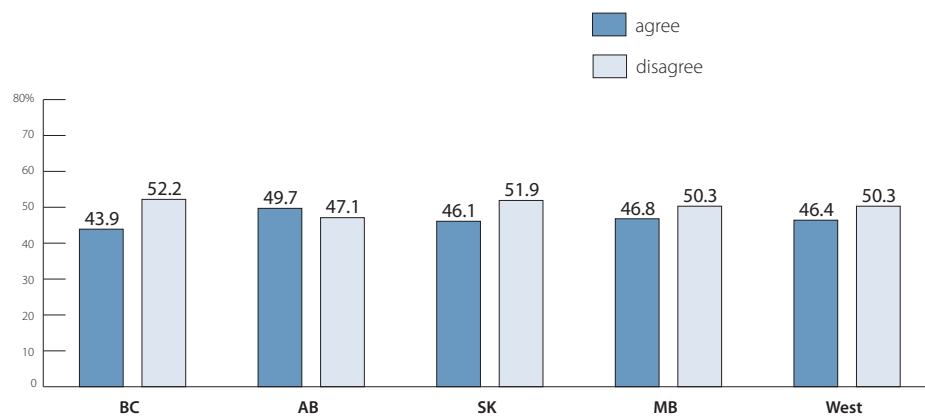
Master's and Ph.D. degree holders make up a slightly smaller proportion of the total labour force in the West than in elsewhere in Canada (see Figure 2). BC is the lone western province in which the proportion of the labour force with advanced degrees exceeds the national average.





Western Canadians appreciate the need for advanced education. The Looking West 2008 Survey results show that the majority of western Canadians do not feel that a high school education is sufficient for success in the current labour market: only 15% of western Canadians strongly agree that high school students are learning the skills necessary for workforce success, and 50% strongly or somewhat disagree with this notion (see Figure 3). Non-visible minorities are more likely than visible minorities to disagree, and non-immigrants are more likely than immigrants to strongly disagree.

**Figure 3: Canadian High School Students are Learning Skills Needed for Workforce**

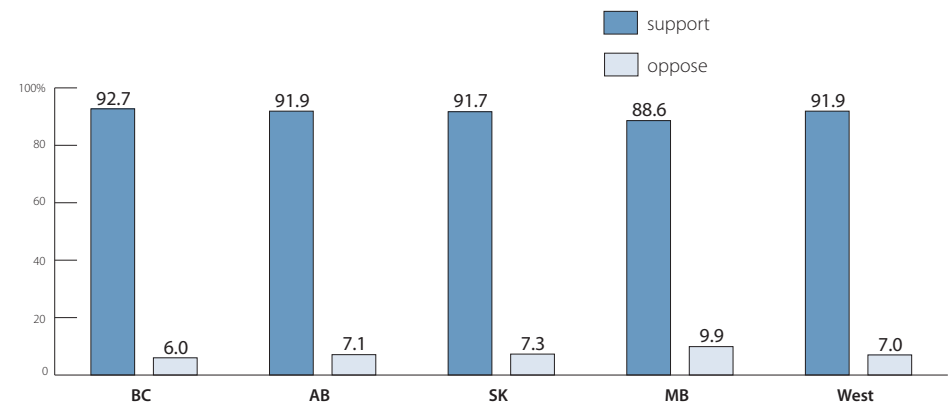


	Strongly agree	Somewhat agree	Somewhat disagree	Strongly disagree
BC	15.5%	28.4%	31.8%	20.4%
AB	15.3	34.4	27.1	20.0
SK	11.8	34.3	28.8	23.1
MB	13.1	33.7	27.8	22.5
West	14.8	31.6	29.5	20.8

Survey question: "Canada's high school students are learning the skills they need to succeed in the workforce." (agree/disagree)

Given that relatively few western Canadians are highly confident that high school students are sufficiently prepared for the workforce, one might expect to find strong support for post-secondary education funding. This assumption is borne out by the survey results: western Canadians are very supportive of increased government funding for post-secondary students, with 9 in 10 supporting—and one-half strongly supporting—such action (see Figure 4). Young people (aged 18-24 years) are more likely to strongly agree, as are those with university education (be it completed or not), immigrants, and union members.

**Figure 4: Support Increased Government Funding for Post-Secondary Students**



	Strongly support	Somewhat support	Somewhat oppose	Strongly oppose
BC	53.9%	38.8%	4.7%	1.3%
AB	56.5	35.4	5.1	2.0
SK	51.6	40.1	4.8	2.5
MB	47.8	40.8	7.4	2.5
West	53.8	38.1	5.2	1.8

Survey question: "Governments often take steps to promote the economy. Please indicate if you strongly support, somewhat support, somewhat oppose or strongly oppose the following government actions... providing more funding for university, college and trade school students."



Survey respondents were also asked to rate the priority of investing more in universities and colleges; over 6 in 10 state that this is a very high or high priority (see Figure 5). Less than 10% state that this is a low or very low priority. Of the 15 public policy areas that Looking West 2008 Survey respondents were asked to prioritize, post-secondary education funding received the 5<sup>th</sup> largest number of very high/high priority ratings, placing it behind health care, the environment, reducing poverty and reducing greenhouse gas emissions, but ahead of tax cuts, transportation infrastructure, and

a number of other issues. When the 15 policy areas are examined together through factor analysis, the prioritization of post-secondary funding is found to be similar to the prioritization of policy areas related to economic competitiveness and policy areas related to quality of life. Stated more simply, people appear to think about post-secondary education investments in similar terms to economic competitiveness and quality of life.

Immigrants are more likely than non-immigrants to state that investing more in universities and colleges is a very high priority, and lower income western Canadians (those with an annual household income below \$20,000) are more likely to state that this is a very high priority.

**Figure 5: Priority of Investing More in Universities and Colleges**



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate each of the following:... investing more in universities and colleges."

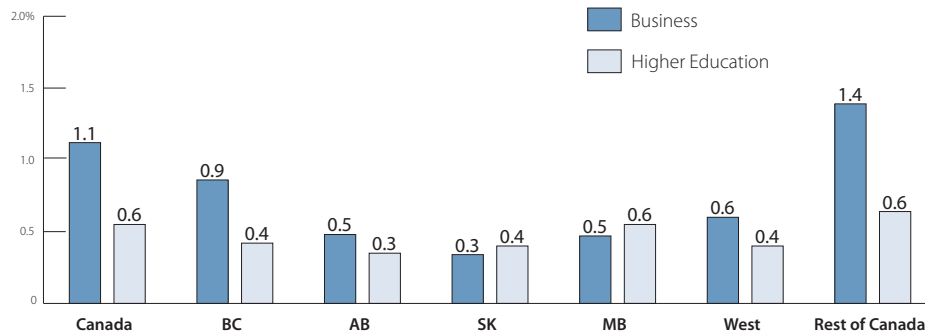


## 2.2. Research and Development

As noted above, research and development (R&D) is an important aspect of an innovation-driven knowledge economy. Canada's total expenditure on R&D as a percentage of GDP in 2007 is above the levels of the 1980s and 1990s, although it has fallen slightly since 2000. Compared to other OECD countries, Canada is near the top when it comes to R&D expenditures by the higher education sector (HERD), but is in the middle in terms of business expenditures on R&D (BERD). In 2005, Canada ranked second out of 30 nations on HERD as a percentage of GDP but only 14<sup>th</sup> on BERD.<sup>8</sup>

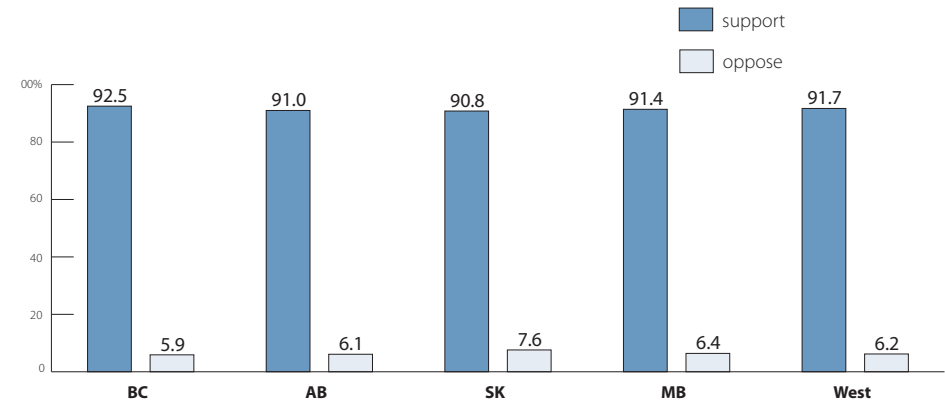
Within Canada, R&D expenditure relative to GDP is lower in the West than in the rest of the country (see Figure 6). While the gap is noticeable for higher education, it is quite pronounced for business expenditures on R&D. This is a source of concern as the positive link between R&D and growth in economic output is driven largely by business sector R&D activity, rather than that of other institutions.<sup>9</sup>

**Figure 6: R&D Expenditures as a Percentage of GDP, 2005**



Source: Derived from Statistics Canada data (CANSIM Tables 358-0001 and 384-0002).

**Figure 7: Increasing Research and Development Funding**



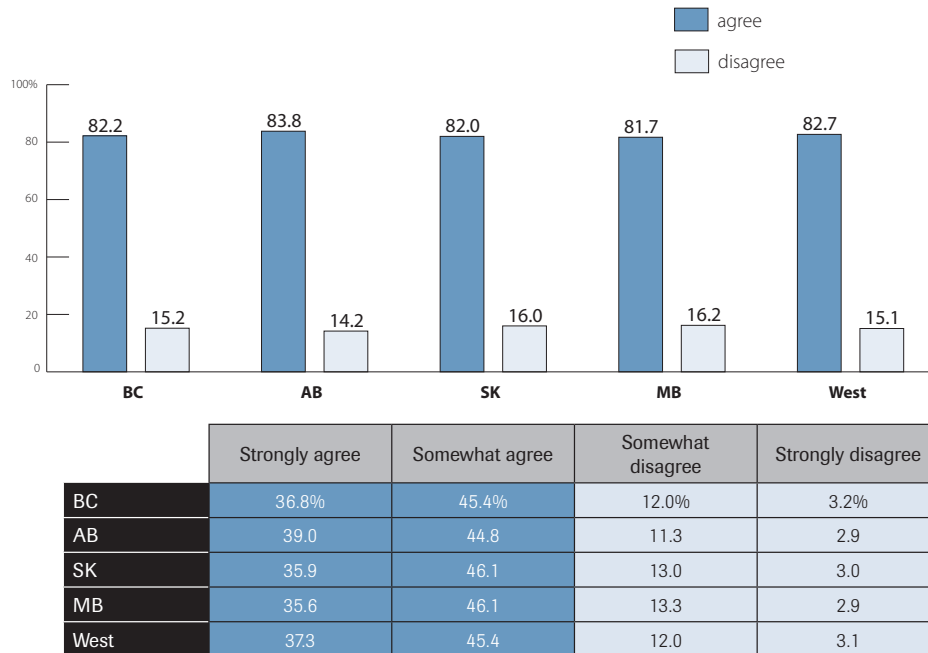
	Strongly support	Somewhat support	Somewhat oppose	Strongly oppose
BC	41.9%	50.6%	4.7%	1.2%
AB	41.7	49.3	4.6	1.5
SK	37.0	53.8	5.3	2.3
MB	38.4	53.0	4.9	1.5
West	40.9	50.8	4.7	1.5

Survey question: "Governments often take steps to promote the economy. Please indicate if you strongly support, somewhat support, somewhat oppose or strongly oppose increasing funding for research and development."

There is considerable public support for advancing western Canada's knowledge base. Over 9 in 10 western Canadians support increased government funding for R&D, and over 8 in 10 agree that universities should receive additional government funds to hire top researchers (see Figure 7 and 8). University-educated residents (including those with an incomplete university education) and immigrants are more likely to strongly support increased R&D funding. Visible minorities (10.7%) are more likely than non-visible minorities (5.9%) to strongly or somewhat oppose government R&D



Figure 8: University Funding to Hire Top Researchers

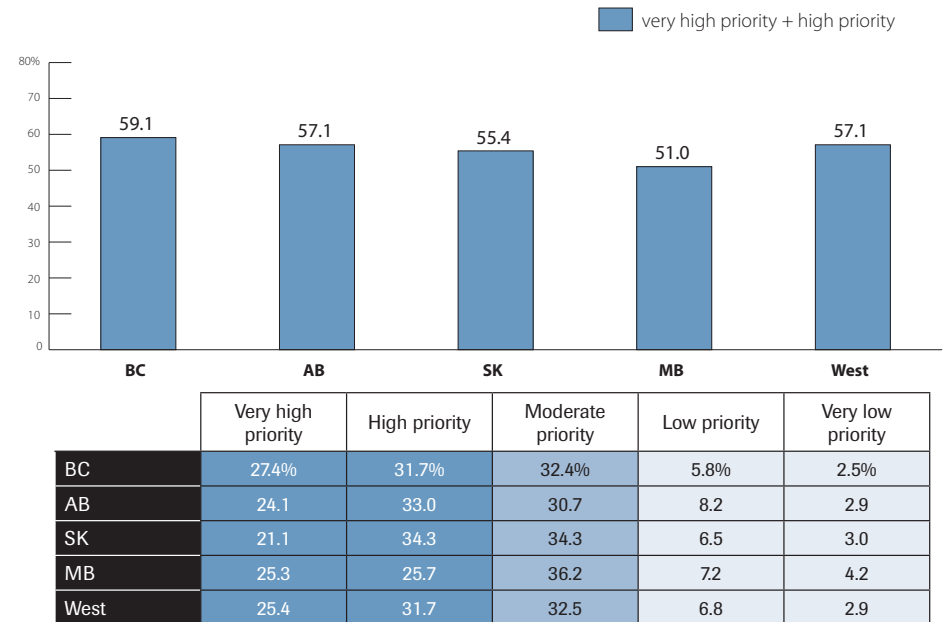


Agree/disagree: "Canadian universities should be given more government funding to hire top quality researchers."

funding. Younger (18-24) and older (65 and over) western Canadians are more likely to strongly agree that universities should be given more government funding to hire top researchers, and Aboriginal western Canadians are more likely than non-Aboriginal residents to strongly agree.

When asked to rate the priority of investing more in science and technology, almost 6 in 10 state that it is a very high or high priority (see Figure 9). Of the 15 public policy areas included in the survey, investing more in science and technology received the 7<sup>th</sup> largest number of very high or high priority ratings, placing it behind issues of health

Figure 9: Priority of Investing More in Science and Technology



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate investing more in science and technology."

care, the environment and transportation, but ahead of personal and corporate tax cuts, expanding trade, and attracting more foreign skilled workers. Men are more likely to rate investing in science and technology as a very high or high priority, and Aboriginals and immigrants are more likely than non-Aboriginals and non-immigrants to rate such investment as a very high priority. Similarly, western Canadians with a graduate or professional degree are more likely than other western Canadians to state that investing in science and technology is a very high priority.



When the 15 policy areas are examined together through factor analysis, the prioritization of investments in science and technology is found to be similar to the prioritization of policy areas related to economic competitiveness: trade, transportation, foreign skilled workers, and post-secondary education. This suggests that science and technology investments are seen by the public to be a key element in economic competitiveness.

### 2.3 Creativity, Arts and Culture

A body of research has emerged regarding the link between creativity and prosperity. At the forefront of this research is Richard Florida, who argues that the “creative class” plays an important role in urban economic development and whose research has shown a correlation between the cultural and artistic environment of large urban centres and the development and concentration of high-tech industries.<sup>10</sup> A relatively recent Canadian report provides a review of numerous studies that investigate the role of cultural and creative activities in today’s knowledge economy.<sup>11</sup> This review highlights some common perspectives that have emerged from this research including: creative and cultural industries are growing rapidly and boost economic output by creating employment, exports and investment opportunities; skilled workers in creative and cultural occupations are an important contributor to innovation; and cities have a particularly important role as a home for creative and cultural industries and attracting highly skilled workers.

In a 2006 report, *Shaping Our Future: Creative Ideas for Transforming Western Canada’s Economy*, the Canada West Foundation recommended that the K-12 education system emphasize creativity and that funding for the arts should be expanded:

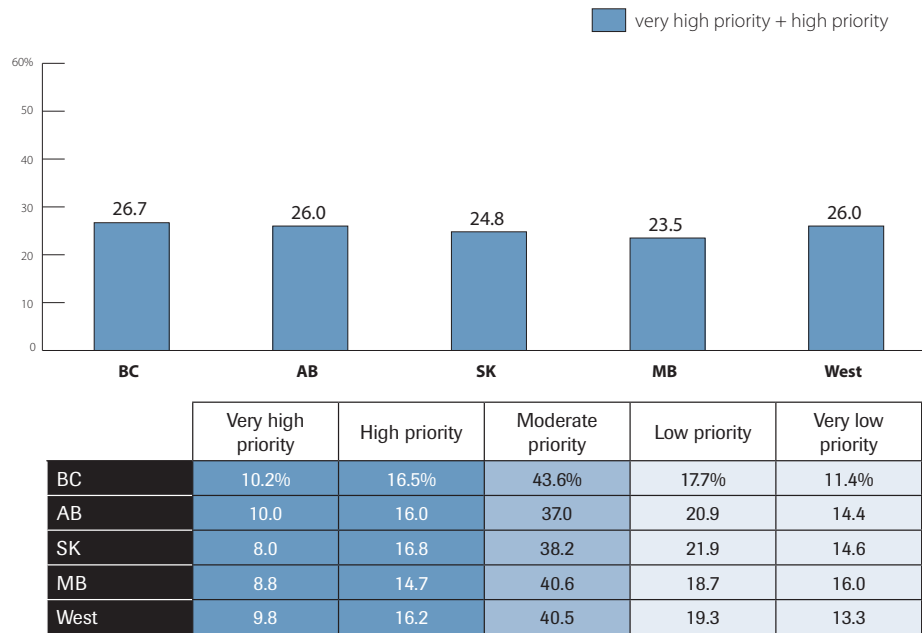
At the end of the day, generating creativity and innovation is more art than science, but both are vitally important in the global economy where ideas, not muscle-power, generate wealth. Creativity cannot be generated by lowering

taxes or streamlining regulations (as helpful as those actions may also be). Nor can innovation be purchased like an imported commodity, regardless of the value of the soaring Canadian dollar.

Creativity and innovation grow out of the human spirit—born out of education, fostered by the arts, manifest in research, and nurtured by supportive public policy. Policy-makers in western Canada have a responsibility for helping to ensure that these fragile yet essential elements of our economy find a place to blossom.

While the argument that arts and culture is an area of strategic economic investment may be gaining traction among theorists and researchers, the survey results show that the general public has yet to adopt this viewpoint. Only one-quarter of western Canadians rate funding for arts and culture as a very high/high priority—whereas almost one-third rate such investment as a low or very low priority (see Figure 10). Younger western Canadians (aged 18–24), big city residents, Aboriginal people, and immigrants are more likely to state that investments in arts and culture are a very high or high priority, while men are more likely than women to state that it is a low or very low priority. Ideology is also an important factor in predicting support for arts and culture investment: individuals who describe themselves as very left of centre are more likely to state that arts and culture is a very high priority, whereas individuals who describe themselves as somewhat or very right of centre are more likely to state that it is a low or very low priority.



**Figure 10: Priority of Investing More in Arts and Culture**

Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate investing more in arts and culture."

The fact that young people, big city residents and left of centre individuals are more supportive of arts and culture spending is not a huge surprise. What is interesting, however, is how arts and culture support relates to support for other policy areas. Factor analysis of the 15 policy priorities reveals that public attitudes about investment in arts and culture do not group together with public attitudes about policy issues broadly associated with economic competitiveness, or even with public attitudes broadly associated with quality of life. Instead, arts and culture investment attitudes correlate with attitudes toward policy issues that might be described as "helping others": foreign aid, Aboriginal employment, and Aboriginal social issues. The common theme

underlying all of these issues may be ideological position, but the point to stress is that it appears that the public does not (yet) view arts and culture investment in economic competitiveness terms.

Given that young people, big city residents, and both Aboriginal persons and immigrants are more supportive of arts and culture investment, there may be a gradual shift in support for arts and culture investment as the region urbanizes, grows more diverse, and as older generations are replaced. Aside from a gradual demographic shift, there is also likely to be changes in public attitudes as researchers and theorists continue to push forward the argument that arts and culture investment has a positive net return on investment for the economy.

### 3. Going for Gold Will Require the West to Retain its Young Population and Attract Young People from Elsewhere in Canada.

In addition to being a fundamental right, mobility is an important aspect of Canada's social and economic wellbeing. The ability and willingness of individuals to relocate for career, education or other reasons benefit individual provinces and Canada more broadly. That being said, provinces and countries generally strive to be net gainers with respect to mobility; while one area typically benefits when it attracts people from other areas and retains its own population base, another loses when its residents take their skills, tax dollars, consumer spending, and families elsewhere. (It must be noted, of course, that *rapid* population growth is often associated with short-term challenges, such as insufficient housing, services, and infrastructure.)

A country or region's ability to prosper is directly affected by its demographics. An economy needs workers, plain and simple. A greater number of working age people



relative to the overall population means that there are more people contributing to a country's total economic output. All else being equal, per capita economic output will fall as the proportion of working age people in the population shrinks.

Like many other countries, Canada is faced with an aging population, an unstoppable demographic shift that has profound implications for both the economy and society. In 2011, the first people born into the baby boom generation will turn 65, the same time that the percentage of working age people in the total population is projected to begin a steady decline. Over the next quarter century, the number of seniors in the West will double, becoming a significantly larger segment of the overall population. Correspondingly, the percentage of the population under the age of 15 will continue to fall.

The aging of the workforce will have wide ranging implications on the economy, the labour market, employers, and workers of all ages. The shortage of labour will continue to be an issue of concern—particularly in the West—and will intensify as more and more people move toward retirement.

Faced with a graying population, western Canada cannot afford to lose young people. The region's ability to prosper will be enhanced if it is able to retain its young population and attract additional young, working age people.

Overall, the West was a net recipient of interprovincial migrants from 2000 to 2008, with a net inflow of 154,270 people (see Figure 11).<sup>12</sup> Interprovincial migration numbers for the West as a whole conceal the differing experiences of individual provinces. Over this period, Alberta gained 215,912 residents while BC's gains were comparatively modest at 18,853. Saskatchewan and Manitoba lost 41,821 and 38,674 people respectively.

Alberta is the only western province that consistently gained people from 2000 to 2008. BC experienced a turnaround in migration trends in 2004 after losing people

for a number of years. Saskatchewan and Manitoba have experienced long periods in which they have lost residents. However, after net losses for 22 consecutive years, Saskatchewan experienced a net gain of interprovincial migrants in 2007 and 2008. It is clear that large numbers of people are prepared to relocate to another province—a total of 1.44 million people moved to a western province between 2000 and 2007 and 1.29 million moved out of one of the western provinces. The total tally of people moving to (from) a western province includes those who relocated within the West as well as those who moved to (from) one of the western provinces from (to) another part of Canada.

**Figure 11: Interprovincial Migration, 2000-2008**

	Total In	Total out	Total Net
BC	465,398	446,545	18,853
AB	707,702	491,790	215,912
SK	147,867	189,688	-41,821
MB	122,512	161,186	-38,674
West	1,443,479	1,289,209	154,270

Source: Derived from Statistics Canada data (CANSIM Table 051-0018).

Note: The reference period is July 1 to June 30 (e.g., "2008" is July 1, 2007 to June 30, 2008).

People aged 18-34 account for a disproportionate share of those who pick up and move to another province. This group of younger working age people, who make up not quite one-quarter of the total population, accounted for 45% of all interprovincial migrants from 2000 to 2007.<sup>13</sup> Not only is this segment of the population in the early stages of their working lives, they are generally more highly educated than older workers.

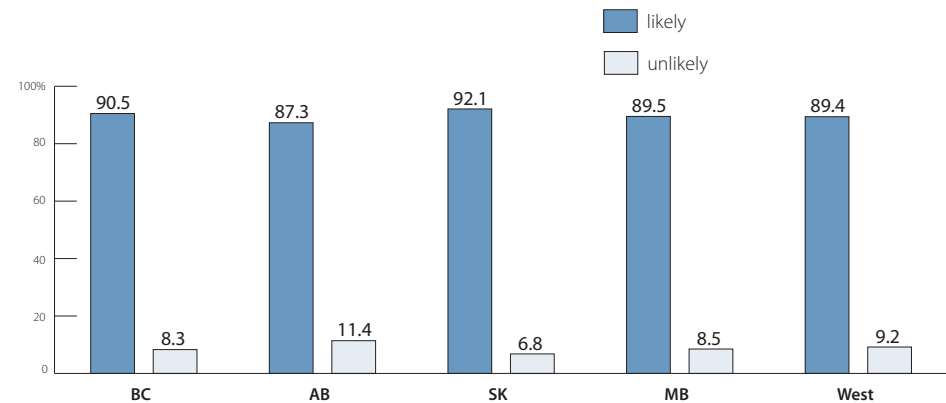


In the West, like Canada as a whole, the number of international immigrants far exceeds the number of Canadians who emigrate to another country. Nonetheless, a substantial number of Canadians make the choice to pursue work or lifestyle opportunities in another country. Roughly 14,000 people per year on average emigrate from western Canada to another country (a number that is not adjusted for returning emigrants and temporary emigrants). Detailed information on emigrants—who they are and where they go, for example – is sparse. However, it is known that younger working age people are more likely to leave Canada than older people, and the US is by far the number one destination.<sup>14</sup>

The Looking West 2008 Survey explored both mobility expectations and willingness to move to a variety of locations. Looking first at the entire population, it is found that relatively few western Canadians anticipate moving within the next five years: roughly 9 in 10 feel that it is likely that they will still be living in the same province in 2013, and three-quarters feel that it is *very* likely that they will be living in the same province (see Figure 12).

Despite the high proportion of residents who think that they will stay in their current province, the fact that 1 in 10 think such a move is likely means that roughly one million westerners predict that they will move out of province in the next five years. Who is most likely to anticipate an out of province move? Young people (aged 18-24) and Albertans are more likely than older residents and non-Albertans to anticipate a move, while immigrants, rural residents and union members are less likely to anticipate moving out of province within five years.

Figure 12: Likelihood of Living in Same Province in Five Years



	Very likely	Somewhat likely	Somewhat unlikely	Very unlikely
BC	80.7%	9.8%	3.4%	4.9%
AB	70.8	16.5	6.0	5.4
SK	79.3	12.8	3.8	3.0
MB	72.8	16.7	3.6	4.9
West	76.3	13.1	4.3	4.9

Survey question: "When you think of your life five years from now, how likely is it that you will still be living in [province]: very likely, somewhat likely, somewhat unlikely, or very unlikely?"

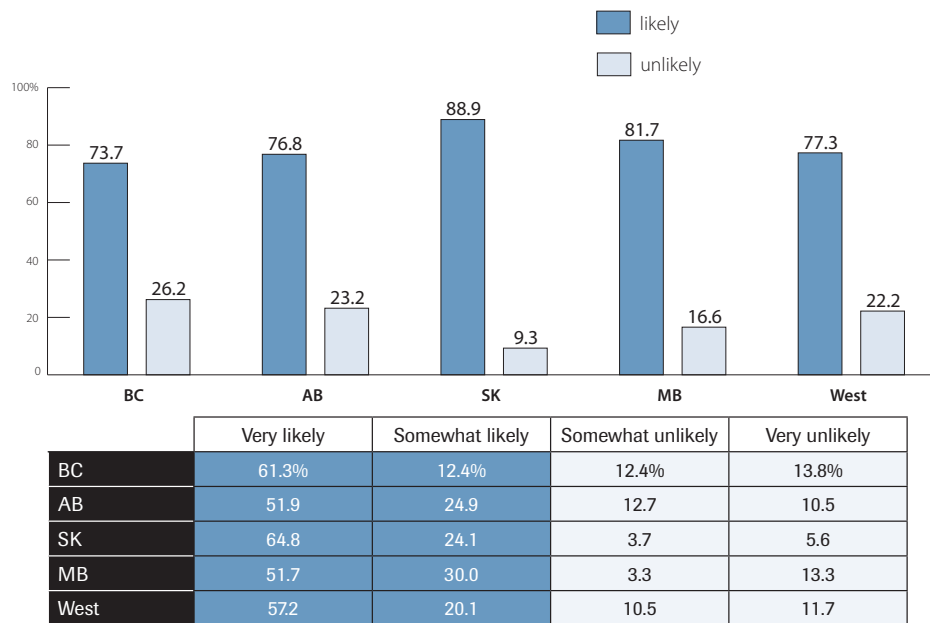




Looking just at the 18-24 year olds, it is seen that over three-quarters of 18-24 year olds believe that they will be living in the same province in 2013; in BC and Saskatchewan, over 6 in 10 feel that it is *very likely* that they will be living in the same province (see Figure 13). While roughly one-quarter of Alberta and BC young adults feel that it is unlikely that they will be in the same province in five years, this drops to 16.6% for Manitoba young adults, and below 10% for Saskatchewan young adults. To put this into a population perspective, over 100,000 BC young people, over 90,000 Alberta young people, under 10,000 Saskatchewan young people and just under 20,000 Manitoba young people anticipate moving out of province within the next five years.

Which young adults anticipate moving? Big city residents, women, non-union members, and private sector employees are more likely than rural residents, men, union members and public sector employees to predict an out of province move.

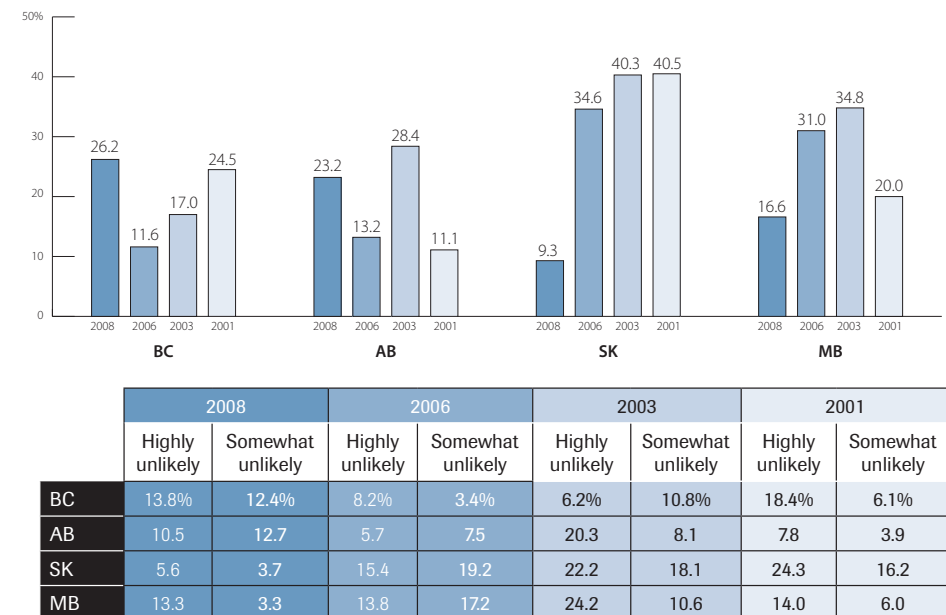
**Figure 13: Likelihood of Living in Same Province in Five Years, 18-24 Year Olds Only**



Survey question: "When you think of your life five years from now, how likely is it that you will still be living in [province]: very likely, somewhat likely, somewhat unlikely, or very unlikely?"

The current mobility perceptions of young adults stand in stark contrast to expectations over the past seven years. The strongest changes are seen in Saskatchewan: while 4 in 10 young adults in the 2001 and 2003 Looking West Surveys anticipated moving within five years, only 1 in 10 currently anticipate moving—a difference of over 30 percentage points (see Figure 14). A similar trend is seen in Manitoba, where the difference between the highest mobility expectations (in 2003) and current expectations is 18 percentage points. In BC, current young adult mobility expectations have risen to exceed 2001 levels; mobility expectations are also on the rise in Alberta.

**Figure 14: Highly Unlikely + Somewhat Unlikely to be Living in Province Five Years from Now, 2001-2008, 18-24 Year Olds**



Survey question: "When you think of your life five years from now, how likely is it that you will still be living in [province]: very likely, somewhat likely, somewhat unlikely, or very unlikely?"



When asked about willingness to consider moving to a variety of locations for a better job, it is seen that large numbers of western Canadians are open to moving, should the right employment opportunity arise: over 4 in 10 are willing to consider moving to another province, and 4 in 10 are willing to consider a move to a country other than Canada or the United States (see Figure 15). Numbers drop when the location is changed to the United States, with just over one-quarter of western Canadians being willing to consider a move to the United States for a better job.

**Figure 15: Willingness to Move for a Better Job, Various Locations**

	Willing to move within Canada	Willing to move to the United States	Willing to move to another country
BC	43.9%	28.0%	43.5%
AB	47.9	27.5	41.7
SK	44.2	20.4	29.8
MB	50.9	22.9	32.1
West	46.1	26.4	40.2

Survey questions: "If you were offered a better job than the one you have now, but in another Canadian province/the United States/a country other than Canada or the United States, would you be very willing to move, somewhat willing, not very willing, or not at all willing to consider moving to take the job?" (Unemployed and student respondents were asked "If you were offered a job in another Canadian province/the United States/a country other than Canada or the United States, would you be very willing to move, somewhat willing, not very willing, or not at all willing to consider moving to take the job?") Question was not asked of homemakers, retired respondents, and those who refused to specify their employment status. N = 2,952.

Looking just at young adults (18-24 years old), BC residents are the most willing to consider a move to each of the three possible locations (see Figure 16). Alberta young adults are the least willing to consider a move within Canada; indeed, Alberta young adults are slightly more willing to consider a move outside of Canada and the US than to consider a move to another province. And while large numbers of Manitoba and Saskatchewan young people would consider moving out of province, they are less willing to consider a move to another country outside Canada and the United States, and even more unwilling to consider a move to the United States.

**Figure 16: Willingness to Move for a Better Job, Various Locations, 18-24 Year Olds**

	Willing to move within Canada	Willing to move to the United States	Willing to move to another country
BC	73.1%	39.4%	62.4%
AB	52.1	36.5	59.2
SK	64.2	22.6	39.6
MB	75.0	20.3	46.7
West	65.2	34.2	56.8

Survey questions: "If you were offered a better job than the one you have now, but in another Canadian province/the United States/a country other than Canada or the United States, would you be very willing to move, somewhat willing, not very willing, or not at all willing to consider moving to take the job?" (Unemployed and student respondents were asked "If you were offered a job in another Canadian province/the United States/a country other than Canada or the United States, would you be very willing to move, somewhat willing, not very willing, or not at all willing to consider moving to take the job?") Question was not asked of homemakers, retired respondents, and those who refused to specify their employment status. N=479.



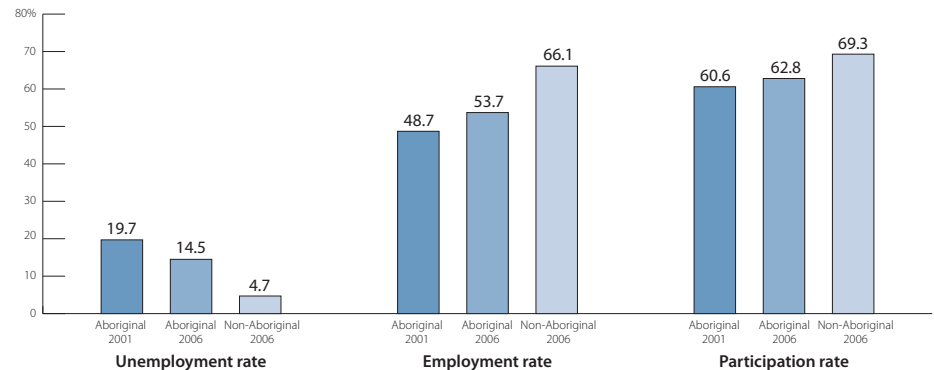
#### 4. Going for Gold Will Require Western Canada to Increase Aboriginal Employment Opportunities.

According to the 2006 Census, Aboriginal people make up 7.5% of the total population of western Canada. The proportion of Aboriginal people in the West is over three times higher than in the rest of the country. Manitoba and Saskatchewan have relatively large Aboriginal populations compared to the overall population—Aboriginal people as a share of the total population are 15.5% and 14.9% respectively. Although smaller as a proportion of the total population, BC and Alberta have larger Aboriginal populations in absolute terms.

Because they constitute a relatively large part of western Canada's population, the Aboriginal population will play a key role in western Canada's future prosperity. Aboriginal residents are, on average, younger than non-Aboriginal residents. With an aging population and slowing labour force growth on the horizon, it is important to the West that the education and labour market outcomes of Aboriginal youth are improved and for Aboriginal residents to become more fully engaged in the workforce.

There have been notable improvements in the labour market outcomes of the Aboriginal population. Aboriginal employment grew more than three times faster than non-Aboriginal employment between 2001 and 2006. The unemployment rate of Aboriginal persons fell by 5.2 percentage points over the same period. Notwithstanding these improvements, the gap in outcomes between Aboriginal and non-Aboriginal persons is far too wide (see Figure 17). The rate of unemployment for Aboriginal residents is almost three times that of non-Aboriginal residents. Furthermore, the aggregate figures hide some disturbing facts. Labour market outcomes for Aboriginal residents living on reserves are considerably worse than for Aboriginal persons living off-reserve. The unemployment rate of on-reserve Aboriginals in western Canada as of the 2006 Census was a dismal 26.8%.

**Figure 17: Labour Market Rates, Western Canada's Aboriginal and Non-Aboriginal Population (%)**



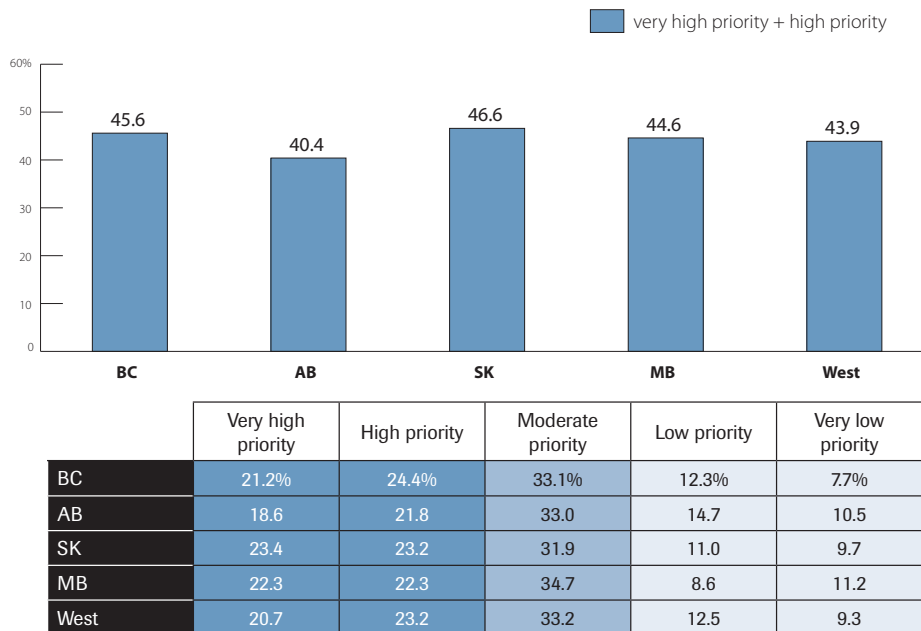
Source: Derived from Statistics Canada, 2006 Census of Population, Catalogue no. 97-560-XCB2006031 and 2001 Census of Population, Catalogue no. 97F0011XCB2001044.

Note: The unemployment rate is the number of unemployed persons expressed as a percentage of the labour force. The employment rate is the number employed expressed as a percentage of the population 15 years of age and over. The participation rate is the labour force (both those employed and those unemployed but looking for work) expressed as a percentage of the population 15 years and over.



Of the 15 public policy areas that Looking West 2008 Survey respondents were asked to prioritize, creating more employment opportunities for Aboriginal people received the 11<sup>th</sup> largest number of very high/high priority ratings, with 4 in 10 rating this as a very high/high priority, and one-third rating it as a moderate priority (see Figure 18). Aboriginal persons, immigrants, and individuals with lower incomes (under \$20,000) are more likely to consider this to be a very high/high priority area. Interestingly, both individuals who describe themselves as very or somewhat left of centre and individuals who describe themselves as very right of centre are more likely than centrists to state that increasing Aboriginal employment opportunities is a very high priority.

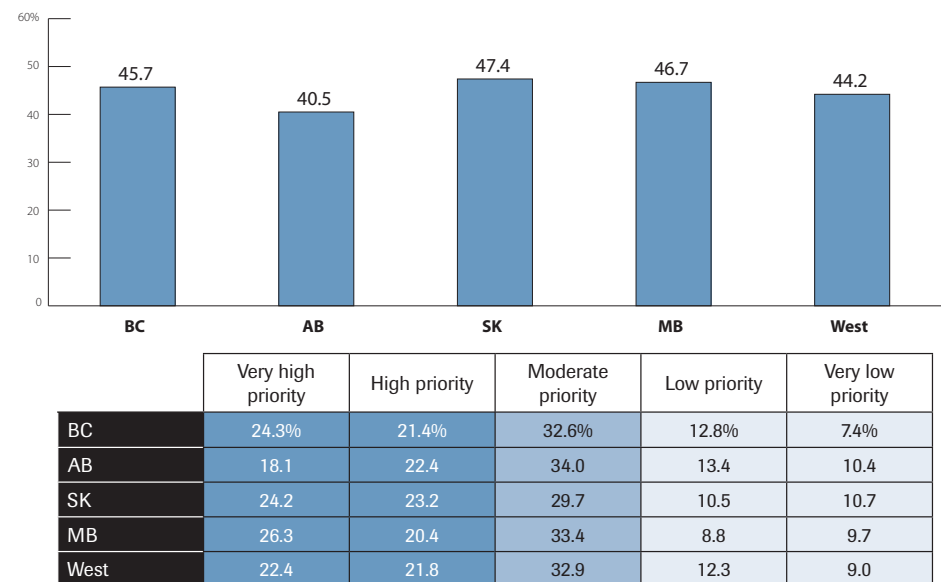
**Figure 18: Priority of Creating More Aboriginal Employment Opportunities**



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate creating more employment opportunities for Aboriginal people."

Survey respondents were also asked to rate the priority of doing more to address social problems faced by Aboriginal people. The proportion of residents who rated addressing Aboriginal social problems as a very high/high priority is nearly identical to the proportion who rated creating more Aboriginal employment opportunities as a very high/high priority (see Figure 19). Aboriginal persons, immigrants and women are more likely to state that addressing Aboriginal social issues is a very high priority, and individuals who describe themselves as very or somewhat left of centre are more likely than centrists to state that this is a very high or high priority. There is also a negative relationship with income: as incomes rise, residents are less likely to state that addressing Aboriginal social issues is a very high priority. However, the relationship with education is positive, with the most highly educated individuals (those with graduate/professional degrees) being more likely than those with less education to state that this is a very high/high priority issue.

**Figure 19: Priority of Addressing Aboriginal Social Problems**



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate doing more to address social problems faced by Aboriginal people."



## 5. Going for Gold Will Require Western Canada to Increase the Number of Skilled Workers from Abroad.

The Canada West Foundation has highlighted the shortage of skilled labour in the West for years. In 2004, the Foundation launched the *Filling the Gaps Initiative* which focused on the issue of skilled labour shortages in western Canada. Three major research reports on the issue were produced in 2004 and 2005.<sup>15</sup> Strong economic conditions and the relatively low rate of unemployment in the West in recent years have helped make labour shortages a top issue among business leaders and policy-makers in the region.

Labour shortages have been arguably most pronounced in Alberta, where employment growth has been very strong. According to the Government of Alberta, the province could face a shortfall of 111,000 workers by 2017.<sup>16</sup> Estimates of long-term job vacancies in the small and medium-sized enterprise sector provide evidence that labour shortages have worsened in recent years and that the problem is more severe in western Canada, where 42% of the estimated 309,000 long-term vacancies are found.<sup>17</sup> At the national level, Statistics Canada data show that the proportion of firms in the manufacturing sector citing skilled labour shortages as a problem increased appreciably from 2005 to 2007.<sup>18</sup> While the problem has been particularly acute in the West for the past few years, primarily due to the strong economy, the demographic challenges of an aging population almost guarantee that the issue of skilled labour shortages will persist well into the future, not just in the West, but across the country.

Although no single public policy response can “solve” skilled labour shortages, immigration and the attraction of skilled workers from abroad are widely recognized as ways to ease the problem. Immigration has played—and continues to play—an important part in shaping Canadian society. The arrival of immigrants brings a host of benefits to their new country and community—diversity, richness of culture, population growth, and expansion of the labour force. Furthermore, immigrants to Canada are

more likely than the overall population to have post-secondary education, and many newcomers bring with them valuable international connections, a definite asset in a world shaped by globalization.

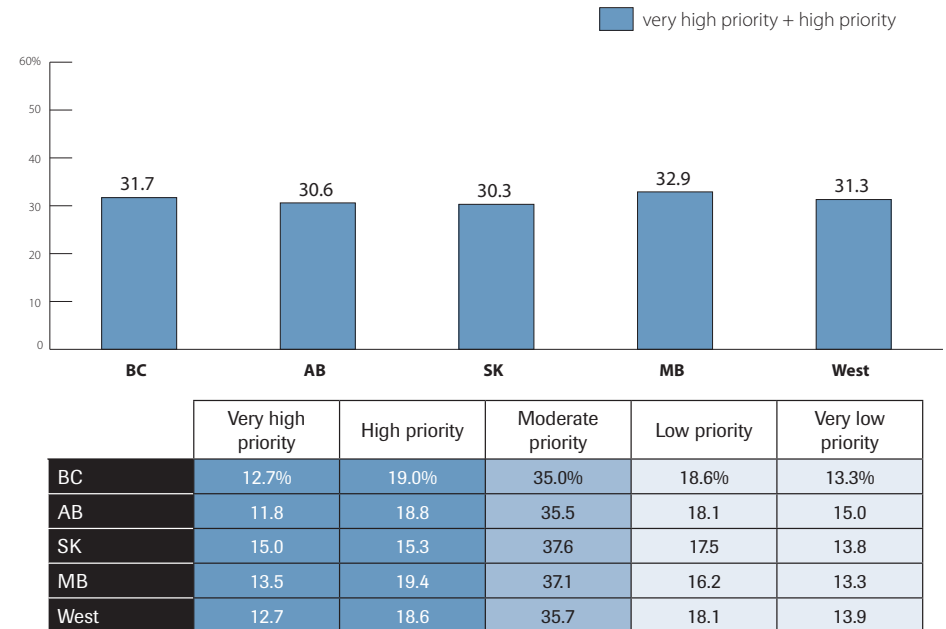
In spite of this, many immigrants to Canada experience relatively poor labour market outcomes. In 2007, the unemployment rate for recent immigrants, those who have been in Canada for less than five years, was twice that of people who were born in Canada.<sup>19</sup> According to the most recent Census, the median salary of Canadian-born people with a university degree was more than double that of recent immigrants with university degrees.<sup>20</sup>

As Canada moves forward and continues to attract skilled workers from other countries, policy-makers should remember that immigration is a two-sided coin: every highly educated individual Canada gains through immigration is another country's loss. It is important to be mindful that siphoning the best and brightest from developing countries is not free of ethical considerations.

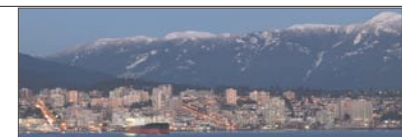


When asked to rate the priority of attracting more foreign skilled workers, only 3 in 10 western Canadians stated that this is a very high/high priority area, while one-third rate it to be a moderate priority (see Figure 20). Public attitudes about the priority of attracting more foreign workers vary positively with education and income: more educated and higher income western Canadians are more likely to rate this as a very high or high priority than are less educated and lower income residents. Additionally, immigrants and big city residents are more likely to state that this is a very high or high priority. However, union members are less likely than non-union members to rate this as a very high priority, and centrists are less likely than those who describe themselves as very right or very left of centre to rate this as a very high priority.

**Figure 20: Priority of Attracting More Skilled Workers from Other Countries**



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate each attracting more skilled workers from other countries."



## 6. Going for Gold Will Require Tax Policy Reform, Particularly Reform of Corporate Taxes.

### 6.1 Corporate and Business Taxes

There is little dispute over the fact that taxes influence economic behaviour, although there is certainly no consensus on the extent of the effect. The level of taxation and the types of taxes that make up the overall revenue structure of governments—the tax mix—both play a part in the degree to which the economic behaviour of individuals and firms is affected. Economic theory and research generally suggest that per capita economic output declines with an increase in the overall tax burden. Further, the negative effect is larger for tax systems that rely heavily on direct taxes, such as income taxes.<sup>21</sup> Looking at the structure of a tax system, research indicates that economic growth is most affected by corporate taxes, followed by personal incomes taxes, and then consumption taxes.<sup>22</sup> Of course, real world tax policy decisions must take into account factors other than economic efficiency, such as equity and revenue requirements.

As is often the case in matters of public policy, tax policy issues are very complex. The relationship between tax policy and global economic competitiveness is far from straightforward. For example, a low overall tax burden is seemingly not a prerequisite for international competitiveness. The US and Switzerland ranked number one and two respectively in the World Economic Forum's 2007-2008 ranking of countries on global economic competitiveness. In both of these countries, total taxation revenue as a percentage of GDP is among the lowest of industrialized economies. On the other hand, Denmark, Sweden, and Finland ranked 3<sup>rd</sup>, 4<sup>th</sup> and 6<sup>th</sup> respectively, despite heavy overall taxation. The same can be said about business taxation. The most competitive economy in the world—the US—has a statutory corporate income tax rate that is the 2<sup>nd</sup> highest in the OECD and an effective tax rate on business investment that is the highest in the OECD.<sup>23</sup> Ireland, which is often held up as an example of the power of low business taxation, was ranked 22<sup>nd</sup> in the world on global economic competitiveness by the World Economic Forum, eight spots behind Canada. To further muddy the waters,

Sweden, Denmark and Finland have relatively low effective rates of tax on new business investment despite being high tax countries.

Canada's tax environment has changed in recent years. Personal and corporate taxes have come down at both the federal and provincial level. Figure 21 provides a summary of selected business tax rates and Figure 22 highlights some recent changes to corporate tax rates, as well as plans for further changes.

**Figure 21: Corporate Tax Rates 2008 (%)**

	Canada	BC	AB	SK	MB
Corporate income tax - general rate (%)	19.5	11	10	12	13
Corporate income tax - small business rate (%)	11	3.5	3	4.5	2
Corporate capital tax - general (%)	--	--	--	--	0.4*
Corporate capital tax - financial (%)	1.25	3*	--	3.25*	3*

Note: Rates in effect as of July 1, 2008. \*Maximum rate.

Source: Governments of Canada, British Columbia, Alberta, Saskatchewan and Manitoba.





**Figure 22: Selected Changes to Corporate Tax Rates, Recent and Planned**

Changes to Corporate Tax Rates	
Canada	<ul style="list-style-type: none"> <li>Eliminated the federal capital tax in 2006.</li> <li>Corporate income tax rate reduced from 22.12% (including the 1.12% corporate surtax, which was eliminated in 2008) to 19.5 % effective January 1, 2008.</li> <li>Plan to reduce the corporate income tax rate to 19% in 2009, to 18% in 2010, to 16.5% in 2011, and to 15% in 2012.</li> </ul>
BC	<ul style="list-style-type: none"> <li>Corporate income tax rate reduced from 12% to 11% on July 1, 2008.</li> <li>Small business rate reduced from 4.5% to 3.5% on July 1, 2008.</li> <li>Plan to eliminate the capital tax on financial institutions effective April 1, 2010.</li> </ul>
AB	<ul style="list-style-type: none"> <li>Corporate income tax rate reduced from 11.5% to 10% in 2006.</li> </ul>
SK	<ul style="list-style-type: none"> <li>Corporate income tax rate reduced from 17% to 14% in 2006, to 13% in 2007, and to 12% in July 2008.</li> <li>General capital tax reduced from 0.6% to 0.3% in 2006, to 0.15% in 2007, and eliminated July 1, 2008.</li> </ul>
MB	<ul style="list-style-type: none"> <li>Corporate income tax rate reduced from 15% to 14.5% in 2006, 14% in 2007, and 13% on July 1, 2008. Plan to reduce the rate to 12% on July 1, 2009.</li> <li>Small business rate reduced from 5% to 4.5% in 2006, to 3% in 2007, and 2% in 2008. Plan to reduce the small business rate to 1% in 2009.</li> <li>Plan to eliminate the general capital tax after December 31, 2010.</li> </ul>

Source: Governments of Canada, British Columbia, Alberta, Saskatchewan and Manitoba.

Currently, Canada's total tax revenue as a percentage of GDP is below the OECD average and is the 11<sup>th</sup> highest out of 30. With recent reductions, Canada's statutory corporate income tax for 2007 was the second lowest among G7 countries and its effective tax rate on capital was the third lowest. If Canadian business taxes are lowered further as scheduled and if other nations do not alter their current plans, Canada will have the lowest statutory corporate income tax rate and the second lowest effective tax rate on capital in the G7 by 2012.<sup>24</sup> Canada's ranking—along with other G7 countries—is much lower among the broader group of OECD nations. Nonetheless, Canada has gone from having the highest effective tax rate on capital in 2005 to the sixth highest in two years.<sup>25</sup>

All this being said, business leaders and experts on the relationship between tax policy and competitiveness recommend similar actions on taxes, arguing that Canada's global economic competitiveness is hindered by relatively high taxes—notably corporate income taxes, corporate capital taxes, and provincial sales taxes on capital inputs—as well as the structure of the tax system. Common recommendations include: lowering taxes on new business investment; lowering corporate income tax rates; a shift toward greater use of value-added consumption taxes (e.g., the GST), which are less distortionary; harmonization of provincial retail sales taxes with the GST, where applicable; and reducing personal income taxes, especially for those with modest incomes.<sup>26</sup>

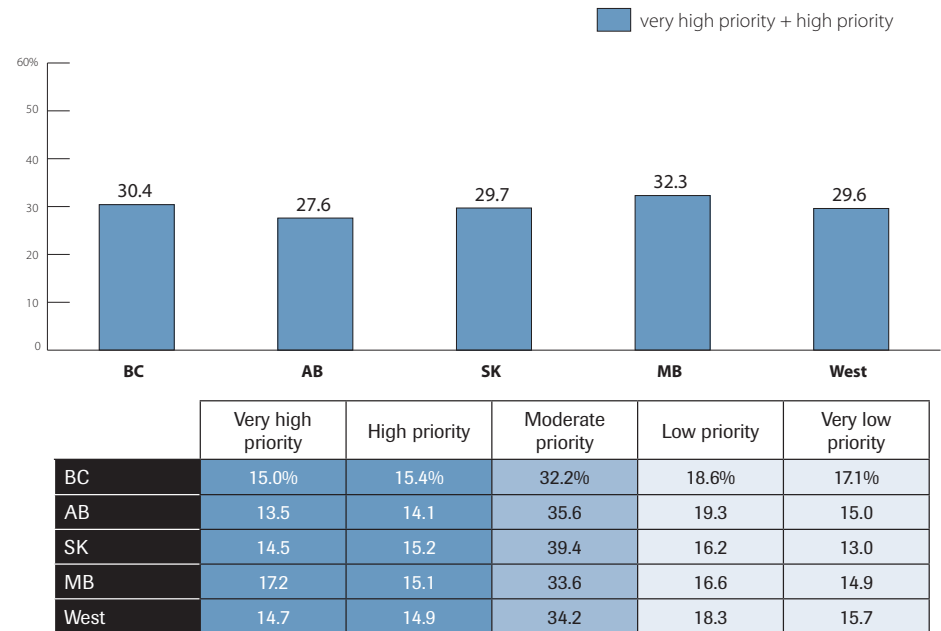
These recommendations are underpinned by recent economic research on the impact of tax policy—particularly business taxes—on things such as productivity, growth, and economic wellbeing more generally. A few examples are provided here. Research from the federal Department of Finance shows that there is evidence that high business taxes deter investment in productivity enhancing machinery and equipment, investment that is important for economic growth.<sup>27</sup> High business taxes are also found to dampen foreign direct investment.<sup>28</sup> A recently released study has shown that a majority of corporate tax is passed along to workers in the form of lower wages in the short-run. In the long-run, almost all corporate taxes are passed along to workers.<sup>29</sup> A 2004 Canadian study shows that the economic benefits of tax reductions vary considerably among different types of taxes. The largest gains in economic welfare are found to come from reductions to taxes on business investment and taxes on personal savings. Reductions to consumption taxes such as the GST are shown to provide the smallest welfare gain.<sup>30</sup>





The survey results demonstrate that lowering business taxes is not a top priority for western Canadians: only 3 in 10 state that lowering business taxes is a very high or high priority (see Figure 23), and of the 15 public policy areas included in the survey, business tax cuts came in 13<sup>th</sup> with respect to very high/high priority ratings, ahead of only foreign aid and arts and culture funding. In BC and Alberta, the number of residents rating business tax cuts to be low or very low priority is greater than the number who rate this as a very high or high priority. Attitudes toward lowering business taxes are negatively related to age and education, with younger western Canadians and those with less formal education being more likely to state that business tax cuts are a very high or high priority. Immigrants and non-union members are also more likely to rate this issue as a very high or high priority. There are strong ideological differences with respect to this issue, with individuals who describe themselves as very or somewhat right of centre being more likely to rate this as a very high or high priority, and those who describe themselves as somewhat or very left of centre being less likely to state that lowering business taxes is a very high or high priority.

**Figure 23: Priority of Lowering Business Taxes**



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate lowering business taxes."

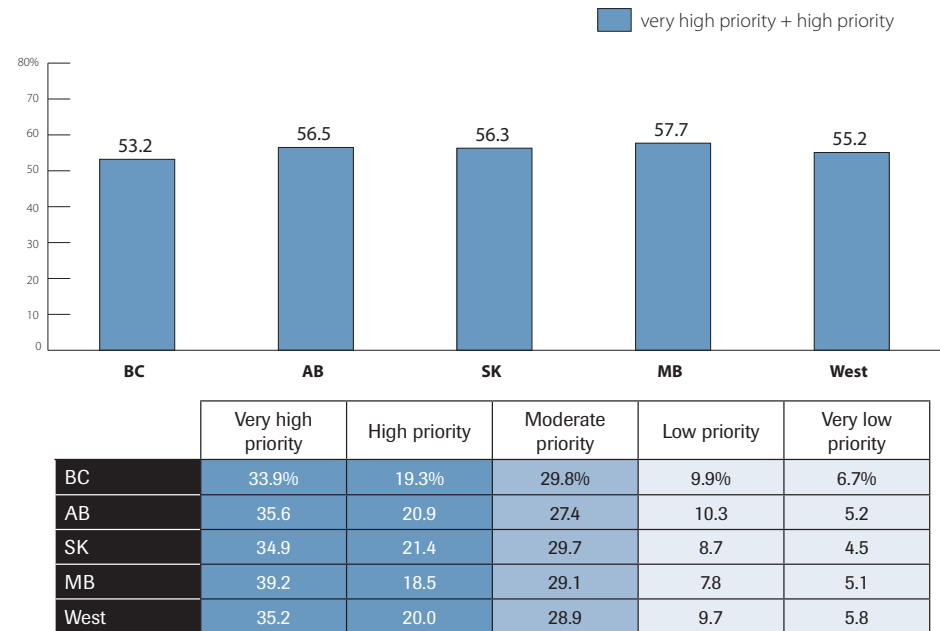


While enthusiasm for business tax cuts is somewhat muted, there is greater support for personal tax cuts (see Figure 24). The majority of western Canadians consider lowering personal taxes to be a very high or high priority; of the 15 public policy areas included in the survey, lowering personal taxes received the 8<sup>th</sup> largest number of very high or high priority ratings, placing it at the median position. Younger western Canadians and more educated residents are less likely to state that lowering personal taxes is a very high or high priority, and big city residents are less likely than rural residents to rate this as a very high or high priority. Again, there is a strong ideological dimension to responses, with right of centre residents being the most likely and left of centre residents being the least likely to state that lowering personal taxes is a very high or high priority.

## 6.2 Broad-Based Versus Targeted Tax Measures

Tax measures aimed at favoured industries or firm types are generally viewed as undesirable compared to broad-based measures when it comes to promoting economic growth and competitiveness. Targeted tax measures make the tax system less efficient; they distort investment decisions and lead to an inefficient allocation of resources. Economic growth and prosperity are more effectively promoted with a tax system in which all sectors are treated equally and taxes apply across a broad base.<sup>31</sup> Targeted measures also make the tax system more complex and introduce additional opportunities for rent seeking and tax avoidance.<sup>32</sup> Examples of targeted tax measures include lower tax rates for small businesses and preferential tax rates for certain industries such as forestry and manufacturing. As it stands, the forestry industry faces a marginal effective tax rate on capital investment that is less than half the rate for many other sectors including communications, financial services and construction.<sup>33</sup>

Figure 24: Priority of Lowering Personal Taxes

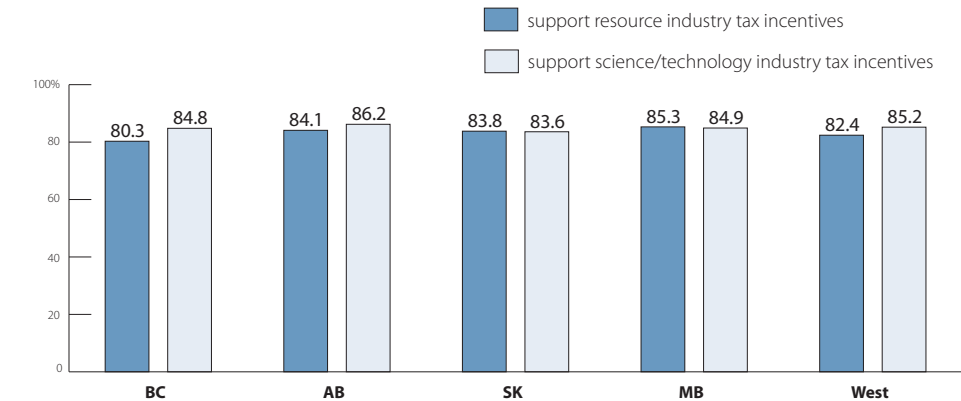


Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate lowering personal taxes."



While economic theory may point in other directions, the western Canadian public is clearly comfortable with, and supportive of, tax incentives for industry (see Figure 25). Over 8 in 10 western Canadians support tax incentives for resources industries, with the same proportion supporting tax incentives for science and technology industries. In both cases, roughly 3 in 10 western Canadians *strongly* support tax incentives for industry. Women and western Canadians without a university degree are more likely to support tax incentives for resource industries, and as urban size increases, western Canadians are less likely to strongly support such incentives. Additionally, western Canadians who describe themselves as left of centre are less likely to strongly support tax incentives to resource industries, and those who describe themselves as very right of centre are more likely to strongly support these incentives. Looking at support for science and technology industries, and controlling for other sociodemographic factors, it is found that men and immigrants are more likely than women and non-immigrants to strongly support tax incentives. Surprisingly, attitudes toward tax incentives for resource industries are not strongly correlated with attitudes toward tax incentives for science and technology industries (Pearson correlation = .282).

Figure 25: Tax Incentives for Industry



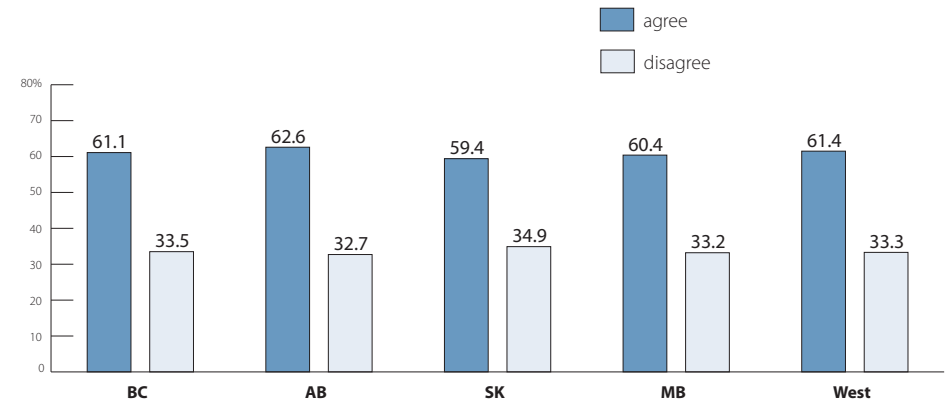
	Resource Industries				Science and Technology Industries			
	Strongly support	Somewhat support	Somewhat oppose	Strongly oppose	Strongly support	Somewhat support	Somewhat oppose	Strongly oppose
BC	31.0%	49.3%	12.5%	3.7%	29.8%	55.0%	10.2%	2.4%
AB	33.2	50.9	10.2	3.4	30.5	55.7	7.7	3.3
SK	36.3	47.5	9.3	4.3	25.7	57.9	10.0	3.0
MB	33.5	51.8	8.4	3.4	24.3	60.6	7.8	3.1
West	32.5	49.9	10.9	3.6	29.0	56.2	9.0	2.8

Survey questions: "Governments often take steps to promote the economy. Please indicate if you strongly support, somewhat support, somewhat oppose or strongly oppose providing tax incentives to resource industries, such as agriculture and forestry/providing tax incentives to science and technology industries."



It is interesting to note the high level of support for tax incentives for industry, particularly given that western Canadians are largely supportive of free market principles. For the West as a whole, 6 in 10 agree that the economy should be left to the free market; respondents are much more likely to somewhat agree than to strongly agree with this statement (see Figure 26). One-third of western Canadians disagree that governments should leave the economy to the free market. While Alberta has the highest number of respondents who strongly agree, the differences between the four provinces are not statistically significant. Men and non-union members are more likely than women and union members to strongly agree that the economy should be left to the free market. Additionally, individuals with a household income of \$150,000 or more are more likely than other individuals to strongly agree; as income rises, western Canadians are less likely to strongly disagree with the statement. Finally, and as one would expect, individuals who describe themselves as left of centre are more likely to disagree with the statement, while individuals who describe themselves as right of centre are more likely to agree.

**Figure 26: Governments Should Leave the Economy to the Free Market**



	Strongly agree	Somewhat agree	Somewhat disagree	Strongly disagree
BC	16.2%	44.9%	22.6%	10.9%
AB	20.4	42.2	21.5	11.2
SK	16.5	42.9	24.1	10.8
MB	14.9	45.5	22.7	10.5
West	17.5	43.9	22.4	10.9

Survey question: "As much as possible, governments should leave the economy to the free market."



## 7. Going for Gold Will Require Western Canada to Invest in Transportation Infrastructure.

According to the World Economic Forum, high-quality infrastructure—which includes transportation infrastructure—is one of the basic requirements for global economic competitiveness.<sup>34</sup> The development of transportation systems, notably railways, played an important role in Canada's history and its ability to grow and prosper since the early days of Confederation. Transportation systems link people and communities, and are essential for businesses of all types and all sizes, no matter where they are located. Canada's immense size, its geographically dispersed population, and its status as one of the world's most trade-oriented countries mean that a modern and efficient transportation infrastructure is even more vital in ensuring the smooth flow of goods and people, from the local level to the international. The challenges of geography are more daunting in the West than in many other parts of the country—more than half of Canada's roads and rail lines are in western Canada.<sup>35</sup>

The importance of international trade for the western Canadian economy will only grow in the future. Although the US is by far the West's number one international trading partner, and north-south trade will continue to be an integral part of the region's future economic prosperity, expansion of the infrastructure required for significantly increased trade with countries like China and India will improve the region's competitiveness and attract foreign direct investment. While BC is on the front line of the gateway to Asian economies, its benefits extend beyond BC to the other western provinces, and indeed all of Canada.

Heightened interest in the issue has prompted all levels of government to commit greater resources to maintaining, improving and expanding transportation infrastructure. For example, transportation infrastructure features prominently in the federal government's seven year, \$33 billion *Building Canada* infrastructure plan. While the issue has gained attention, there is considerable debate on how much investment is required, where

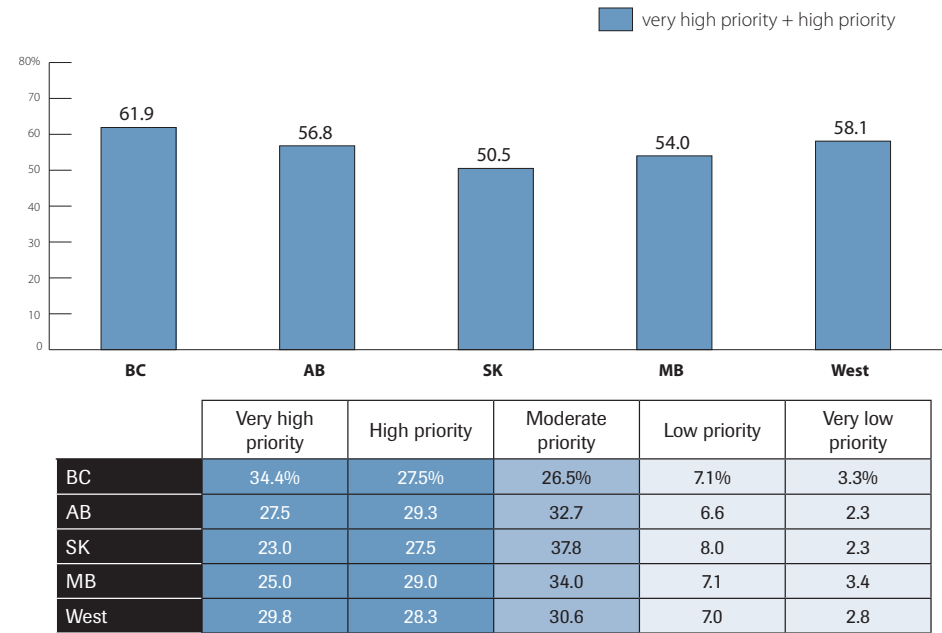
investments should be made, and what types of projects should take priority, not to mention how it should be funded and which levels of government should pick up the tab.

Research conducted by the World Economic Forum suggests that there is much work to be done. Canada's rankings on transportation infrastructure are in line with its overall ranking of 13<sup>th</sup> on global economic competitiveness. For 2007-08, Canada ranked 11<sup>th</sup> on the quality of its roads, 15<sup>th</sup> on railroads, 14<sup>th</sup> on ports and inland waterways, and 16<sup>th</sup> on air transport.<sup>36</sup>



Of the 15 public policy areas included in the survey, investing more in transportation infrastructure received the 6<sup>th</sup> largest number of very high or high priority ratings. BC residents are the most likely to state that this is a very high or high priority area, while Saskatchewan residents are the least likely (see Figure 27). Men, immigrants and big city residents are the most likely to rate investing more in transportation infrastructure as a very high or high priority. Factor analysis of the 15 policy areas included in the survey suggests that the public sees transportation investment to be related to economic competitiveness: the prioritization of transportation investments is related to the prioritization of trade, post-secondary education, foreign workers and science and technology.

**Figure 27: Priority of Investing More in Transportation Infrastructure**



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate investing more in transportation infrastructure."



## 8. Going for Gold Will Require Western Canada to Expand its International Trade Relationships.

### 8.1 International Trade

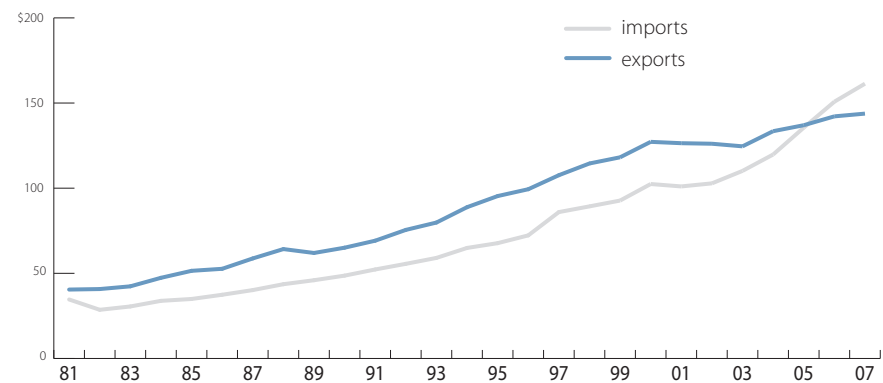
International trade worldwide has grown rapidly due to the increase in the number of trade agreements, falling transportation costs and technological change. Economic theory indicates that expanded and liberalized international trade enables a country to benefit from exploiting its comparative advantages, economies of scale, exposure to international competition, and the transfer and distribution of knowledge.<sup>37</sup> Indeed, a core principle of international economics is that free trade improves a country's overall economic well-being. Economists—in Canada and around the world—and major international institutions such as the Organisation for Economic Cooperation and Development, the International Monetary Fund, and the World Bank, generally agree with the proposition that international trade is positively associated with economic growth and increased living standards. Likewise, most economists in Canada agree that this country has benefited from increased trade brought about by the Canada-US Free Trade Agreement (FTA), the North American Free Trade Agreement (NAFTA), and the World Trade Organization. A few economic researchers have cautioned that some of the empirical evidence has overstated the magnitude of the relationship between trade and growth.<sup>38</sup> However, based on the considerable volume of economic research on the subject, it is certainly difficult to make the claim that the two are negatively related.

Recent empirical evidence on the experience of the Canadian economy supports what the theory says about international trade, showing that the reduction in tariffs between Canada and its international trading partners was an important driver of growth in the number of firms active in the export market and an increased share of manufacturing sales in foreign markets. The research concluded that the increase in participation in export markets led to improved productivity of firms via increased specialization, exploitation of economies of scale, exposure to international competition, and learning by exporting.<sup>39</sup>

Canada—through the FTA, NAFTA, and the World Trade Organization—has been an active participant in the expansion of free trade. Critics of trade liberalization often focus on short-run adjustment costs of freer trade such as manufacturing job losses and plant closures. The FTA was implemented in 1989, the same year in which manufacturing employment in Canada began to decline. Despite the short-run costs, the FTA has had an overall positive impact on economic well-being in Canada.<sup>40</sup>

The West's volume of trade has increased significantly since the early 1980s (see Figure 28). From 1981 to 2007, western Canada's real exports and imports on average grew 4.8% and 5.9% annually respectively, compared to real GDP, which grew 2.6% per year on average. In recent years, a period over which the Canadian dollar gained considerable strength against the US dollar, the volume of imports grew at a much faster rate than the volume of exports.

**Figure 28: Western Canada's Real Exports and Imports, 1981-2007 (billions of chained 2002 dollars)**



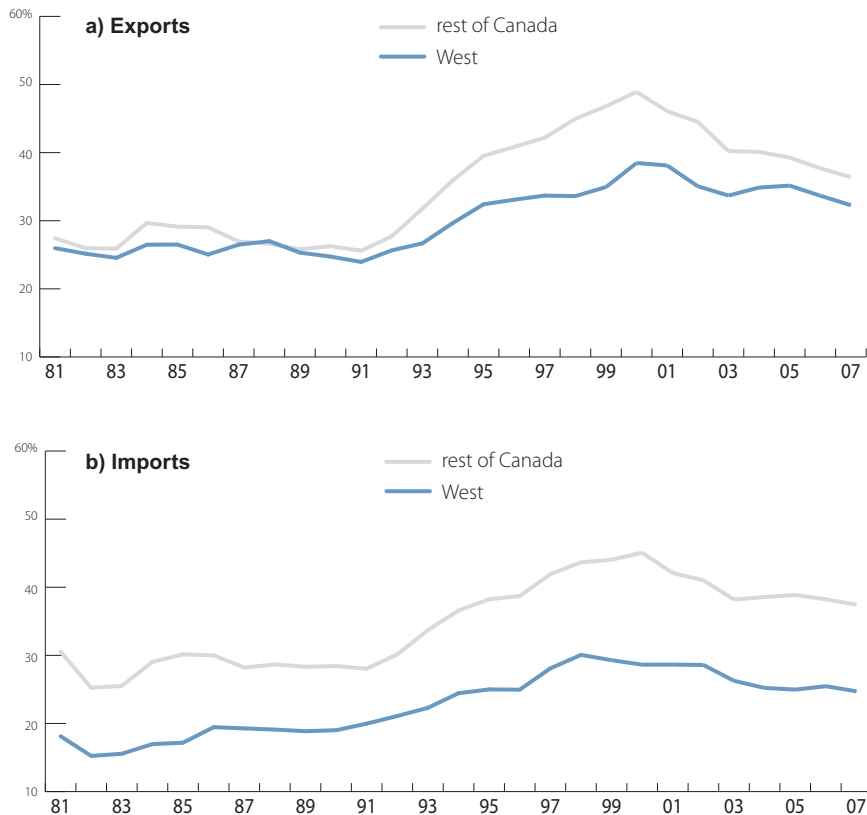
Source: Derived from Statistics Canada System of National Accounts data (CANSIM Table 384-0002).

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International trade as a percentage of GDP is higher today than it was in the 1980s, although it has fallen in recent years. In 2007, the West's exports and imports as a percentage of GDP were 32.3% and 24.7% respectively. Exports and imports relative to GDP are not as high in the West as in the rest of Canada (see Figure 29).

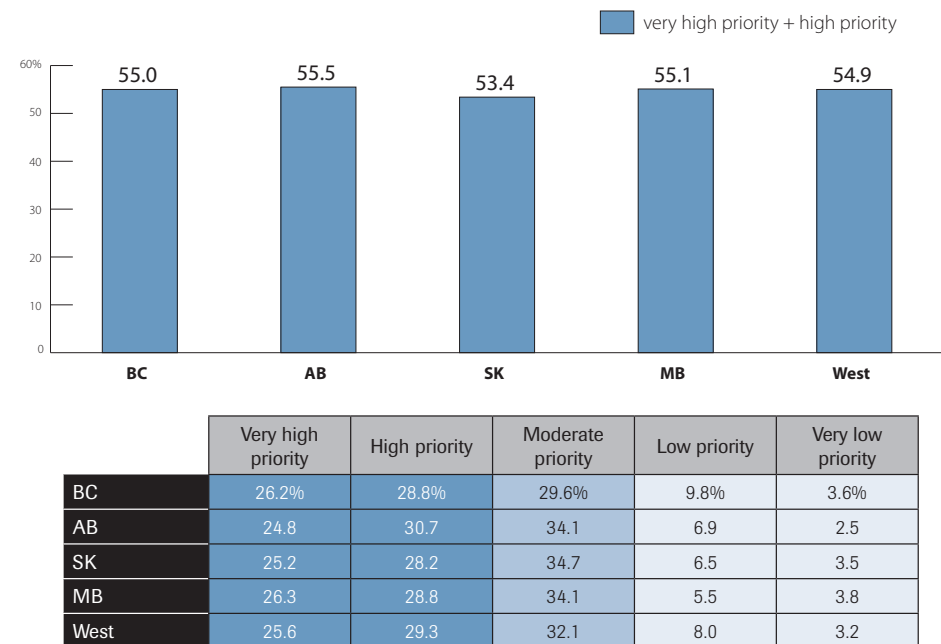
**Figure 29: Exports and Imports as a Share of GDP, Current Prices, 1981-2007 (%)**



Source: Derived from Statistics Canada System of National Accounts data (CANSIM Table 384-0002).

The Looking West 2008 Survey demonstrates that western Canadians are generally positive about international trade. While expanding trade is less salient than other policy issues, the majority of western Canadians feels that expanding international trade is a very high or high priority, with one-quarter rating it as a very high priority (see Figure 30). Men, immigrants, and non-union members are more likely to rate this as a very high or high priority.

**Figure 30: Priority of Expanding Canada's International Trade Relationships**



Survey question: "I am now going to ask you some questions about the importance of a few specific public policy issues. Using a scale of 1 to 5, with 1 meaning it is a very low priority for you, 3 meaning it is a medium priority, and 5 meaning it is a very high priority for you, please rate expanding Canada's trade relationships with other countries."

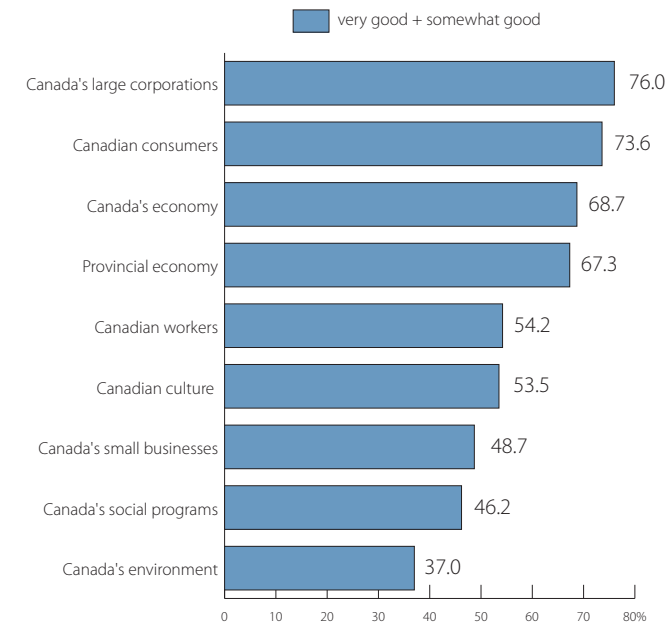




Western Canadians also believe that free trade has been very or somewhat good for Canada in a number of ways (see Figure 31). In particular, large corporations, consumers and the economy are seen as beneficiaries of increased international trade. However, assessments are not universally positive: in every province, western Canadians are more likely to say increased international trade has been bad for Canada's environment. Additionally, a significant number of western Canadians feel that increased international trade has been bad for Canadian workers, for Canada's social programs, and for Canadian culture.

Who sees trade as positive or negative? Using a means-based index of the nine trade impact questions,<sup>41</sup> a number of important variations in trade impact attitudes are found. First, BC residents are much less positive about trade impacts than are prairie residents, even after controlling for sociodemographic variations (including ideological self-placement.) Second, ideology is clearly related to trade impact perceptions: individuals who describe themselves as somewhat or very left of centre are more negative about trade impacts, while individuals who describe themselves as somewhat or very right of centre are more positive about trade impacts. Additionally, men, immigrants and non-union members are more positive about trade impacts than are women, non-immigrants and union members, and big city residents are more positive than are rural residents. (Town and small city residents' attitudes fall between those of rural and big city residents.) Finally, high income individuals (those with a household income of \$150,000 and over) are more positive than others about the impacts of trade.

**Figure 31: Impact of Increased International Free Trade (Western Canada)**



	Very good	Somewhat good	Somewhat bad	Very bad
Canada's large corporations	32.0%	44.0%	10.7%	3.0%
Canadian consumers	17.1	56.5	16.8	3.7
Canada's economy	13.1	55.6	19.0	6.8
Provincial economy	16.6	50.7	19.2	6.8
Canadian workers	9.3	44.9	29.7	8.3
Canadian culture	9.0	44.5	23.7	6.2
Canada's small businesses	8.7	39.9	29.5	12.0
Canada's social programs	5.7	40.5	25.7	6.8
Canada's environment	4.6	32.4	38.2	11.1

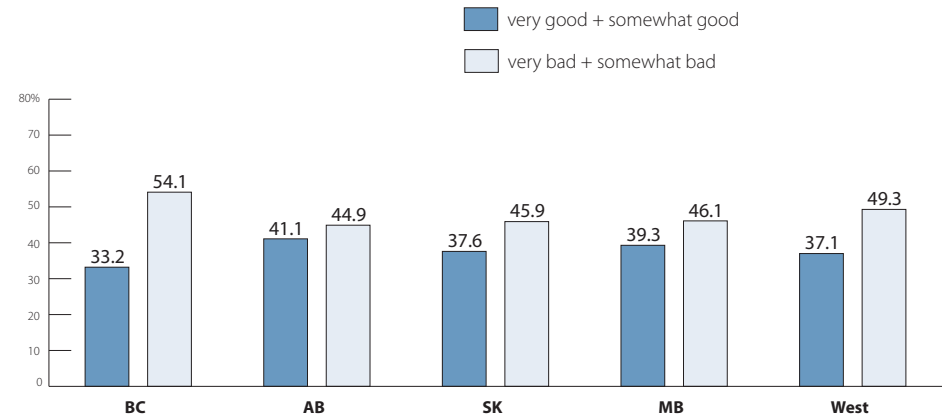
Survey question: "As you may know, Canada has free trade agreements with the United States and Mexico and is a member of the World Trade Organization that promotes free trade between countries around the world. Do you think that increased international free trade has been very good, somewhat good, somewhat bad, or very bad for ..."



It is notable that so many western Canadians feel that increased international trade has been somewhat or very bad for Canada's environment (see Figure 32). BC residents are more likely than prairie residents to state that it has been bad for the environment; additionally, younger western Canadians are more likely than older western Canadians to state that the impact upon the environment has been bad. Visible minorities are more positive in their assessments than are non-visible minorities, and non-union members are more positive than union members. Residents with university education (completed or incomplete) are more likely than those without any university education to state that the impacts of trade upon the environment have been very or somewhat bad. The ideological differences on this question are notable: while over 6 in 10 left of centre residents state that increased international trade has been bad for Canada's environment, over 4 in 10 western Canadians who describe themselves as somewhat or very right of centre also state that trade has been bad for the environment.

Taken together, what do these results suggest about public attitudes toward international trade? The first conclusion that can be drawn is that the public is generally positive about trade; international trade is seen as providing a range of positive benefits to Canada, and the majority of western Canadians consider trade expansion to be a very high or high priority. The second conclusion, however, is that public assessments of trade are not universally positive, and the areas that are seen to be benefiting least from international trade—social programs, Canadian culture, and the environment—are areas that are cherished by many Canadians. Should large public trade debates emerge in the near-future, it might be expected that opposition will centre on questions of the environmental impacts. To address such public concerns, political leaders will need to communicate clearly the extent to which international trade agreements will ensure environmental protection and stewardship.

Figure 32: Impact of Increased International Free Trade on Environment



	Very good	Somewhat good	Somewhat bad	Very bad
BC	4.7%	28.5%	39.8%	14.3%
AB	4.9	36.2	36.7	8.2
SK	3.3	34.3	36.1	9.8
MB	4.8	34.5	37.9	8.2
West	4.7	32.4	38.2	11.1

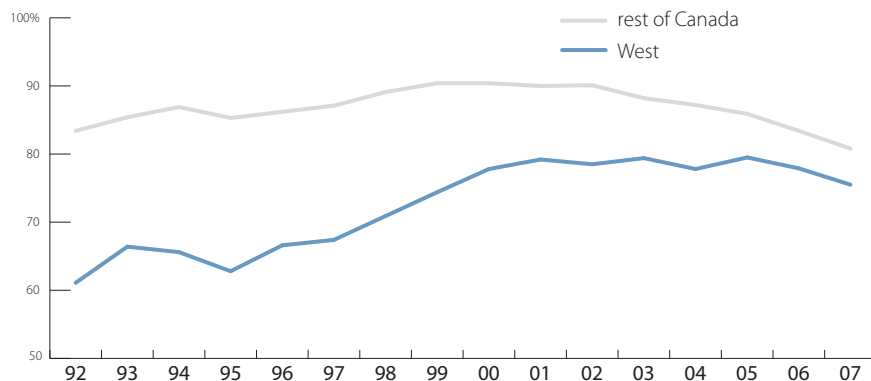
Survey question: "Do you think that increased international free trade has been very good, somewhat good, somewhat bad, or very bad for Canada's environment?"



## 8.2 Canada-US Economic Relationship

Canada has had a long and mutually beneficial trading relationship with its neighbour to the south, underpinned by geographical proximity, cultural similarities, and a bilateral relationship that has been friendly, by and large. The FTA (1989) and NAFTA (1994) signaled the end for many trade barriers between Canada and the US, leading to increased trade and integration up and down manufacturing supply chains. Although countries such as China and India have become much bigger players on the world economic stage, the US, by a large margin, is the most important market for the West's exports. The proportion of western Canada's total merchandise exports going to the US climbed steadily from 1995 to 2001 and now stands at 75.5%, slightly below the figure for the rest of the country (see Figure 33).

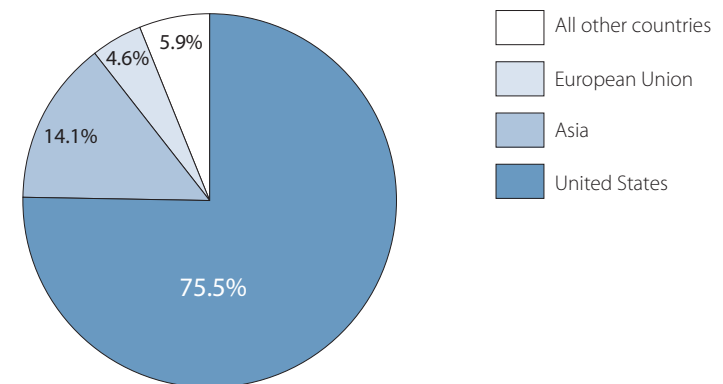
**Figure 33: Merchandise Exports to the US, 1992-2007 (% of total)**



Source: Industry Canada, Trade Data Online.

Trailing well behind the US, Asian countries are the West's second largest export market (see Figure 34). Alberta, compared to the other western provinces, is particularly reliant on the US as an export market while BC accounts for over 40% of western Canada's total exports to Asia. Less than 5% of merchandise exports are destined for the European Union.

**Figure 34: Western Canada's Merchandise Exports by Destination, 2007 (%)**

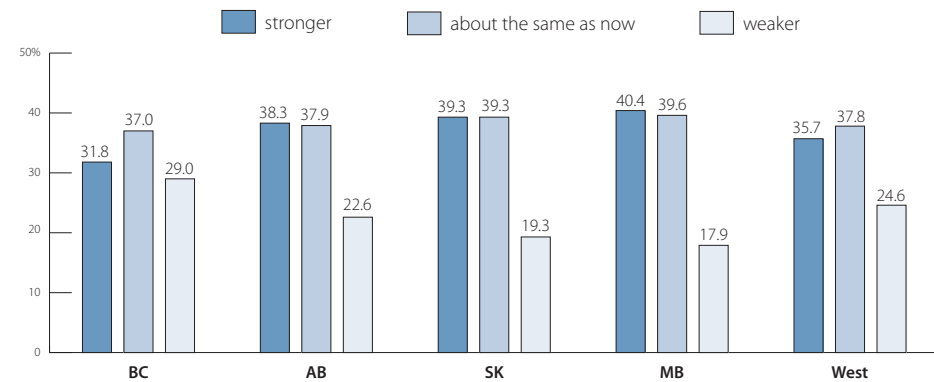


Source: Industry Canada, Trade Data Online.



Western Canadians appreciate the importance of Canada's economic relationship with the United States: almost 4 in 10 feel that the economic relationship between the two countries should be maintained at its current level, while a near-equal number feel that the relationship should be stronger. For the West as a whole, one-quarter feel that the relationship should be weaker. The regional result masks considerable provincial variations, with British Columbians being both more likely to state that the relationship should be weaker and less likely to state that the relationship should be stronger. There are ideological variations in responses to this question, with individuals who describe themselves as very or somewhat left of centre being more likely to state that the Canada-US economic relationship should be weaker. It is also interesting to note that attitudes toward the Canada-US economic relationship are only weakly correlated to respondents' willingness to move to the United States for a better job.

**Figure 35: Canada-US Economic Relationship**



	Much stronger	Somewhat stronger	About the same as now	Somewhat weaker	Much weaker
BC	8.7%	23.1%	37.0%	22.4%	6.6%
AB	9.9	28.4	37.9	17.4	5.2
SK	10.8	28.5	39.3	13.0	6.3
MB	10.3	30.1	39.6	13.9	4.0
West	9.5	26.2	37.8	18.8	5.8

Survey question: "Thinking about Canada's economic relationship with the United States do you think it should be much stronger, somewhat stronger, about the same as now, somewhat weaker, or much weaker than it is right now?"



### 8.3 Trade Missions

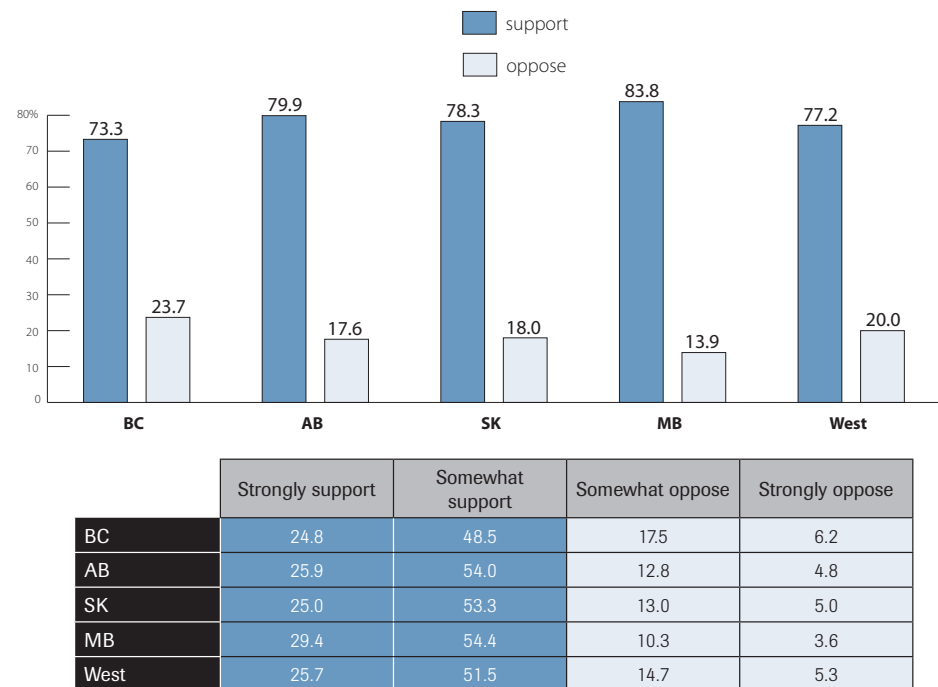
In this context, a trade mission is an international business development initiative in which a delegation of government officials and business representatives travel abroad to initiate and cultivate international trade and investment opportunities for Canadian businesses. Perhaps the largest and best known are the “Team Canada Missions.” Led by the Prime Minister of Canada, these missions were a co-operative effort between federal, provincial and territorial government leaders. There were several such missions between 1994 and 2002 to a range of destinations in Asia, North and South America, and Europe. Team Canada Missions were not only high-profile, but large in scope—the 1998 mission to Mexico, Brazil, Argentina and Chile included over 500 representatives from the business sector.<sup>42</sup> The nature of these missions means that they have typically generated significant media attention. Although the last Team Canada Mission was in 2002, the federal government is still actively involved with “Canada Trade Missions.” These are similar to Team Canada Missions but are generally smaller in scale and are led by the Minister of International Trade. In the past three years, there have been seven of these missions to countries in Africa, the Middle East, Asia, and South America.<sup>43</sup>

The long-term economic benefits of trade missions are difficult to quantify. Proponents stress the importance of trade missions in opening doors to new trade and investment opportunities, increasing the profile of Canadian exporters, and building strong relationships with firms in other countries. On the other hand, it is argued that trade missions can pay political dividends, but have a negligible economic impact; sound economic and trade policy is a more effective way to boost international trade and investment.

In each of the western provinces, there is considerable support for government trade missions to promote Canadian business (see Figure 36). Support is highest in Manitoba, where 8 in 10 residents support such missions. Opposition is highest in

BC, with almost one-quarter of BC residents stating that they oppose government-led trade missions. There are few variations in support for trade missions; indeed, the only significant variation is that immigrants are more likely than non-immigrants to *strongly* support such missions.

**Figure 36: Support for Government-Led Trade Missions**



Survey question: “Governments often take steps to promote the economy. Please indicate if you strongly support, somewhat support, somewhat oppose or strongly oppose sending government-led delegations to other countries to promote Canadian businesses.”

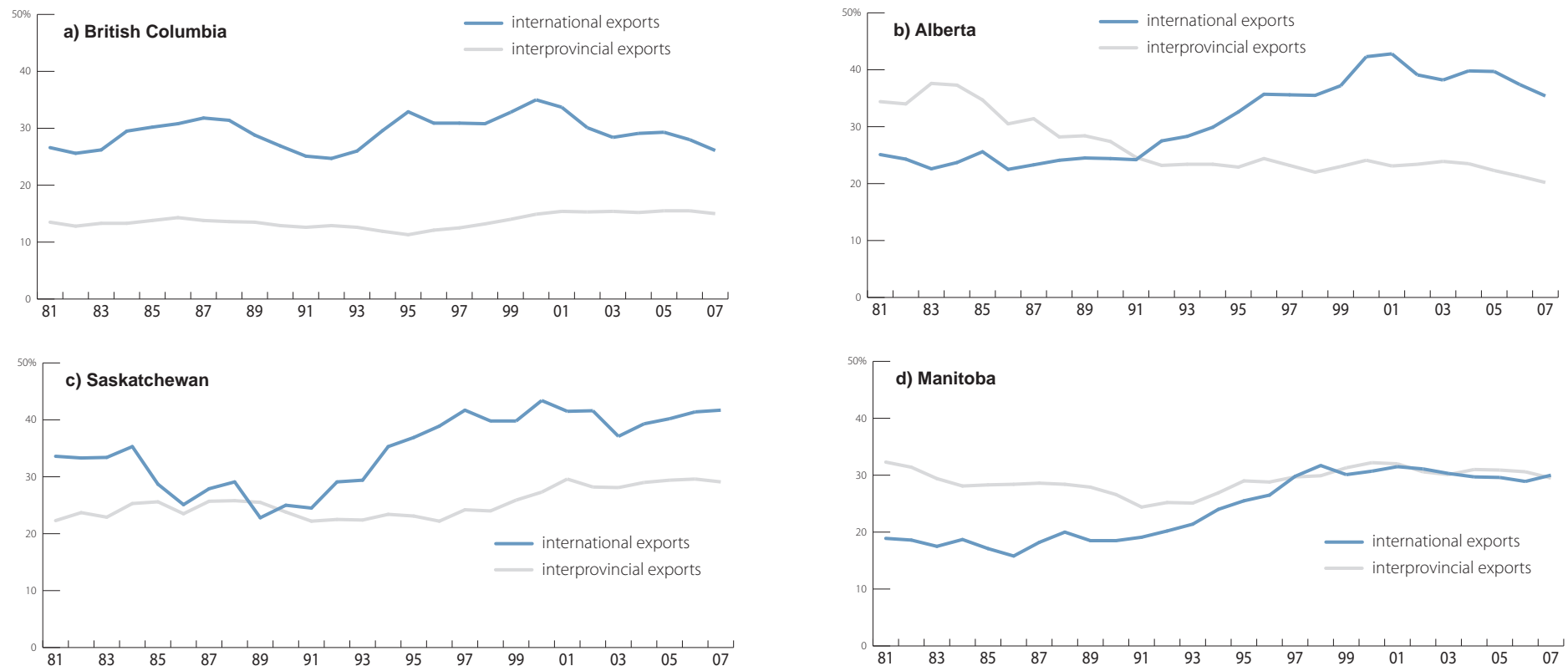


## 9. Going for Gold Will Require Western Canada to Reduce Interprovincial Trade Barriers.f

Interprovincial trade is a critically important aspect of the economy. For the West as a region, interprovincial exports totaled \$110 billion in 2007 and have nearly doubled (accounting for inflation) since 1981. However, trade between provinces has not kept pace with the growth of international trade. In contrast to international exports, interprovincial exports have decreased as a percentage of GDP over the past 25 years

for the West as a whole. The same is true for the rest of Canada. The patterns for each western province are unique (see Figure 37). Interprovincial exports as a percentage of GDP in Manitoba are almost the same as international exports, setting the province apart.

**Figure 37: Interprovincial Exports and International Exports as a Share of GDP, Current Prices, 1981-2007 (%)**



Source: Derived from Statistics Canada System of National Accounts data (CANSIM Table 384-0002).

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In international trade, barriers are generally in the form of tariffs or duties, quotas and subsidies. Internal trade, on the other hand, is primarily restricted by non-tariff barriers that arise from differing laws, regulations and policies of provincial governments. These include multiple licensing requirements that add to transportation costs, requirements to establish a local office to operate in a second province and local preferences in awarding government contracts. Some trade barriers exist because governments want to protect their economies from outside competition. Governments also enact policies in important areas such as environmental, workplace and consumer protection. Sometimes these policies affect the ability to conduct trade when they might have been able to achieve the same results a different way without affecting trade.

Proponents of freer interprovincial trade—including the Canada West Foundation—have long argued that barriers impose damaging and unnecessary costs on the Canadian economy. In addition to barriers to interprovincial trade, impediments to labour mobility and investment put a drag on economic output. Constraining interprovincial activity reduces both the actual and the potential level of economic output that Canada can attain. The balance of opinion among business associations and research groups that delve into issues of economic competitiveness is that barriers to internal trade in Canada are bad public policy.

However, a 2007 paper prepared for Industry Canada which provides a useful overview of the issues observes that the body of economic research on the effects of interprovincial barriers is quite limited, often dated, and sometimes subject to criticism in terms of methodology.<sup>44</sup> The report suggests that there are two distinct views on the severity of effects of interprovincial trade barriers. On one hand, a small number of studies that involve economic modeling reach the conclusion that the negative effects are small, and that the issue of interprovincial trade barriers is a “tempest in a teacup.” On the other hand, studies based on surveys of opinion of businesses and government institutions,

also limited in number, reach the conclusion that interprovincial trade barriers have a large negative impact on economic activity.

The BC-Alberta Trade, Investment, and Labour Mobility Agreement (TILMA) has been heralded by many as a groundbreaking agreement and a model for internal trade reform in Canada. TILMA is Canada’s most comprehensive internal trade agreement. It removes barriers across all sectors and industries and applies to all government measures that affect trade, investment and labour mobility such as legislation, regulations, standards, policies, procedures, and guidelines. This marks an important departure from the Agreement on Internal Trade (AIT). Signed in 1994, the AIT was designed to improve domestic trade by addressing obstacles to the free movement of persons, goods, services and investments within Canada. At the time it was viewed as a significant achievement and expectations were high. However, it is widely viewed as unsuccessful, falling short of expectations and failing to reach many of its goals.

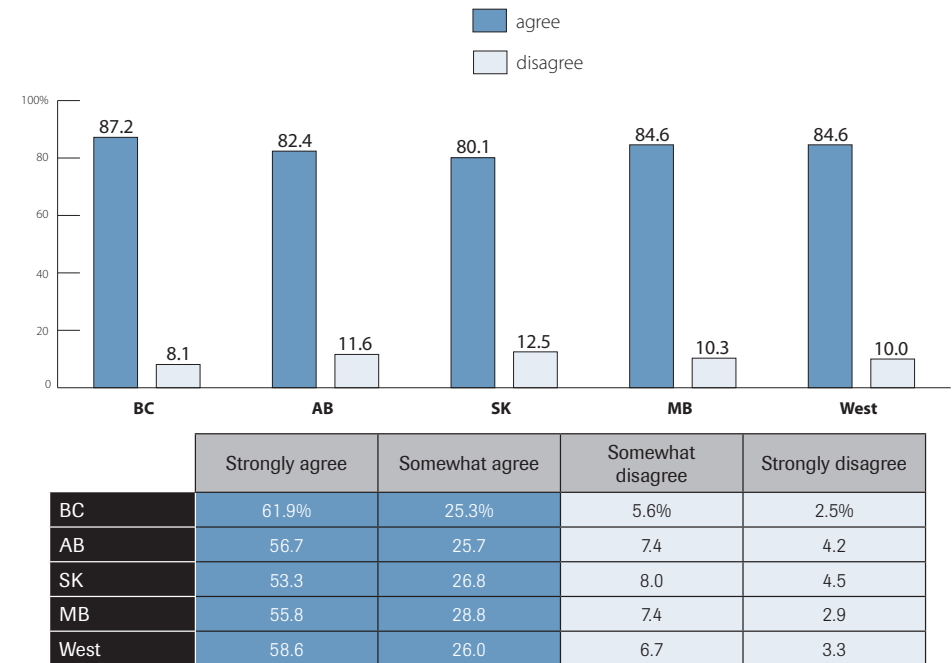
TILMA has two key goals for trade, investment and labour mobility: no obstacles and non-discrimination. No obstacles means that government measures will not restrict or impair trade, investment or labour mobility between the two provinces. The second goal of non-discrimination means that there will be no preferential treatment of a province’s people, investments and goods, except in certain limited circumstances.

The governments of BC and Alberta began negotiations on a comprehensive agreement to enhance trade, investment, and labour mobility at their second joint cabinet meetings in May 2004. The premiers of the two provinces officially signed TILMA on April 28, 2006. The agreement came into effect on April 1, 2007 and will be fully implemented on April 1, 2009. The two provinces are using the two intervening years as a transitional period. During this time, they will consult with local governments and professional and occupational associations, and negotiate additional provisions if required.



Western Canadians are very enthusiastic about freer internal trade: over 8 in 10 western Canadians agree—and over 5 in 10 *strongly* agree—that interprovincial trade barriers should be removed (see Figure 38). BC residents are the most supportive of this position, with over 6 in 10 strongly agreeing. The high support in BC is of particular note, given that BC residents are the most likely to report negative impacts of increased *international* free trade. Men and individuals with university degrees are more likely to strongly agree. Additionally, as income increases, western Canadians are more likely to strongly agree that interprovincial trade barriers should be removed.

**Figure 38: Interprovincial Trade Barriers Should Be Removed**



Survey question: "Trade barriers between the Canadian provinces should be removed." (agree/disagree)



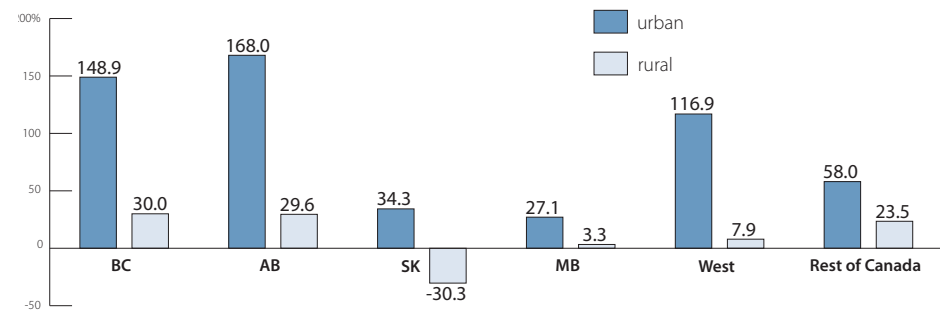


## 10. Going for Gold Will Require Canadians and their Governments to Recognize that Rural Economic Development Initiatives Serve Social, Rather than Economic, Policy Goals.

There are many reasons why governments may choose to protect and promote rural communities. What governments and the public must recognize, however, is that rural development serves social goals much more than it does increased international economic competitiveness. Conversely, the future of Canada's large urban centres is more directly linked to the future economic prospects, standard of living, and quality of life of the country as a whole. Cities are hubs of economic activity for provincial and regional economies. Higher rates of urbanization lead to higher levels of productivity because of the greater degree of economic and social interaction of people in firms operating in large centres, large scale markets have cost advantages, and larger centres have a more diversified skilled labour force.<sup>45</sup> Furthermore, research has shown that relatively populous regions are the most conducive to innovation, something that is important to productivity and economic performance.<sup>46</sup>

A century ago, western Canada was largely a rural region. Things are much different today. The proportion of westerners living in urban areas doubled between 1911 and 2006, and 4 out of 5 western Canadians now live in an urban area. Approximately two-thirds of the population of the West lives in the region's nine largest urban areas. Across the West, and for Canada as a whole, urban areas have been responsible for the overwhelming majority of demographic growth. Increased urbanization can be the result of population growth in urban areas outpacing growth in rural areas, declining population in rural areas, or a combination of the two factors (see Figure 39).

**Figure 39: Population Growth, Urban and Rural Areas, 1966-2006 (%)**



Source: Derived from Statistics Canada Census data.

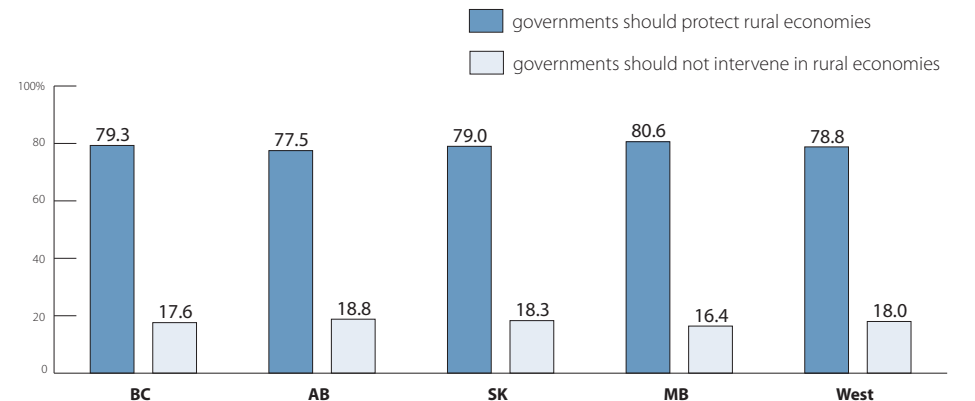
BC and Alberta followed a similar pattern between 1966 and 2006 in that there was growth in both urban and rural populations, but the pace of urban growth was far greater. As a result, both provinces became more urbanized. Manitoba experienced relatively modest urban growth and only a slight increase in the rural population from 1966 to 2006. Saskatchewan is a clear example of rural depopulation offset by urban population growth.



Urbanization is a trend that will very likely continue, and the importance of large urban centres for long-term economic competitiveness will only increase. At the same time however, western Canadians wish to see their rural economies protected by government, with almost 8 in 10 stating that governments should protect rural economies (see Figure 40). Differences among the four provinces are not significant. Men, town and big city residents, and non-union members are more likely than women, rural and small city residents, and union members to state that rural economies should be left to succeed or fail on their own. There is a strong ideological dimension to this question, with individuals who describe themselves as left of centre being more likely to state that the government should protect rural economies, and those who describe themselves as right of centre being more likely to state that rural economies should be left alone. However, it is notable that over 70% of individuals who describe themselves as right of centre still state that rural economies should be protected.

Although protecting and developing rural economies is arguably not required to ensure that western Canada will be well positioned to compete in the world economic arena, governments are hard-pressed to simply leave these economies to their own devices. As the survey results show, the general public is very supportive of protecting rural economies. In light of this, it is important that elected officials and the general public alike recognize that rural economic development efforts *are primarily social endeavours*, and are typically not the best option for promoting long-term international economic competitiveness. The decision to devote resources to rural economic development must rest on the validity of the social rationale rather than the economic case.

**Figure 40: Government's Role in Rural Economies**



Survey question: "With regard to rural parts of Canada, which of the following two perspectives best represents your views: governments should take steps to protect Canada's rural economies, or Canada's rural economies should be left to succeed or fail without government intervention?"



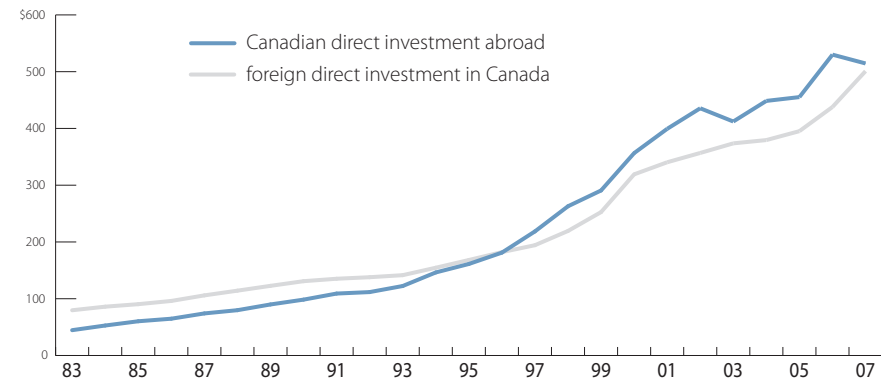
## II. Going for Gold Will Require Western Canada to be Open to Foreign Investment.

Foreign direct investment (FDI) refers to an investment in a business enterprise in another country, with the intent of establishing a long-term business relationship. This investment could be in the form of a takeover or acquisition of a business entity, or the establishment of a subsidiary or the building of a factory. Direct investments made by foreign entities in Canadian enterprises or projects are referred to as FDI in Canada, or inward FDI. Direct investments made by Canadian investors or companies abroad are known as Canadian direct investment abroad, or outward FDI. Along with international trade, FDI plays an important role in today's highly integrated global economy.

Both inward and outward FDI in Canada have increased significantly over the past 15 years (see Figure 41). In 1997, Canadian direct investment abroad surpassed FDI in Canada, and Canada's net direct investment position turned positive. In 2007, the combination of a drop in outward FDI and the continued climb of inward FDI brought Canada's net foreign direct investment position to its lowest level in more than a decade. The increase in FDI in Canada in 2006 and 2007 was driven in large part by a sharp increase in foreign investment in Canada's metallic minerals and metal products industries. Trends in FDI illustrate that Canadian companies and Canada as a whole have become much more integrated with the international economy.

Although it is not without detractors, FDI is widely viewed as being beneficial to a country's competitiveness in the global economy. Economic theory suggests that FDI leads to gains in efficiency because capital is allocated where it can be most productive. FDI creates direct, stable, and long-term links between economies; it encourages the transfer of technology and knowledge; it enables the host economy to promote its goods and services more widely in international markets; and it works as an extra source of funding for capital investment.<sup>47</sup> A Canadian study published in 2008 concludes that removing barriers to foreign direct investment would attract more FDI from the US,

**Figure 41: Canada's International Investment Position, 1983-2007 (\$ billions)**



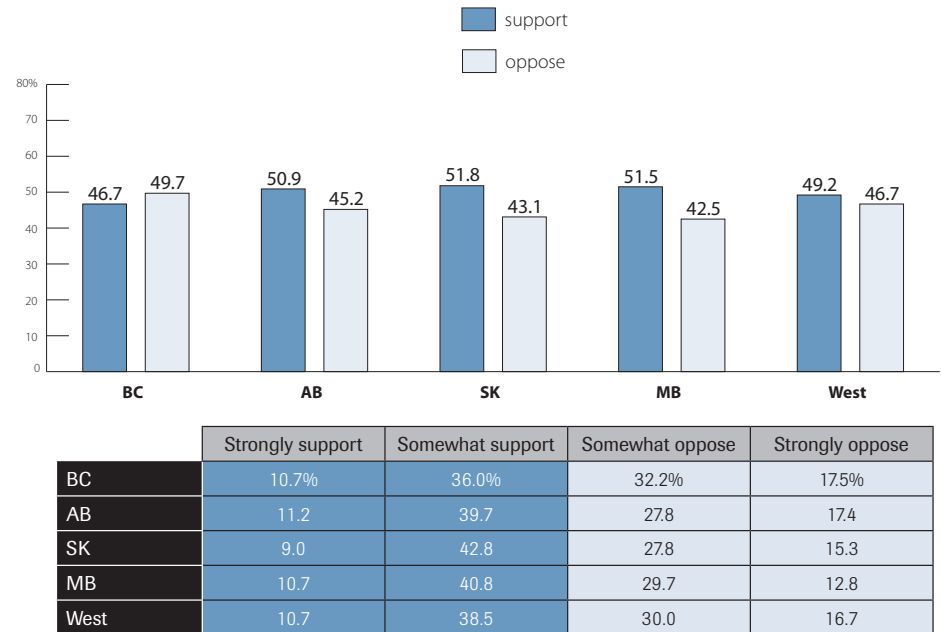
Source: Statistics Canada, CANSIM Table 376-0038.

leading to improvements in Canada's productive capacity and the welfare of Canadian consumers.<sup>48</sup> Research published in 2008 on the experience of manufacturing industries in 17 OECD countries found that recipient countries of FDI benefit strongly from the transfer of knowledge.<sup>49</sup> A 2005 Canadian study finds that foreign-controlled manufacturing enterprises are more productive, more innovative, more technology intensive, pay higher wages and use more skilled workers.<sup>50</sup> Additionally, the study finds that multinational firms were responsible for a disproportionate share of productivity growth in the manufacturing sector in the 1980s and 1990s.



Western Canadians are clearly divided about the issue of foreign investment. When asked to indicate their support for allowing high levels of foreign investment in Canada, western Canadians are almost equally divided between positions of support and positions of opposition, with a difference of less than three percentage points (see Figure 42). In Alberta, Saskatchewan and Manitoba, slim majorities support high levels of foreign investment, while in British Columbia residents are more divided between support and opposition. (The difference between support and opposition in BC is within the margin of error.) Immigrants are more likely than non-immigrants to strongly support high levels of foreign investment. Again, there is a strong ideological dimension at work, with the majority of those who describe themselves as left of centre opposing high levels of foreign investment, those who describe themselves as centrists being divided between support and opposition, and the majority of those who describe themselves as right of centre supporting high levels of foreign investment. It is interesting to note that foreign investment attitudes only weakly correlate with free market attitudes.

Figure 42: High Levels of Foreign Investment in Canada



Survey question: "Governments often take steps to promote the economy. Please indicate if you strongly support, somewhat support, somewhat oppose or strongly oppose allowing high levels of foreign investment in Canada."



## 12. Conclusion

Good public policy is critical to facilitating the efforts of individuals and businesses to keep the western Canadian economy internationally competitive. However, changes to economic policies may not be possible if the public is not generally supportive. This report identifies a number of areas where there is discrepancy between economic theory or recommendations of experts on one hand, and public opinion on the other. It is incumbent upon public policy researchers, governments, the media, and businesses to engage in open dialogue with the public to work toward reducing these discrepancies.

In many ways, western Canadians are ready to “go for gold.” The public agrees with advancing the knowledge economy, as evidenced by its support for higher levels of educational attainment and public investment in universities and colleges, research and development, and science and technology. Western Canadians are supportive of investing in infrastructure, expanding international trade, and reducing barriers to interprovincial trade.

At the same time, a number of public attitudes run contrary to strategies to promote economic competitiveness. The public is not all that enthusiastic about lowering business taxes and is divided about whether the government should allow high levels of foreign investment. Moreover, there *is* public support for government policies that probably will not contribute a great deal to the region’s long-term economic prosperity, notably tax incentives targeted at certain industries and government protection of rural economies.

Creating more employment opportunities for Aboriginals is an issue of great importance to the West’s economic future, yet it did not rank among the top concerns of western Canadians. Another important issue—attracting more skilled workers from other

countries—ranked even lower. The argument that creativity is important for innovation and that arts and culture is an area of strategic economic investment has gained traction among many theorists and researchers, but western Canadians do not yet see this as an economic priority.

While areas of diverging opinion ought to be addressed, policy-makers must respect the breadth of opinions held by western Canadians and recognize that people are adept at viewing economic policy from different perspectives, not all of which are economic in nature. For example, western Canadians are quite supportive of international trade, although assessments are not universally positive: across the West, people are more likely to say increased international trade has been bad for Canada’s environment.

Lastly, it is important to remember that economic competitiveness is not an end in itself. The Going for Gold Project looks at competitiveness as a means to a greater end: the strong economic foundation that is necessary to maintain and improve the quality of life in Canada. As governments move forward to promote economic competitiveness, both in the western Canadian region and nationally, it is critical that governments adopt a long-term perspective. Public policy will influence western Canada’s long-term economic prospects, and by extension the region’s quality of life. Governments and the public alike must make strategic policy choices to allow western Canada to “go for gold.”



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