Ontario in Transition:

The Challenge of Economic Development

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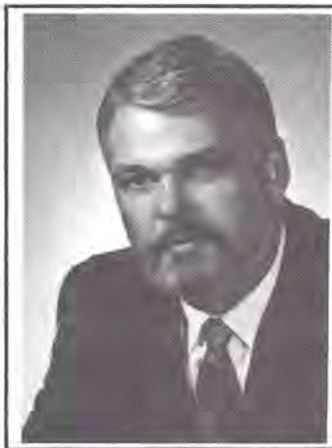

John received his Honour B.A. from the University of Windsor and proceeded into graduate studies at both Queen's University and the University of Toronto. As staff economist with the Ontario Ministry of Revenue, he was involved in the development of a computer aided system for implementing market value assessment. He was employed with Canada Mortgage and Housing Corporation as a market analyst. and later, senior consultant with Peter Barnard Associates, where he specialized in industrial and economic development projects. Prior to his current position, John was Program Manager, Economic Development Division, City of Toronto, where he developed and implemented a new development program for Toronto. He is currently Director of the Municipal Economic Development Program at the Federation of Canadian Municipalities, where he is responsible for implementing a program to assist municipaliteis across Canada in their efforts to develop and diversify their local economies.

The purpose of this paper is to provide a context or framework for the day's proceedings. I share the blame with John Winter for having chosen such a complex and wide ranging topic. However, given the fundamental changes that the western world, in fact, all the world is experiencing, it is particularly important that professionals in the evaluation, development and exchange of property be aware of the macro-economic context within which they do their jobs.

To provide a perspective on current and future changes, I am first going to take us back to a major structural transformation with which we are all at least vaguely familiar, the shift from an agrarian based economy to an urban industrial one. On a personal level, both of my grandparents were born and raised on farms in southwestern Ontario. If any of my relatives are farming today, I've lost track of them.

In more general terms - and I apologize for not having earlier data, but the more recent experience adequately illustrates the point - in 1960, 18% of the western world's labour force was employed in agriculture. In 1980, that figure had fallen to 6%. In Canada, the equivalent figures are 13% and 5%.

We can all congratulate ourselves on having weathered this transformation with relative ease and continued high levels of prosperity. Some examples of the ease with which this change occurred:

- manufacturing employment between 1960 and 1973 increased 3% in the western world, 5% in Canada.
- service sector employment - many of us - increased 10% over the same period; almost 14% in Canada.
- real GNP increased approximately 5% annually between 1961 and 1973; almost 6% in Canada.
- much of that growth was real because inflation rates rose about 5% only once during that time.
- and unemployment never exceeded 4%.

We had good reason for the confidence and optimism our society exhibited during the 1960's and early 70's. I remember using what was then called TEIGA population forecasts in the early 1970's that showed continued strong population growth. Many housing forecasts based on those figures have long ago hit the waste basket. I also remember my second job, which was at CMHC in 1973, where housing programs called AHOP and ARP were implemented based on the expectation of substantial real income growth throughout the country. Similar examples abound, such as Mirabel Airport, the York-Durham sewer, new communities, such as Nanticoke, and a policy of universality in the delivery of social programs.

Mid 1970's

This brings us to the mid-1970's. At that time, the world was delivered a stunning blow that forced economists, policy makers and the average person to re-evaluate the grounds for their optimism. A group of mostly middle eastern counties, the names of which were unknown to may of us., founded the Organization of Petroleum Exporting Countries (OPEC). Over the 1970's, this group raised the price of the fuel that fired our industries, ran our trucks, tractors and cars, and kept us warm and comfortable, by some 1,500%. The world, particularly the western economies and specifically, the United States were forced to reconsider the assumptions they had been working with. The conclusion many reached was that, since World War II, substantial structural shifts had been occurring within western economies that far exceeded in importance the rural-urban shift that had been occurring since the turn of the century. As the Report of the Royal Commission on the Economic Union and Development Prospects for Canada (the MacDonald Report) points out, "Since the end of the Second World War, the global economic structure and the pattern of international trade have changed dramatically."

Structurally, the western economies have been shifting from a manufacturing base to a service base. As this shift has occurred, new products and new technologies have combined to substantially weaken the resource sector - a very important sector in Canada. At the same time, the government sector has grown markedly. Paralleling these trends has been unprecedented growth in the labour force as women and the post-war baby boomers seek jobs.

Internationally, new technologies, lower wage rates and the speed and flexibility of multi-national corporations to take advantage of these trends has resulted in fundamental shifts in the pattern of world trade. International indebtedness, accelerated by the manic drive in the late 70's and early 80's to recycle petro-dollars and the weakening of the market for raw materials upon which most debtor nations depend, is threatening the international banking system, and, according to some experts who testified before the MacDonald Commission, could result in a world-wide depression.

Weakening of the industrial base (or de-industrialization)

The American steel industry is working at 35% capacity due to aging facilities and high wages. Wage concessions have been rejected by the unions because steel companies will not guarantee to re-invest the savings in the industry - the first time U.S. Steel had a large pool of capital, it bought an oil company.

The Canadian textile and clothing industry can only survive with substantial, deliberate protection, while the automobile industry has had to rely on quotas and agreements with Japan to voluntarily limit the export of their cars. Farm machinery, white goods (refrigerator, washers, stoves), shipbuilding and other sectors are also in serious decline. Coupled with this situation have been substantial declines in the rate of productivity growth with an absolute decline of 3.3% in Canada in 1980.

Western economies are behind the pack in the manufacture of new technology intensive products. For example, in 1984, the Japanese produced 20 million home video recorders, none were made in North America. In terms of CAD/CAM, the picture is little better. In 1984, the U.S. had 92% fewer programmable robots in manufacturing than did Sweden, relative to the size of their labour forces.

The service sector is growing

Between 1956 and 1981, service sector employment grew from 37% to 55% of the western world labour force; from 40% to 59% in Canada.

But the majority of these jobs are relatively low-skill, low-paid employment. The average weekly service sector wage in Canada in 1985 is $390, compared to $485 in manufacturing.

The U.S. Labour Department forecasts the greatest demand for employment in the next 20 years is in such fields as fast food, health care and personal services.

The resource sector is weakening

Employment in the primary and mining sectors has fallen from 20% of the western labour force to 7%; in Canada, from 19% to 7%.

New technologies, such as ceramic motor engines, plastics, fibre optics, synthetic fibres coupled with down scaling and miniaturization further threaten the resource sector.

Even our fishing industry is threatened as new technology permits very large scale factory freezer trawlers from around the world to fish in the grand banks, and produce better quality fish at the same time.

Labour force trends

The total Canadian labour force grew by 56% between 1966 and 1980. The number of women in the labour force over the same period almost doubled, while youth's share has increased nearly 70%.

Youth unemployment has held at 19% for the past few years.

And the prospects are not good. The OECD notes that over the next 20 years, technology could displace as much as 32% of all jobs in western economies. Optimistic estimates suggest only a 10% displacement.

Increased role of Government Sector

Just two startling statistics here:

- Canada's Government debt as a percent of GDP has risen from 47% in 1973 to 60% in 1984.
- Financing the deficits of western economies as a group has absorbed between 40% and 50% of net private savings since 1982. Prior to 1982, debt financing absorbed on average 20% of private savings.

International Trade Patterns

The western economies share of world trade has dropped from 63% in 1970 to approximately 57% in 1980.

The share of developing countries' manufactured imports to western economies has increased by 5% over the same period, and this trend will have to be encouraged to help pay the massive foreign debt obligations of the developing world. To give one example, manufactured exports from Thailand have increased approximately 25% since 1960. For Korea and Taiwan - two more familiar examples - the increased has exceeded 60%. What do all these facts and figures mean? They mean:

- that we are indeed undergoing substantial structural changes, both nationally and internationally; and
- national and international constraints make the adjustment process very difficult.

The combination of factors described above has resulted in serious productivity losses in all parts of the world - Japan included. And decreased productivity means decreased standards of living. Decreased standards of living mean a smaller pie to share, and the prospect of increased inequality in the distribution of income.

This, in turn, can lead to increased protectionism, serious social unrest, and critical strains on the government structures that have evolved in support of the liberal democracies we know.

The theory of comparative advantage - that is, countries will export those goods that they can produce more cheaply no longer dictates trade patterns as governments around the world engineer trade advantages through huge expenditures in research and development, and compete to give favourable financing on large scale orders.

In summary, the world economy is undergoing the most severe structural changes it has experienced since the enclosures of land ended feudalism and sent many of our ancestors first, to the cities of Europe and then to the New World. The question now is, do we have large enough escape valve, or a series of escape valves equivalent to an unsettled fertile and resource-rich continent?

This is the topic of our afternoon session. We will hear how small business has been able to compensate substantially for the decline in the manufacturing sector. While we may be lagging in the technological race, are there still opportunities in this sector for substantial and sustained growth? And finally, are there new ways of generating growth and development other than by chasing smoke stacks and the more and more limited number of big investment opportunities.