



Government: A Help or a Hinderance to Business Development

by Rick Hundy

Business leaders have, for some time, argued strenuously that the activities of government undermine the economy. Despite that, government officials continue to proudly boast of an array of programs which support business development. And indeed, many businesses do want and need such assistance.

So, what is the truth? How does government policy influence business development? On balance, does the government enhance or inhibit our economic prospects?

It was in South Huron County, a rural area centred on the Town of Exeter, Ontario that a community-based Economic Development Committee¹ set out to answer these questions.

Interest was first aroused at a lively meeting between the South Huron Economic Development Committee and local businesses. Further discussions revealed many schools of thought on the part government plays and should play in the economy.

One industrialist argued, "Look, I appreciate what you are trying to do (in reference to the Committee's fledgling program). But, government spending is out of hand, taxes are oppressive and government at every level interferes too much. It's no wonder industries are moving south."

While some businesses tell us that market forces alone should determine the pace of economic development, others argue just as strenuously that business needs government help to grow, to survive or merely to get started.

The South Huron Economic Development Committee could not resolve this

apparent contradiction within the business community. It found itself asking what role, if any, should the government play in the economy. The answer was certainly not obvious.



ened to become a serious distraction.

In response, the Committee decided to embark on a study that would serve to make governments at all levels more aware of their impact on business development. Beyond that, study goals were set for streamlining the delivery of government economic programs.

This was easier said than done. The volume of government programs and other reports we had to wade through was no less than mountainous. On the other hand, the Committee's budget was very small.

Moreover, the reader does not need to be reminded that small municipalities, the kind our Committee represents, are very cautious about spending taxpayers' money on "yet another government study".

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A second critical question concerned the South Huron Committee itself. We wanted to know if we were just another agency that would cost the taxpayer money and accomplish nothing for business. In other words, were we part of the problem?

The Committee was in a difficult spot. There was a feeling that senior government should be made to listen to local business concerns. However, no one was sure what the message should be. Furthermore, while the Committee felt intuitively that their locally based programs were essentially positive, the doubts raised in the meeting with local businesses threat-

As it turned out, that problem was solved when we found a way to do the study while meeting course requirements in the Economic Development Program at the University of Waterloo.

That gives rise to another reservation about the whole exercise. None of the Committee members are economists or experts in dealing with economic issues. However, we have a lot of practical experience and common-sense. In any event, we found that economists cannot agree on what to do. Our conclusion was that those of us who are not experts are as qualified as anyone to offer solutions.

¹The South Huron Economic Development Committee serves the Town of Exeter, the Villages of Hensall and Zurich, and the Townships of Hay, Stephen and Osborne, and includes representatives from those municipalities and from Centralia College and the County of Huron.

So, despite our misgivings about the size of the task, about the need for yet another study and about our expertise, we did undertake to determine "what part government policy plays in enhancing or inhibiting local business."

Before describing our study results, a brief explanation about the way in which we conducted our research is in order.

BACKGROUND RESEARCH

To begin with, we learned as much as we could through reading studies prepared by government agencies, by academics and by groups such as the Canadian Federation of Independent Business.

CLASSIFICATION OF PROGRAMS

Next we reviewed and classified government business development programs.

BUSINESS SURVEY

Third, we administered a survey to the business community. In fact, not only did business concerns prompt us to do the study in the first place, but approximately 50% of local industries participated directly in our study by completing the questionnaire circulated by the Committee.

ANALYSIS

Finally, of course, the survey results were analyzed and our recommendations were prepared.

SURVEY RESULTS

This section presents the perceptions of the Committee and of local business about the economy and government's influence on our economic condition.

GOOD NEWS

The Committee learned that:

- (1) our standard of living remains in second place among industrialized nations;
- (2) the country's 10-year growth in GDP has been second only to Japan;
- (3) employment growth has been ranked 2nd only to the United States;
- (4) Productivity per employee has been pegged at 3rd in the industrialized world;
- (5) Our net worth per capita has grown significantly since 1961.

BAD NEWS

On the other hand, we have very serious

problems:

- (1) our balance of trade has not been favourable in recent years;
- (2) there is severe unemployment;
- (3) government debt threatens our economic well-being;
- (4) productivity growth has been poor;
- (5) our technological performance has also been poor and we are failing to act on opportunities that arise from applied research.

ECONOMIC POTENTIAL

Again, there is good and bad news. Our strengths include:

- (1) a very strong resource base;
- (2) excellent trade opportunities;
- (3) a very high level of education;
- (4) good investment in public and private infrastructure;
- (5) underlying and untapped wealth;
- (6) industrial capacity.

On the other hand, the Committee's study identifies the following weaknesses:

- (1) environmental problems;
- (2) debt problems;
- (3) a small domestic market and the absence of a global outlook;
- (4) structural unemployment; and,
- (5) an overemphasis on primary industries.

A cursory review of these lists suggests that our strengths are, in fact, significant assets while our weaknesses are problems that can be addressed. Unfortunately, there is considerable pessimism in the economy as evidenced in both the South Huron survey and in national surveys.

The pessimism is rooted, in large measure, in the perceptions about the performance and activities of government. There are two important aspects to this issue: the influence of the activities of government in general upon business and the influence of government programs designed to promote business development.

GENERAL INFLUENCE OF GOVERNMENT ON BUSINESS

On the plus side, the South Huron Study finds that government investment in infrastructure, education and training programs and various direct assistance programs are beneficial to the economy.

On the minus side, the South Huron business survey reveals that, not surprisingly, the total tax burden is of consider-

able concern. The last Ontario budget, with a perceived bias against business, new labour laws and certain social programs such as employment equity, are all of deep concern to the business community. Furthermore, businesses are very concerned about government inefficiency.

Perhaps the best measures of the influence of government business development programs are the degree to which they are used and the extent of awareness that they exist.

In regard to the first matter, the survey results show that only a very small percentage of businesses use the wide array of programs in export promotion, research and development and direct assistance.

More revealing, however, are the following points about the business community's awareness level:

(1) Roughly two-thirds of survey respondents were unaware of the existence of Federal and Provincial export promotion programs.

(2) Half are unaware of Federal research and development assistance programs. Three-quarters are unaware of the Provincial programs in this field.

(3) Roughly two-thirds are unaware of Federal and Provincial programs to provide direct assistance to business (eg. loans, venture capital, advisory services).

Many of the dozens of economic development programs (some sources describe hundreds) are useful. Others are not. If one were to capture the underlying meaning of the survey results, a quote (paraphrased) from Mark Twain might be used. He said that, "water is relatively harmless if taken in moderation." Twisting that famous quote around somewhat, the South Huron business community is telling us that government can be relatively harmless (indeed helpful), if taken with moderation. The trouble is we're well beyond the point of moderation.

CONCLUSIONS

The Committee's conclusions, in brief, were as follow:

1. Economic Climate -

Both Ontario and South Huron businesses view the economic climate as poor. South Huron, however, appears to be somewhat more optimistic than Ontario as a whole (most local businesses plan to stay).

2. Influence of Government Policy- South Huron businesses share the Provincial view that government policy can and does seriously inhibit business development.

3. Economic Policy and Programs - Most businesses are unaware of and do not use programs that have been designed to benefit them. It would seem there are too many programs, run by too many agencies in subjects that overlap.

SELECTED RECOMMENDATIONS: ECONOMIC PROGRAMS

Senior government must streamline programs and eliminate duplication. In the meantime, local government should improve the co-ordination and the promotion of economic development programs in concert with senior government.

GOVERNMENT POLICY

Senior and local governments must assess economic impacts and society's capacity to pay for all new policies and programs.

CHANGES IN LOCAL GOVERNMENT

Economic development begins at the local level and is best addressed by local government. Accordingly, emphasis must be given to promoting local entrepreneurship and expansion from within.

CLOSING REMARKS

Before closing, two points should be revisited. First, Canada's economic performance has, until recently, been strong. Second, there are both fundamental strengths and exceptional opportunities available to the entrepreneur. It has been said by many that we are at economic crossroads. Governments have a role to play. Our prospects will improve immeasurably through a concerted effort to streamline government and to control costs, and to adopt a rational policy-making process.