

# CAN CANADA BE AS INNOVATIVE, COMPETITIVE, AND ENTREPRENEURIAL AS THE UNITED STATES?

JESSICA LECROY

WHICH OF OUR TWO COUNTRIES—Canada or the United States—is best positioning itself to take advantage of the new globalized, knowledge-based economy in the long run, for 2050? The answer may not be as obvious as public perceptions in both countries suggest. The debate, however, is both critical and healthy as we each respond to challenges posed by “the new economy” and come to grips with our respective national concepts of public goods and entitlements.

Canadians may in fact be correct in thinking that, in general, Americans believe their northern neighbour pays too high a price in terms of competitiveness for an idyllic claim of being “kinder and gentler” than the United States. The myth-buster is that Canadians themselves are beginning to think this as well. An alarm has been sounded that the quality and way of life that Canadians value—and proudly use to distinguish their country from the U.S.—could be squandered before mid-century by nothing more than a simple lack of initiative. Such a development would not be good for Canada, or

for America. Ironically, this Canadian re-evaluation comes at a time when the United States, stoked by the 2008 presidential campaign, is examining the same issues through an American prism that is not reflecting, at the moment, a particularly confident light.

In 2008 and 2009, we are likely to see far more comparisons between Canada and the U.S. across a range of issues, heretofore mostly focused on health care, that will indicate how well each of the two countries prepares our populations to prosper in this new economy. One of these areas that needs much more in-depth comparative analysis is the public commitment to providing our workforces with the education and skills they must have to be innovative, competitive, and entrepreneurial in a global economy.

### **“Skate to Where the Puck Is Going To Be”**

As with most things in life, hockey provides insight: “Skate to where the puck is going to be, not to where it is or has been,” the Great One, Wayne Gretzky (or his father Walter), advised.

The Toronto Maple Leafs may provide an encouraging object lesson: the Leafs have not won a Stanley Cup in forty years. Their record is chronically mediocre—they have won 1,298 regular-season games and lost 1,378 in the same period, with a 12–12 win-loss record more than a quarter of the way through the 2007–08 season. They sign second-rate talent to long-term contracts and trade good draft picks for meagre returns. The team hasn’t even made the playoffs in the last two years.

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### Index Rankings: Canada and the U.S.

<b>Index Title</b>	<b>Top 3 Countries</b>	<b>Canada's Rank</b>	<b>U.S. Rank</b>
World Economic Forum's Global Competitiveness Index (2006-2007)	US, Switzerland, Denmark	13	1
2007 Economist Intelligence Unit Business Environment Rankings (Forecast 2008-2012)	Denmark, Finland, Singapore	4	9
World Bank's Doing Business Report 2008: Ease of Doing Business Ranking	Singapore, New Zealand, US	7	3
Index of Economic Freedom 2007: Heritage Foundation and the Wall Street Journal	Hong Kong, Singapore, Australia	10	4
Economic Freedom of the World Index 2007: The Fraser Institute Study (rankings are for 2005)	Hong Kong, Singapore, New Zealand	7	5
IMF GDP Per Capita for 2007: World Economic Outlook Database 2007	Luxembourg, Ireland, Norway	14	4
2007/2008 UN Human Development Index	Iceland, Norway, Australia	4	12
Transparency International Index: 2007 Corruption Perceptions Index ranks	Denmark, Finland, New Zealand	9	20
EIU Global Peace Index	Norway, New Zealand, Denmark	8	96
EIU Democracy Index 2006	Sweden, Iceland, Netherlands	9	17
The Anholt Nation Brands Index: Quarter 2 2007 results	UK, Germany, France	4	10
IMD's World Competitiveness Scoreboard 2007	USA, Singapore, Hong Kong	10	1
World Database of Happiness: Average Happiness in 95 Nations (1995-2005)	Denmark, Switzerland, Austria	9-14	17

“How can they be the most lucrative hockey team on the planet,” playing to a sold-out crowd at every game, an article in *Forbes* magazine recently asked?<sup>1</sup>

*Forbes* calculated that the Leafs’ parent company had in less than ten years tripled “the enterprise value” of the privately held parent company to US\$1.5 billion.<sup>2</sup> Of this sum, the Leafs account for \$413 million of value. The team’s operating income for the 2006–07 season was set at over \$52 million, an increase last season of 24 per cent. The next-most-valuable team, the New York Rangers, has an enterprise value of \$365 million, and, at \$25.4 million, less than half its rival’s operating income.

The Maple Leafs’ success is attributable to a range of enterprising factors: clever marketing, shrewd deal-making, savvy expansion, and diversification of the business. There is a new state-of-the-art arena (not funded by taxpayers!) that is used three hundred days a year, the acquisition of the Raptors basketball team and some TV channels, and a new soccer team, among other things that also included a salary cap. Now the strength of the loonie has added additional “oomph,” since the team collects revenues in Canadian dollars and pays players’ salaries in U.S. dollars. “Sports valuations,” the magazine pointed out, “are founded on more than just championships; they are also a function of player costs, stadium real estate and the population of the home market.”

Also what differentiates the Maple Leafs from other professional sports teams is its ownership. The team is not “a plaything of the rich or an excuse to fill airtime by a media conglomerate.” The parent company is controlled by 270,000 schoolteachers via

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the private equity arm of one of Canada's largest and most profitable institutional investors, the Ontario Teachers' Pension Plan, which itself appears to have outmanoeuvred Wall Street to close the biggest leveraged buyout in history, \$37 billion for the Canadian telecommunications company BCE.

The Leafs story sprang from a troubled history and a remarkable turnaround that recasts success as a process. It included managed risk, sound fundamentals, seized opportunities, some uncertainty, surprises, and trials and errors. All are elements associated with an entrepreneurial impulse building steady momentum towards full realization. What will it take to achieve excellence, a winning season, perhaps a championship? More importantly, however, will failure to make the playoffs for yet another year begin to erode the fan base and ticket sales, prompt the OTP to calculate the opportunity costs in lost playoff revenues, or increase demand for a new, more exciting (and winning), team in the region?

Canada is not the Leafs, but the Leafs provide a useful example of forward thinking and creative response for both the Canadian government (at the macroeconomic level) and Canadian businesses (at the microeconomic level). Like the Leafs, Canada's solid "valuation" will be increased—and it can rise to the top of the global league—by improving its performance on "ice" (innovation, competitiveness, and entrepreneurship).

Canada appears ready to proceed apace in a way that may, in the long run, prove equally instructive to the United States.

**“I Was Told I Was Too Small, Too Slow, and I Would Never Make the NHL”**

Where does Canada stand in terms of economic competitiveness? On the World Economic Forum’s Global Competitive Index for 2007–08, Canada slipped to thirteenth place. This puts Canada behind a number of other sparsely populated Western economies that boast strong social programs. Highly ranked Switzerland, Denmark, Sweden, Finland, and the Netherlands do not enjoy Canada’s bounty of natural resources or direct proximity to the world’s biggest single-country consumer market. The Nordic countries have higher taxes than Canada, but they outrank Canada and the U.S. in a number of the 113 factors the Index evaluates, such as macroeconomic conditions (running budget surpluses, low levels of public indebtedness), efficient institutions, and higher education and training programs. These countries’ economies, according to the report, are more open than Canada to innovation, competition, and high-impact entrepreneurship. They are the mature New Economy economies.

Today, at least, the United States is the global league’s declared “champion” in terms of economic competitiveness. The World Economic Forum’s Global Competitiveness Index and accompanying report has confirmed the U.S.’s top position for a second year running, citing the dynamism, innovation, efficiency, sophistication, and productivity of its entrepreneurial economy. These strengths are so considerable, the report held, that they may be sufficient to carry the current faltering economy through a cycle of huge deficits, financial weaknesses, lower consumer confidence and demand, as well as higher oil prices.<sup>3</sup>

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This claim will undoubtedly be tested over the next year, as the U.S. edges towards outright recession in 2008. The world holds the United States responsible for the sub-prime mortgage excesses (estimated at \$300 billion in the years to come) that have created spillover turbulence in the global credit markets. The American people are scrutinizing the half-trillion-dollar cost of the war in Iraq, equal to a \$20,000 assessment against each American household. The new engine of global growth, the emerging economies, is expected to supplement some of the demand that will help mitigate a U.S. drag on the world economy.<sup>4</sup>

In the end, however, most everyone expects the United States will get out of the economic penalty box and back into play—a little humbled and more carefully monitored—because of its entrepreneurial resilience. The excesses that put it there are a costly aberration of what on the positive side makes it the world's most successful economy.<sup>5</sup>

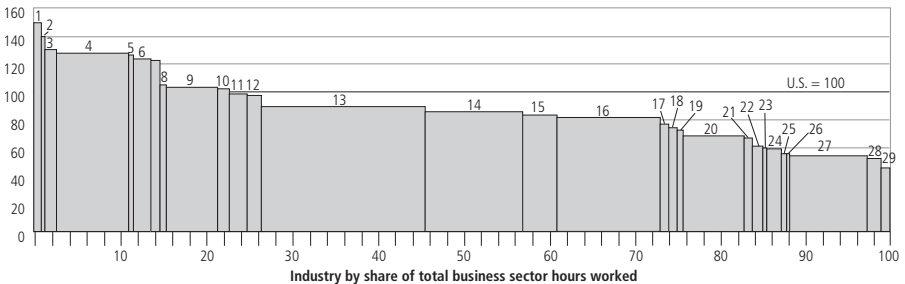
Broadly held perceptions among Canadian and American economists and business people is that Canada is skating around the neutral zone of the rink while the United States charges the goal. Canadians themselves are now complaining that they “don’t work hard or smart,” that they are “adrift in underachievement,” “mired in mediocrity” and “collective complacency,” no longer even “going for the bronze.” There is a sense among Canadians that they may have been de-incentivized by an overly generous social safety net that is propped up by inefficient government regulations, services, and programs, outdated union structures, high taxes, old machinery and equipment, and volatile commodity resources.<sup>6</sup>

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Soaring demand for Canada's commodities have indeed put the country in a good economic space for now. Economic growth has been steady. Inflation is contained. Unemployment levels in 2007 have been at a thirty-three-year low. The Canadian dollar is strong. Government surpluses provide a strong fiscal base. Canada is the only one of the Group of 8 governments consistently operating in the black. The federal government posted a c\$9.3 billion surplus for the first half of the 2007–08 fiscal year (not reflecting 4.8 billion in retroactive tax cuts that form part of a five-year c\$60-billion tax-relief plan). Canada's population is culturally diverse, skilled, and educated. It has a good sectoral mix, in addition to its huge natural resources reserve. In some sectors, Canada outperforms the United States (see graph).<sup>7</sup>

### Labour Productivity Levels In Canadian Industries, 2001

- |                                   |                                |   |  |
|-----------------------------------|--------------------------------|---|--|
| 1. Primary metals                 | 9. Transportation              | 17. Plastic and rubber products         | 25. Electrical equipment               |
| 2. Non-metallic mineral products  | 10. Motor vehicles             | 18. Utilities                           | 26. Miscellaneous manufacturing        |
| 3. Wood products                  | 11. Food, beverage and tobacco | 19. Furniture and related products      | 27. Finance, insurance and real estate |
| 4. Construction                   | 12. Mining                     | 20. Wholesale trade                     | 28. Fabricated metal products          |
| 5. Other transportation equipment | 13. Other services             | 21. Machinery                           | 29. Computer and electronics           |
| 6. Printing and publishing        | 14. Business services          | 22. Textile and clothing                |  |
| 7. Paper                          | 15. Agriculture                | 23. Petroleum and coal products         |  |
| 8. Chemicals                      | 16. Retail trade               | 24. Information and cultural industries |  |



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Yet data suggests that, overall, Canada's productivity and standard of living, as compared with that of the United States, has declined, and will continue to decline over time—perhaps precipitously if a U.S. recession occurs or commodity prices dip.

Twenty years ago, a person's average income in Canada was just C\$2,000 less than the average income in the United States. In 2005 the difference had increased to C\$9,200. Canadians who work about the same hours as Americans nonetheless produce about 20 per cent less. Canada's status as a member of the G-7 is now being challenged. In 1990, Canada ranked fifth in the world in per capita income; now it is tenth. In attracting inward foreign direct investment relative to GDP, Canada ranks near the bottom of the thirty industrialized member countries of the OECD (the Organization for Economic Cooperation and Development), has the second-highest level of statutory restrictions on foreign ownership, and one of the highest marginal taxes on capital investment. The service sector constitutes over 60 per cent of Canada's domestic economy, yet service exports represent just over 12 per cent, well below the OECD average.

Canadian economists have done an excellent job in raising public awareness of these problems and the proposed solutions. What they may not have realized is how useful the Canadian insights are for an American audience, how much we in the United States can learn about ourselves when you gauge yourselves against us.

The Conference Board of Canada recently completed The Canada Project initiative, a three-year program of research and follow-on engagement with decision-makers and the public, to

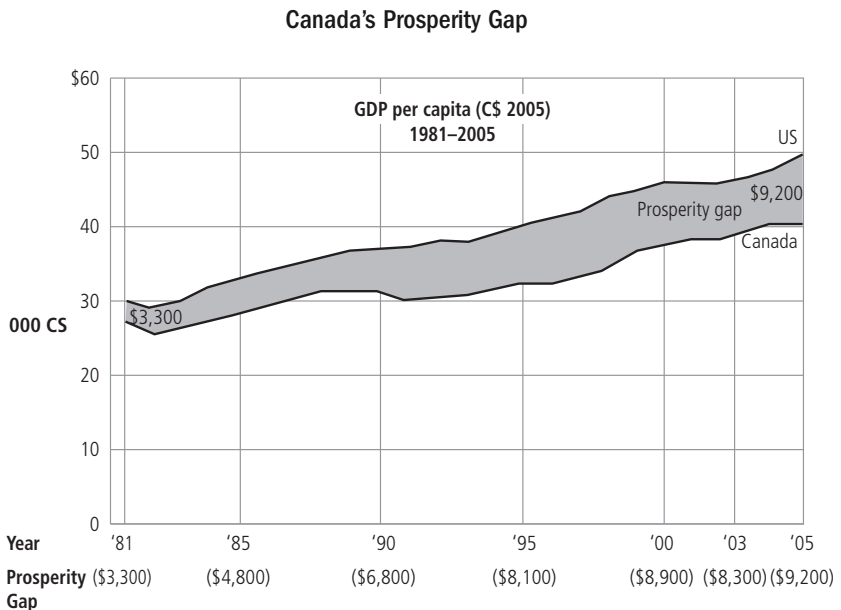
highlight Canada's lagging productivity performance. It provides a comprehensive roadmap, with specific recommendations to sustain Canada as one of the world's most successful economies: a) eliminating inter-provincial trade barriers in favour of a common market within Canada; b) encouraging innovation investment to accelerate growth; c) diversifying and expanding trade beyond the U.S., its dominant trading partner, and resource-based exports, to include the emerging economies and the service sectors; d) attracting more foreign investment; and e) addressing workforce shortage issues.

The Conference Board of Canada also issues annually "A Report Card on Canada," which benchmarks Canada's socio-economic performance against the United States and fifteen other top industrialized economies. Grades focus on outputs rather than inputs—on what has been achieved rather than on how much has been invested—to determine whether Canada is getting a good return on its investment and if new strategies should be considered. For example, in the innovation domain Canada gives itself a "D" and the U.S. a "B+"; on education, Canada gets an "A" and the U.S. gets a "C." Canada and the U.S. both receive a "D" on environmental issues.

Similarly, the Institute for Competitiveness and Prosperity is mandated to report directly to the public on Ontario's competitiveness, productivity, and capacity for innovation compared to other provinces and the United States. Its 2007 "Agenda for Canada's Prosperity" points out that, if Canada's "prosperity gap" with the U.S. is not narrowed, Canadians will be forced to accept a lower standard of living, with lower wages, fewer quality jobs, and less government revenue to support valued social

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programs and investments. This report attaches dollar values to the “gap” factors (e.g., underinvestment in capital equipment), which lowers Canada’s productivity by c\$500 per capita. If Canada’s GDP were the same as the U.S.’s, the report calculates, the average Canadian household would have almost c\$12,000 more in disposable income and the government c\$108 billion in additional revenues.



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The Canada Institute at the Woodrow Wilson International Center’s “One Issue, Two Voices” series also took up the productivity-gap issue to suggest that vibrant service-sector growth in the United States since 1995 is

responsible for much of the productivity performance difference between our two countries.

### **“You Miss 100% of the Shots You Don’t Take”**

On September 28, 2007, Canadians held a parity party, cheering a moment of nationalistic pride—the loonie had achieved equality with the almighty greenback for the first time since 1967. The Canadian public checked the exchange rates with a level of intensity matched only by its interest in the proceedings of the Conrad Black trial. By November 7, with oil prices approaching US\$100 a barrel, the loonie hit a modern-day record high of just over US\$1.10. Accompanying any celebration and the lineup of eager cross-border Canadian shoppers flooding into the United States, however, was the sober recognition that the weakness in the U.S. economy and the rapid rise and volatility of the loonie would hurt Canada’s U.S.-export-reliant economy, further imperil economic growth, and aggravate job losses.<sup>8</sup>

Canadians may have been right to celebrate the strong loonie, at least as a kind of harsh blessing in disguise. The loonie could be the sanest thing around if it levels out at or below parity. Responding to market forces, it sent the shrill signal needed to catalyze the restructuring Canada’s economists have recommended for building a modern economy that is “ice-y” (innovative, competitive, and entrepreneurial). The strengthened loonie hands Canadian companies their impetus for change—their strongest incentive yet to take immediate action—to become more efficient and innovative, to diversify,

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expand, modernize, and brand themselves and their country as a global leader in the new economy. There was, in fact, a surprising admission by some Canadian businesses that a 20-per-cent currency exchange “subsidy” had discouraged smart business practices. With large commodity-based surpluses, a disciplined Canadian government has the temporary breathing room to enact and sponsor broad domestic reform that can be both pro-employment and pro-productivity.

Reforms suggested by Canadian economists are essential to enhance the benefits from globalization while addressing adjustment and inequality concerns. Canada has lost 300,000 manufacturing jobs since 2002. The U.S. has lost 5.5 million manufacturing jobs in the last decade, and China itself is now losing manufacturing jobs. Data indicates that technology improvements account for more manufacturing-job losses than globalization and outsourcing to cheaper production sites.

In real terms, the manufacturing sector does better by producing more high-value goods by fewer people as the path to prosperity. “High-road” manufacturing (high-skill, high-pay, high-performing), in which workers, unions, and management embrace productivity to secure jobs, is showing signs indicative of a rebound in both the United States and Canada. Cost differentials with the emerging economies are shrinking, companies are seeking the benefits of shorter supply chains, and consumers want quality goods that are made cleanly, intelligently, and efficiently. No one is seriously calling for the return of devalued “low-road” low-productivity, old-economy manufacturing jobs, whatever the pain level is now.<sup>9</sup>

## **“It’s Essentially a Matter of Taking Care of What Takes Care of You”**

Education is our most important weapon in fending off the downsides of the global economy. The next generation of policy choices that respond to the new economy challenges will be largely dependent upon productive workers.

While a multitude of factors affect a country’s competitiveness, education is repeatedly singled out as a force multiplier for growth, productivity, and shared prosperity. If a country takes care of the education and skills training of its human capital, all other socio-economic factors of a country are improved—health care, the environment, the control of crime and corruption, as well as national economic performance. Educated workers are more engaged and make better life choices. They are better able to adapt to workplace change, to innovate and to create new products, services, and businesses. Studies indicate that a 1% increase in literacy and numeracy skills amounts to a 1.5% permanent increase in GDP; if the national average educational attainment level is increased by one year, aggregate productivity increases by 5%.<sup>10</sup>

In this regard, various studies indicate that Canada performs better (and at less cost) than the United States in preparing a larger relative number of its future generation of workers with the basic education and skills needed to become competent in a technologically complex and competitive environment.<sup>11</sup>

Canada’s focus on high-quality, mainstream, publicly funded education for those between the ages of five and twenty-five places it at the top of the Group of 8, well ahead of the United States.<sup>12</sup> As a percentage of its GDP, Canada

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spends significantly less to support its educational institutions than the U.S. does: 5.93% versus 7.46% in the U.S. This equates to \$6,482 per student at the secondary-school level, versus \$9,590 per student in the United States.<sup>13</sup> The United States is not, by all accounts, getting as good a return on its investment as Canada. The late Senator Daniel Moynihan of New York once reportedly joked that the best way to improve general academic achievement in the U.S. would be to move all the states closer to Canada.

In the OECD's 2003 standardized assessment of fifteen-year-olds in math, reading, science, and problem-solving, Canadian students outscored American students in every category and ranking by a significant margin. Canada was singled out with Finland, Denmark, Iceland, Ireland, Norway, Poland, and Sweden for having high and consistent standards across schools and fewer socio-economic inequalities in learning opportunities. In Italy, Portugal, and the United States, over a quarter of the students were not proficient beyond Level 1 in mathematics, the lowest level on a six-level scale.<sup>14</sup>

Student access to and use of computers and the Internet is high in Canada compared to other OECD countries; eighty-nine per cent of fifteen-year-old Canadians have a home Internet connection, which ranks Canada second only to Sweden.<sup>15</sup> A separate U.S. Department of Education-sponsored comparative study of the reading-level attainment of ten-year-old fourth-graders from forty countries placed individually tested Canadian provinces in third, fifth, seventh, and sixteenth place, ahead of the U.S.'s position in eighteenth place, with only one Canadian province showing a slightly lower score.<sup>16</sup>

Both of our countries are grappling with “the silent epidemic” of secondary school dropout rates.<sup>17</sup> In an often-cited 2002 OECD study, Norway showed a dropout rate (defined as the share of twenty- to twenty-four-year-olds not in school and without a diploma or equivalent certificate) of only 4.6%, compared with Canada’s 10.9% and the U.S.’s 12.3%. In the U.S., 2003 data indicated that approximately 3.5 million sixteen- to twenty-five-year-old Americans had dropped out of school; one out of three entering high school students will leave without a diploma and the odds are worse for minority students.<sup>18</sup>

In addition to having one of the world’s highest rates of post-secondary education per capita, Canada also leads the world in its rate of college graduation. On the negative side, however, Canada produces a strikingly low proportion of advanced degrees, which means the U.S. performs better than Canada in the educational attainment of the older adult population, aged twenty-five to sixty-four. Canada also produces fewer university degrees in science and the technical disciplines needed to adapt to the demands of an innovating economy. Yet here too it is moving in a positive direction to address the problem.

In the recent annual global league table for excellence of the world’s top two hundred universities, the London *Times* Higher Education Supplement and Qs ranking, noted that the U.S. and the U.K. had again in 2007 monopolized the champions listing of all the top ten universities, and dominated the top two hundred listing with fifty-seven universities from the U.S. and thirty-two from the U.K.<sup>19</sup>



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Canada had eleven universities on the *Times* 200 list, all publicly funded. More revealing than the total number was that all but one had moved up significantly in the ranking. Particularly striking were those universities making the list for the first time, for example: Waterloo University at 112<sup>th</sup> place, up from 204<sup>th</sup>; the University of Western Ontario at 126<sup>th</sup> place, up from 215<sup>th</sup>; Simon Fraser at 139<sup>th</sup>, up from 282<sup>nd</sup>. Four Canadian universities made the *Times* list of top one hundred science universities—Toronto, McGill, British Columbia, and Waterloo—a surprisingly high number given Canada's existing public-funding goals to ensure broad access to university, as compared to the establishment of academically elite institutions that are often privately funded in the United States.

Canada compensates for the attainment gap in several ways. Historically, Canadian students have had the option of going outside the country for advanced degrees. Over 28,000 Canadians study in the U.S. alone, about half at the graduate level.<sup>20</sup> Frequently cited examples of the use of newly targeted private seed funding for excellence are the Perimeter Institute for Theoretical Physics and the Institute for Quantum Computing in Waterloo, Ontario. The University of Waterloo claims to employ more math teachers per student than any other university in the world. Canada's private sector is taking additional steps to lure back to Canada top scientists, researchers, and teachers, having taken note that all but two of Canada's sixteen Nobel laureates conducted their research outside Canada. Foreign students, a prime source of innovation for the United States, are now finding Canadian universities an increasingly attractive venue for their studies.

Between 2000 and 2005, the U.S. world market share in cross-border post-secondary education dropped from 26.1% to 21.6%; Canada's grew from 2.2% to 2.8%, despite increased security reviews, and it continues on an upward trajectory.<sup>21</sup>

According to the Conference Board of Canada, Canadians do not value advanced degrees or elite institutions as much as we do in the United States, but Canadian employers expect graduates to show up "ready to work," from a school system that includes a heavier "skills development" curriculum than most other countries. There appears to be less emphasis on job-related training and life-long-learning opportunities in Canada. Nor is there the level of university-business research partnership that often spurs innovations in the United States. Canada registers only a slightly better score on attainment for adult Canadians considered disadvantaged, such as immigrants, mature workers, and Aboriginal people. All three areas have been targeted for improvement.

In the long run, Canada's approach to broad-access high-quality public education may well provide it with the sharpest competitive edge over the U.S. The OECD has announced plans to extend its basic learning and skills evaluation to the university level by 2010 to assess worker preparedness for the global economy more accurately. The Institute for Competitiveness and Prosperity has estimated that, if Canada continues to narrow its educational-attainment gap, productivity could be increased by C\$1,800 per capita—the equivalent of adding C\$60 billion to Canada's GDP, a figure that would not be subject to the fluctuations of the commodity market.

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### **Conclusion: The Puck Doesn't Stop Here**

In the global economy our countries skate on the same “ice”—innovation, competition, and entrepreneurship, and this puck is in active play.

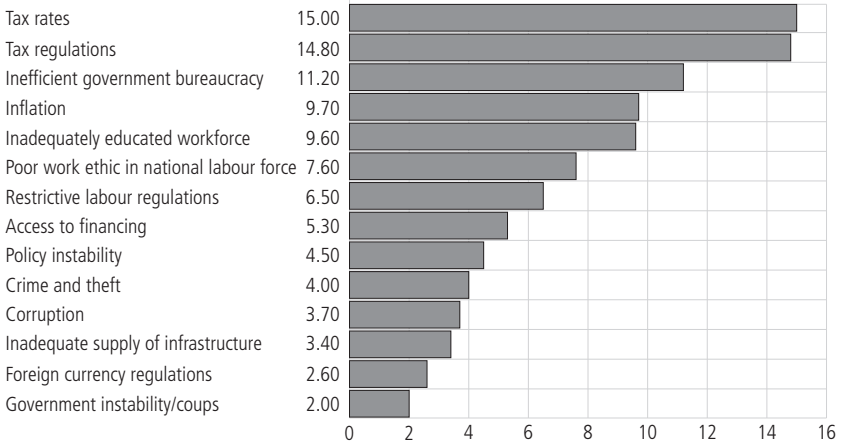
The style of our two teams is very different. The United States has an economic star system, with no salary caps and no holds barred, always on the offensive, ever eager to take the risky, even reckless, shot. Canada celebrates the team, emphasizes the whole group, has reserve bench strength, and plays, at the moment, more defensively than the potential of the team warrants.<sup>22</sup> Who is going to “win” by 2050. Right now, according to the scoreboard, the United States is ahead, but signs are that Canada is grooming a championship team.

As in hockey, the perennial economic-policy questions of valuation and ownership have to be taken into account. “Valuation is more than just championships” *Forbes* told us in the story about the Leafs, and the owners help define the personality of the team.

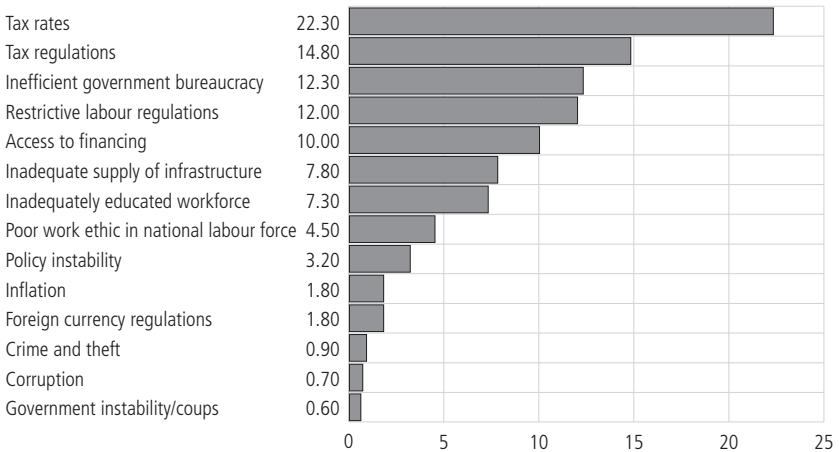
Most economists, when comparing the performance and prosperity of economies, use the gross domestic product (GDP) as the standard measure and a succinct way to evaluate differences. GDP focuses on growth and accumulated wealth, things (goods and services) to which a dollar value can be attached. It does not capture intangibles, such as quality of life, leisure time, or happiness. Nor does it indicate if the prosperity gained with increased wealth is shared among a broad array of stakeholders in a country or in a way that would gain more stakeholders.<sup>23</sup>

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### The Most Problematic Factors for Doing Business—United States



### The Most Problematic Factors for Doing Business—Canada



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An increasing number of serious American economists—as well as the 2008 U.S. presidential contenders—are beginning to voice concerns that an exclusive focus on growth and wealth is not sufficient to meet the current challenges of the New Economy. Inequalities of opportunity and access to education, health, and security in retirement are a keen concern for the future. “Ownership society” for one side vests in individual responsibility and choice; for the other, “ownership” represents a social compact individuals make with their governments. Both sides agree that “smart” economic policy (“smart” taxation, and “smart” regulation) facilitates the drivers of market growth and establishes confidence and trust in investors, the economy as a whole, and its public stakeholders. Hockey has messy pileups, but it also has rules of the game.

The 2007–08 Economist Intelligence Unit predicts that Canada will have made sufficient improvement in its business environment by 2012 to outrank the United States as one of the best places to do business. The U.S., which tumbled in the present report to its lowest ranking since the survey began in 1997, will, according to this report, still be stagnating from financial and macroeconomic risks, increased protectionism, security concerns, and bruised international relations. Fundamental features of the U.S.’s business environment—deregulated labour markets, good infrastructure, and leadership in technology—will keep the U.S. near the top of the league with only small differences among the countries at the top of the league. The global business environment will be good despite the U.S.’s fall from favour. According to the report, global GDP growth—including Canada’s—will slow in

the period between 2008 and 2012, but globalization will not be derailed. Although there will be limited progress in international trade liberalization, foreign trade and exchange regimes will continue to be freer, and labour and product markets will continue halting reform.<sup>24</sup>

Denmark, which took third spot on the World Economic Forum's Global Competitiveness Index, took top spot for the Economist Intelligence Unit's 2012 forecast for "its efficient markets, flexible labor markets and the quality of its goods and education." Denmark, the EIU observed "stands out for the successful balance that it appears to have struck between state and the market." The designer of the World Economic Forum's Competitiveness Index echoed this sentiment, saying its rankings had shown, "We should be talking about what government does, and not its size."<sup>25</sup>

What this tells us is that a convergence in American and Canadian "values" is probably not to our advantage in seeking the best public policies. Perhaps the greatest contribution we make to each other, with our differing philosophies and personalities—and even goals—is to provide a shifting blend of challenge and support, complementing and simultaneously competing with one another. Certainly a truism in sport is that when you play against someone better, your own game tends to improve.

Canada's choice to gauge itself against the United States is important in improving the prospects of not just Canadian but also American competitiveness. We need to watch and learn from each other over these next years, so that together, with our other partner, Mexico, we make North America a more

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competitive unit within the global economy. Despite the occasional outbreaks of “de-coupling” rhetoric, the United States and Canada have, and will continue to have, integrated economies and societies. Intrafirm trade within trans-border companies accounts for more than a third of U.S.–Canada trade, and the percentage is growing. Our two countries will increasingly define competitiveness as a function of cooperation and collaboration in what we do and make together. Perhaps we should view ourselves in a high-powered, but friendly, neighbourhood pick-up game in which we are refining our skills for global competition.

In 2050, the most important thing will be to ensure that the puck is still in active play between us, ideally with our great teams going end-to-end together with the rest of the world in a competition that is not merely an exhibition game.

This year McMaster University undergraduates in Hamilton, Ontario, won the U.S. Collegiate Inventors Competition. Wonder what that won–lost record will be in 2050?<sup>26</sup>

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## NOTES

1. Nathan Vardi, “Winning Isn’t Everything,” *Forbes.com*, November 26, 2007. <http://members.forbes.com/forbes/2007/1126/096.html> (accessed November 14, 2007). See also, *Wall Street Journal*, “Despite Bankruptcy on Ice, Maple Leafs Shine Financially,” November 9, 2007, p. B5.

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2. Enterprise value is the market value of a business's equity, plus its interest-bearing debt, minus its cash equivalents.
3. The World Economic Forum, *The Global Competitiveness Report, 2007-2008*. See also, International Institute for Management Development (IMB) Business School's *2007 World Competitiveness Scoreboard* See also, C.D. Howe Institute commentary by Peter Howitt, "Innovation, Competition and Growth: A Schumpeterian View on Canada's Economy." See also, Gideon Rachman, "For Nations, Small Is Beautiful," *Financial Times*, December 3, 2007. See also, *Time* magazine's coverage on the Global Competitiveness Index results at [www.time.com/globalbusiness](http://www.time.com/globalbusiness).  
See also, Chris Giles, "U.S. Tops Global Competitiveness Index," *Financial Times*, October 31, 2007.  
See also, "U.S. Regains Status as the World's Most Competitive Economy," *International Herald Tribune*, October 31, 2007.
4. "America's Vulnerable Economy," *The Economist*, November 17, 2007.  
See also, Peter S. Goodman, "Trying to Guess What Happens Next," *New York Times*, November 25, 2007.
5. Paul Krugman, "Innovating Our Way to Financial Crisis," *New York Times*, December 3, 2007.
6. Statistical data and other information for this portion of the essay has been extracted from the following reports (the data cited in these reports is in purchasing power parity terms):  
"How Canada Performs: A Report Card on Canada," June 2007. Conference Board of Canada;  
"Agenda for Canada's Prosperity," Institute for Competitiveness and Prosperity;  
*The Canada Project*, The Conference Board of Canada;  
*One Issue Two Voices*, The Canada Institute at the Woodrow Wilson



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International Center for Scholars.

Also see *Maclean's* magazine's exclusive reports:

"How to Fix Canada—On the Brink";

"How to Fix Canada—Letting It Go to Waste";

"How to Fix Canada—Bright Lights, Big Problems."

7. "How Canada Performs: A Report Card on Canada," June 2007. Page 64. Conference Board of Canada.  
See also, Someshwar Rao, Jianmin Tang, and Weimin Wang, "Productivity Levels Between Canadian and U.S. Industries," *International Productivity Monitor*, Number 9, Fall 2004, Micro-Economic Policy Analysis Branch, Industry Canada.
8. Shawn McCarthy, "Bank of Canada Will Respond to Global Turbulence: Dodge," *Globe and Mail*, November 17, 2007.  
See also, "Liftoff a Long Time Coming," collection of articles. *Financial Post*, September 22, 2007.  
See also, "Living with a Strong Loonie," *National Post*, September 22, 2007.  
See also, Joe Brean, "Dear Diary: Loonie," *National Post*, September 22, 2007.  
See also, "A new low: The Dollar in Free Fall," Nov. 4-10, *New York Times*, November 11, 2007. See also "Loonie Jumps a U.S. Cent," *thes-tar.com*, November 16, 2007.  
See also, David Olive, "Soaring Loonie a Warning in Disguise," *thes-tar.com*, October 28, 2007.  
See also, Remarks by Paul Jenkins, Senior Deputy Governor of the Bank of Canada to the Canadian Association of New York. "North America in Today's Global Economic Setting," November 6, 2007.  
See also, William Watson, "Sink the Loonie!" *Financial Post*, September 21, 2007.
9. Public Broadcasting System (PBS) Report, "Midwest Manufacturers Fight to Stay in Global Marketplace," Online News Hour. See also

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Konrad Yakabuski "It Ain't Pretty," *Globe and Mail*, November 29, 2007. See also Greg Keenan, "In One Town Boom. In Another, Gloom," *Globe and Mail*, November 30, 2007.

10. Statistics are taken from the following three reports:  
"How Canada Performs: A Report Card on Canada," June 2007. Conference Board of Canada.  
*Agenda for Canada's Prosperity*, Institute for Competitiveness and Prosperity.  
*The Canada Project*, The Conference Board of Canada.
11. One recent comparative review of the two educational systems suggests that factors unrelated to the educational system could account for better student performance, i.e., "Canada doesn't have the same problems with notorious socio-economically disadvantaged neighborhoods . . . the same kind of racial tension . . . a large population of uneducated immigrants." See David Jones and David Kilgour, "Uneasy Neighbors: Canada, the USA and the Dynamics of State, Industry and Culture," p. 112. John Wiley & Sons Canada, Ltd.
12. "How Canada Performs: A Report Card on Canada," p. 83, June 2007 Conference Board of Canada.
13. 2007 OECD in Figures, pp. 50–51. *Education at a Glance—OECD Indicators 2006*, OECD, Paris, 2006.
14. OECD 2003 Programme for International Student Assessment (PISA). Canada's mean score placed it 7<sup>th</sup> in math to the U.S.'s 28<sup>th</sup> ranking, 3<sup>rd</sup> in reading to the U.S.'s 18<sup>th</sup>, 11<sup>th</sup> in science to the U.S.'s 22<sup>nd</sup>, and 9<sup>th</sup> in problem-solving to the U.S.'s 29<sup>th</sup>.  
Results of the PISA 2006 survey will be released on December 4, 2007, after the submission of this essay. Also see *Trends in Mathematics and Science Survey* (TIMSS). A new study by Gary Phillips at the American

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Institute of Research entitled “Chance Favors the Prepared Mind: Mathematics and Science Indicators for Comparing States and Nations” does not include Canadian data. It suggests that American students in low-performing states like Alabama do better in math and science than students in most foreign countries, but that students in high-performing Asian competitor countries significantly outperform American students in high-achieving states like Massachusetts in math and North Dakota for science. See also, National Center for Education Statistics, U.S. Department of Education, “Dropout Rates in the United States: 2005” (June 2007). <http://nces.ed.gov/Pubsearch/pub-sinfo.asp?pubid=2007059> (accessed January 7, 2008).

15. Canadian Education Statistics Council (CESC), *Education Indicators in Canada: Report of the Pan-Canadian Education Indicators Program (PCEIP) 2007*, <http://www.statcan.ca/english/freepub/81-582-XIE/81-582-XIE2007001.htm> (accessed January 7, 2008).
16. Mike Baker, “Schools Face Up to Global Leagues,” BBC News website. See also, Sam Dillon, “Study Compares States’ Math and Sciences Scores with Other Countries,” *New York Times*, November 14, 2007. See also, “Bright Sparks,” *The Economist*, February 8, 2007. See also, June Kronholz, “Economic Time Bomb: U.S. Teens Are Among the Worst at Math,” *The Wall Street Journal*. December 7, 2007.
17. John M. Bridgeland, John J. Dilulio, Jr., and Karen Burke Morison, “The Silent Epidemic: Perspectives of High School Dropouts,” report by Civic Enterprises in association with Peter D. Hart Research Associates for the Bill & Melinda Gates Foundation (March 2006). <http://www.gatesfoundation.org/nr/downloads/ed/TheSilentEpidemic3-06FINAL.pdf> (accessed January 7, 2008).
18. OECD 2002 Higher Education and Adult Learning, Education at a Glance. [http://www.oecd.org/linklist/0,3435,en\\_2649\\_39263238\\_](http://www.oecd.org/linklist/0,3435,en_2649_39263238_)

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2735794\_1\_1\_1\_1,00.html#39324034 (accessed January 7, 2008). David S. Broder, "The Dropout Challenge," *The Washington Post*, February 26, 2006. See also, Robert Balfanz and John Bridgeland, "A Plan to Fix 'Dropout Factories,'" *Christian Science Monitor*, November 23, 2007.

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20. Institute of International Education. *Open Doors Report 2007*. The majority of Canadians are at the undergraduate (47.9%) and graduate level (44.2%). Breakdown not available for Americans studying in Canada. <http://opendoors.iienetwork.org/> (accessed December 3, 2007).
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22. This image tracks closely the distinction Seymour Martin Lipset drew between our two countries: Canadian values emphasize the community and trust in the government to act in the public interest for the public good, as embodied in the technical phrase "peace, order, and good government." American values emphasize the individual and the suspicion of government as embodied in the Declaration of Independence to allow for "life, liberty and the pursuit of happiness." See Seymour Martin Lipset, "American Exceptionalism: A Double-Edged Sword," W.W. Norton & Company, April 1997. See also, Seymour Lipset, "Historical Traditions and National Characteristics," *Canadian Journal of Sociology* (Summer 1986): 128. See also by

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