



Canada
needs
a modern
industrial
strategy



May 2012

Canadians for a Modern Industrial Strategy (CMIS) brings together people from labour, business and the community who believe our economic success and social well-being depend on adopting a proactive industrial strategy that:

- Recognizes governments have an essential co-ordinating and enabling role to play in the economy.
- Is a true partnership involving government, labour, business, community, academic institutions and other stakeholders.
- Reduces inequality by creating good jobs and putting people and nature at the heart of the economy.
- Goes beyond the sterile debate between “high tech” and “smokestack” industries and provides the tools different sectors need to be a vibrant part of a modern economy.
- Puts long-term needs ahead of short-term considerations.

Our activities include:

- Providing a forum for discussion of what should be part of a modern industrial strategy.
- Conducting research and analysis of public policy issues related to a modern industrial strategy.
- Providing access to research and information.
- Advocacy with government and in public forums for adoption of a modern industrial strategy.

For more information about the CMIS and how you can get involved:

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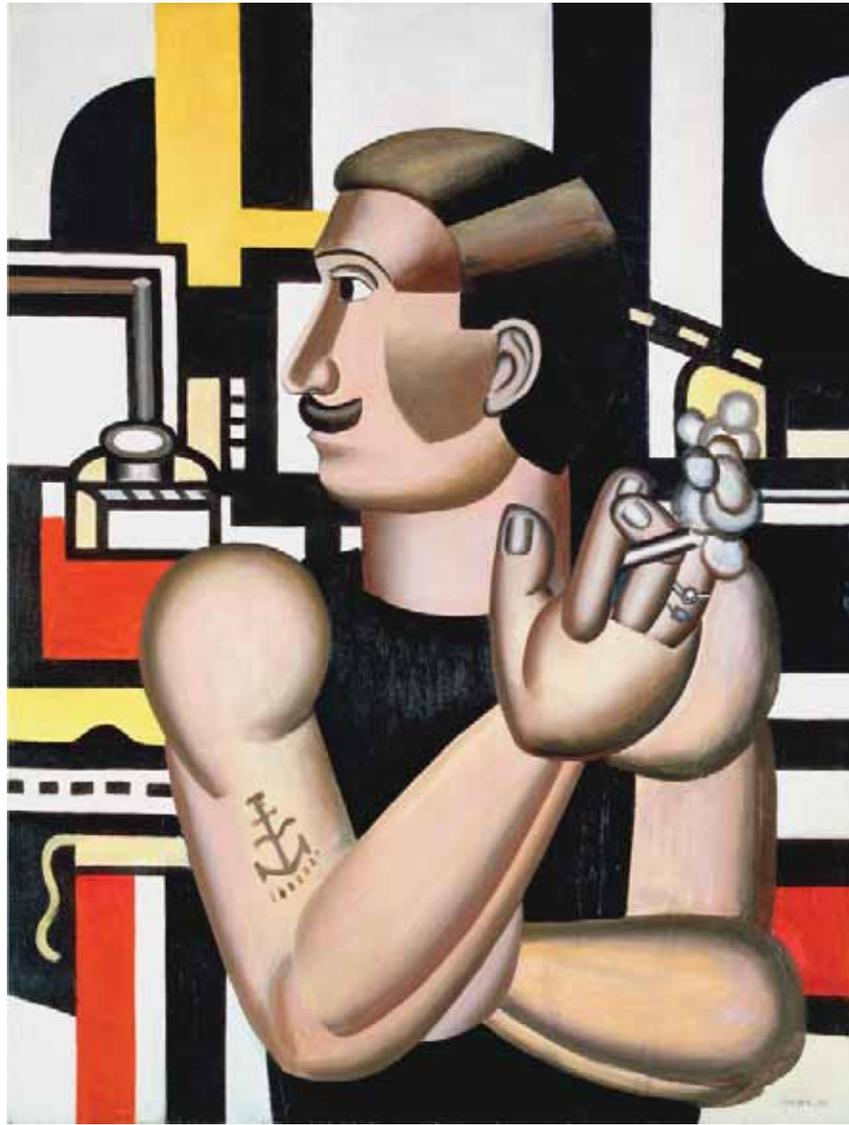
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C anada Needs a Modern Industrial Strategy

Bigger pie. Bigger slices.

Income inequality (the income gap between the richest and poorest) is the biggest challenge facing Canada today. It's been growing rapidly over the last several decades. It's reached such a serious point that, today, the gap between the richest 10% and everyone else is greater than it was in the 1920s.

It's important to understand that the gap has been increasing not only during tough economic times, but

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also while the economy has been growing. Even when the total economic pie was getting bigger, only a few wealthy people received a bigger slice, while the slices given to the rest of us kept getting smaller.

Clearly, when it comes to tackling income inequality, the challenge is to develop an economic strategy that will not only bake a bigger economic pie, but also ensure all of the bakers get a bigger slice.

Things fall apart

Income inequality is the underlying cause of the current recession and why there's no sign of a recovery in sight. You simply can't build a strong and sustainable economy with the middle class shrinking and the working poor more desperate than ever.

The health and social costs include more homelessness, a lower life expectancy rate, poorer educational outcomes, higher rates of mental illness and diminished child well-being.

Growing income inequality undermines social cohesion. Rather than going forward together with a united purpose, we become a country full of competing economic groups suspicious and resentful of each other and our future together.

An economy with high income inequality breeds cynicism and fear. People believe the economic system is rigged against them. They lose hope and feel powerless and insecure about the future. They reject the collective solutions which could actually make things better.

This is the downward spiral of income inequality that must be reversed.

Inequality by choice

Governments have made deliberate policy choices which have increased income inequality.

First, they've cut overall funding for public services and social programs that reduce inequality. In 1992, total public spending was 53% of Gross Domestic Product (GDP); in 2008, it was down to 39% of GDP.

Second, they've spent billions on tax cuts for super-rich people and corporations while at the same time the total tax rate for the poorest Canadians has been rising. Since the mid-90s, all levels of government have spent a total of 6% of GDP on tax cuts; that's a total expenditure of \$90 billion every year which has benefited the super-rich at the expense of everyone else.

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Hand-drawn glove

10/10

B. goodwin

Third, a key way for workers to raise their incomes is to join a union and bargain collectively for better wages. Yet governments have relentlessly attacked the labour rights of working people. In fact, 194 out of 199 labour laws passed in Canada since 1982 have restricted, suspended or denied the rights of workers.

Fourth, governments have abandoned the Canadian tradition of a proactive industrial strategy. Instead, they've energetically committed to a hands-off strategy to economic development. This strategy has caused the elimination of hundreds of thousands of high quality jobs and created an economy plagued by wild swings between boom and bust. It's caused needless hardship, pain and suffering for countless numbers of Canadian families. And the ultimate result has been a radically less equal Canada.

Recently, the political debate has focused on the first three causes. Unfortunately, the abandonment of an industrial strategy as an effective policy instrument in promoting economic growth and equality has not received the attention it deserves.

Hands-off strategy has failed

The idea that governments can be a force for good in economic development has been abandoned in recent decades. It's been replaced with a hands-off strategy which says the role of government is to be purely pas-

Why abandon
an industrial
strategy as an
effective policy
instrument?

Drifting

without vision or purpose.

sive and permissive. Under this strategy, when a kid asks what job they should train to do in 10 years, the answer from the government is: “We have no clue, we don’t care, and you’re on your own.”

The hands-off strategy has been achieved through policies of deregulation, privatization and government spending on tax cuts. It’s failed Canada and Canadians miserably. It’s left our economy drifting without a vision and purpose. The product of this approach and its limitations now lies all around us:

- The elimination of high quality jobs;
- Shockingly low productivity growth;
- Embarrassingly low levels of investment in research and development;
- A significant innovation gap with the rest of the world;
- A decimated manufacturing sector;
- The extraction and export of non-renewable natural resources to anywhere for any price;
- Trade agreements that do not protect Canadian jobs or serve Canada’s interests; and
- Increasing foreign control of key Canadian companies and industries.

Our economy is in this desperate situation because a hands-off strategy encourages industry to always put their short-term profit-maximizing interests first. This is a stubbornly short-sighted approach that rigorously refuses to provide any leadership to industry, let alone make any demand on industries to plan

and invest in the long-term. All this is bad enough. But there is another aspect to a hands-off strategy that makes matters even worse—namely, a hands-off strategy fails to recognize the necessity of government. The plain fact is, there are some things we need governments to make happen because the market and private industry simply will not do them when left to their own devices.

For example, governments in Canada have spent billions on corporate tax cuts over the last decade. But corporations have either hoarded the extra cash or used it to pay obscene executive bonuses—whether the company performed well or not. They haven't used the tax cuts to create jobs, raise wages or improve productive capacity by investing in research and development, new technology or workplace training.

The most recent example, in a long list, involves Electro-Motive, a company in London, Ontario owned by the U.S. corporate giant Caterpillar Inc. Negotiations between Electro-Motive and its unionized workers collapsed when the company surprised the workers with a set of shocking demands that included a 50% cut in wages and benefits—even though Caterpillar Inc. made record profits in 2010. The company threatened that if it didn't get everything it wanted it would close the plant and move the 700 jobs to another plant in the U.S. The workers stood firm. The company made good on their threat and closed the plant on February 10, 2012.

Cross your
fingers and
hope is not a
strategy.



This is the same company that received a \$5 million tax break from the Harper government to remain where it is. The company was such a Harper favourite, Mr. Harper himself donned protective goggles and posed with company officials at the plant in 2008 to showcase the announcement of a \$1-billion tax break for all Canadian industry.

A hands-off strategy means governments simply cross their fingers and hope corporations will do something economically useful with tax cuts—and hope they keep plants and jobs in Canada. This defies common sense and it's a massive mismanagement of taxpayer's money. Governments should be more proactive, identifying the shortcomings of economic development and formulating a strategy to address them; being prepared to step in and protect people and the long-term interests of the economy from short-sighted self-interested corporate executives. Surely, rather than just spending aimlessly on corporate tax cuts, there is a smarter way to use our tax system or other policy tools to ensure corporations make investments that will improve productivity and serve the interests of the overall economy.

A hands-off strategy is why we have an economy driven by short-term interests and a lack of investment in activities that create long-term productive capacity. The overall result is a brittle economy plagued by shock waves—short dashes for growth followed by damaging recessions; industries which become soaring bubbles and then burst after a few years. It's an

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economy in which a few wealthy people do very well but everyone else falls behind—their options narrowed, opportunities denied, potential wasted.

Never has there been a greater need for a modern industrial strategy in Canada. The failings of the hands-off strategy are clear—not just to those desperately seeking good jobs and to those worrying about how long their current jobs will last; not just to those concerned about what the future holds for their children who ask what jobs they should train for in the future; not just to those working two jobs and still facing increasing personal debt; but to all of us who know that if we don't build a more equal Canada then we'll all be worse off.

A modern industrial policy

Canada has a long tradition of proactive industrial strategies dating back to the National Policy of our first government led by the John A. Macdonald Conservatives. These strategies were founded on the premise that governments can and must play an important role in creating economic growth and helping to ensure that growth serves all Canadians and the long-term economic interests of the country. Today, it's more important than ever that the interests of people and nature be at the heart of industrial and economic policy.

Canadian industrial strategies have been based on various public policies, some of which remain relevant today and others which need refining. Today, the specific policy needs may be different, but the general need for an industrial strategy remains the same: governments should play a constructive role in economic development; they shouldn't just sit on their hands and watch a downward spiral of jobs, wages and investment while income inequality grows.

There was a time when we had a strategy that ensured we used our natural resources to actually make products in Canada. Today, we just extract the resources, export them to other countries and buy products back from them. It just doesn't make sense.

Five key principles

We believe a successful modern industrial strategy should be built on the following five principles:

1 One of many. A modern industrial strategy is not a goal in and of itself. Rather, it's one of many policy choices available to governments (e.g. quality public services, tax fairness, labour rights) to achieve the broader goal of reducing income inequality. There should be healthy debates about the mix of specific policy ingredients that make up a modern industrial strategy. But what's more important is that

We need a
strong mix
of strategically
integrated policies.

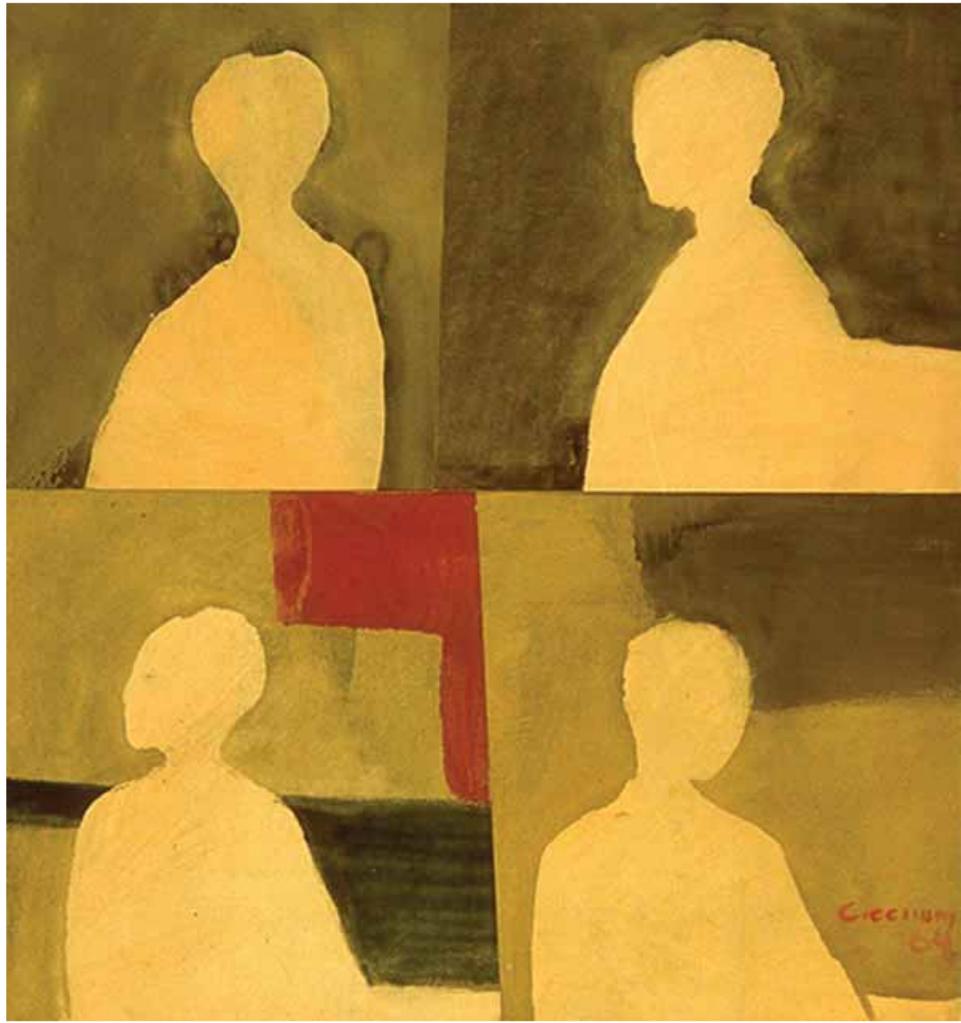


an industrial strategy be part of a broader, integrated and coherent approach to economic policy which is focused on the ultimate goal of reducing income inequality.

2 Government as lubricant. A modern industrial strategy recognizes government has an essential coordinating and enabling role to play in economic development. To be clear: this doesn't mean government should "pick winners" and hand out massive subsidies to individual companies. Instead, it's about government being a partner in building a foundation from which an entire industry can succeed. Think of it this way: government is the lubricant in the industrial engine, oiling its wheels and helping it run faster, more smoothly and longer distances without the damaging and regular breakdowns we've experienced so often in the past.

3 True partnership. A modern industrial strategy should be based on a partnership process—not just consultation but a real partnership driven by the belief that "we're all in this together." The "we" includes government, business, labour, academic institutions and others. And "this" is the task of building a world-class economy based on dynamic and competitive industries. Government's role is to bring together key stakeholders in an industry to work in partnership to map out a common vision, set

Build
foundations
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of entire
industries.



collective goals and figure out how all stakeholders can leverage the necessary resources to succeed.

4 Future considerations. A modern industrial strategy should encourage long-term interests over short-term ones. The hands-off strategy has proven that just because there's economic growth, it doesn't mean it's sustainable or beneficial. For example, a financial sector that undermines the ability of the overall economy to grow needs to be constrained by governments, not patted on the back. By allocating wealth to non-productive activities like derivatives trading and currency speculation instead of investing in job creation, and by engaging in predatory profit-taking off the backs of hardworking customers through sky-high user fees, the financial sector has acted to the detriment of the overall economy.

5 High tech. Low tech. Green tech. A modern industrial strategy should go beyond the old simplistic debates between a "smoke-stack" economy and a "high-tech" economy. Clearly, the answer is not to turn the clock back to the time when Canada was a country of hewers of wood and drawers of water. That being said, industries like auto, steel, mining and forestry may be old, but it's misleading to say they're "low-tech" and obsolete. Other countries have proven that with government investment and coordination these industries can be-

Value
long-term
interests
the most.



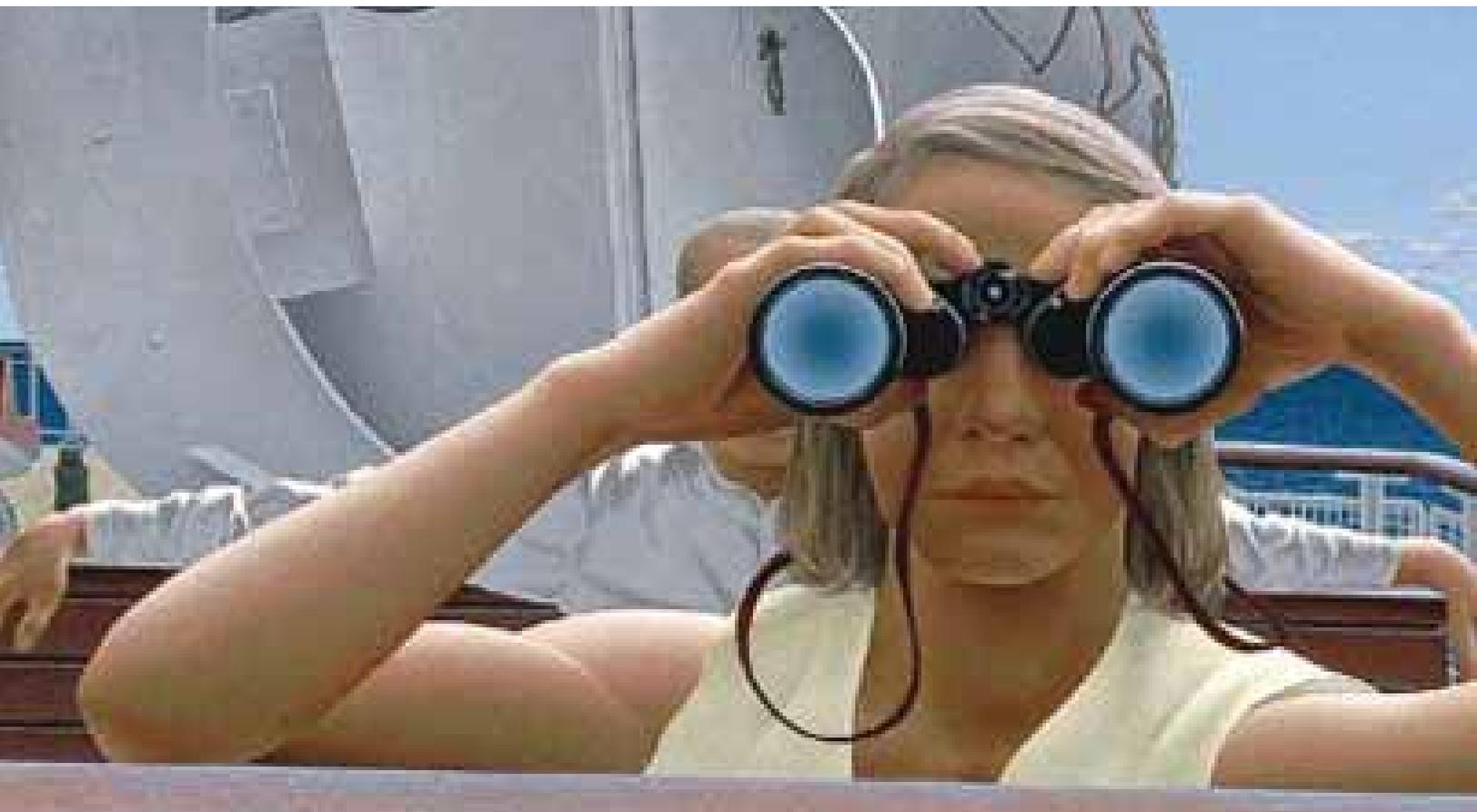
come a vibrant part of a modern economy. The point is to ensure resources and activities are coordinated, whether in “smokestack” or “high-tech” industries, to take advantage of strategic opportunities and ensure Canadian industries are always one-step ahead of our international competitors. In addition, some people argue that we have to choose either a strong economy or a clean environment.

This is a false choice that sells our country short. We can and must have both. The current economic recession actually presents us with a golden opportunity to unleash Canadian ingenuity and develop the green technologies that will renew our economy and confront climate change. Canada must do more to close the green innovation gap between us and the rest of the world. We have no reason to shrink from this challenge. We have the creativity, knowledge and resources to be at the forefront of this huge opportunity.

Conclusion

In spite of all the evidence, the Harper government and many provincial governments remain committed to a hands-off strategy and policies of deregulation, privatization and massive government spending on tax cuts. They have no real economic development strategy, except to lurch from one crisis to the next, and they refuse to discuss the idea and need for a strategy with Canadians. As a result, our economy

Unleash
Canadian ingenuity
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continues to drift without serious purpose or coherence of direction.

However, we believe the prospects of building momentum for a modern industrial strategy have never been better. That's because the real experiences of Canadians have created a renewed and optimistic interest in alternatives. For the last three decades, Canadians were told to tighten their belts, work harder, play by the rules and let the free market take care of everything else. They followed this advice and, to put it mildly, it hasn't worked out well. The vast majority of families are no further ahead today than where they were 20 years ago. And many have fallen behind. The financial crash of 2008 and the global economic recession since then have made it clear that a hands-off strategy doesn't work and it actually makes things worse.

Canadians are looking for an alternative. And now it's our turn to show them a better way is possible. A modern industrial strategy is a necessary part of building a country with a strong, sustainable economy that creates wealth and distributes it fairly, and puts the interests of people and nature first. A country in which adults can find good jobs and children can realize their full potential. A country in which people live in hope, not fear. If we work together—all of us bringing our best effort to this challenge—we will succeed.

All together now!

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