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Investing in People is Good Business

Canada could use some good news these days – especially in light of the shock wave that rocked the country from the threat of a downgraded credit rating. On February 16 – just 11 days before the federal Budget – Moody's Investors Service Inc. of New York announced that the country was in danger of losing its highly-valued triple-A credit rating on most of its debt.

The other American international rater, Standard & Poor's Corp. had previously downgraded Canada' foreign currency debt to double-A plus in October 1992. They had maintained the triple-A rating for the government's Canadian dollar bonds.

The events of the past few days show how profound is the power of these self-appointed arbiters of our economic health. Moody's actions sent the Canadian dollar sliding and drove up interest rates. By the time the negative impact had rippled its way through the markets, the bond rating agency had succeeded in contributing to Canada's deficit.

This unbridled power raises questions about the counterbalances on this so-called impartial, objective system. Who is watching the watchdogs? What gives Moody's the right to control – in effect create – the financial mood of this country? Do Standard & Poor's use poor standards? What about the good financial news?

The Organization for Economic Co-operation and Development reported in January 1995, for example, that economic growth in Canada is robust. Our GDP grew by 4.8 percent over the year, making it third in the industrialized world behind Australia which pegged an annual growth of 6.4 percent and Denmark at 5.8 percent. Canada's GDP growth in other western industrialized countries: the United States at 4.4 percent, Britain at 4.2 percent and Japan at 1.1 percent.

And despite continuing high rates of unemployment in Canada (an average of 10.3 percent in 1994), there are a few glimmers of light on the employment front. Statistics Canada reports that labour market conditions improved dramatically last year. The growth in output has finally translated into real work, thereby ending the jobless recovery. About 95 percent of the growth in 1994 was in full-time employment – a big turnaround from preceding years. Moreover, the manufacturing sector became once again a major employer, accounting for one-third of the overall employment growth.

There is also some good news that is equally important but less well known. At the dawn of the free trade agreements, some companies which went south and even further south of the border – in search of cheap labour, low payroll taxes, and lax employment and environmental standards – are now coming back. A small insert in the January 1995 issue of *The Economist*, entitled "The Better Bet," noted that when it comes to "long-term investment, Canada still has the edge."

The article points out that Philips, a Dutch electrical-products group, recently decided to shift two light-bulb lines from Mexico to London, Ontario. The Chrysler Corporation intends to set up a research unit in Windsor right across from Detroit. Toyota will spend in the order of $427 million to more than double the capacity of its assembly line near Cambridge, Ontario. Two Swedish firms, Astra Pharmaceuticals and LM Ericsson, a maker of telephone equipment, have chosen Montreal to establish large research facilities with international mandates.

The rationale underlying these important business decisions is instructive. "These firms have discovered that the lure of low wages in the southern United States and Mexico can be outweighed by the productivity of a loyal, well-educated, albeit highly paid, workforce.

There is no question that lower tariffs and a lower Canadian dollar are contributing factors as well. But the fact is that these companies now acknowledge that "the frozen north has something to offer after all" – stable, healthy and skilled workers. There is something to be said for a high-quality workforce in which the needs of people are seen as important and worth paying for. These firms recognize that investing in people is good business.

This recognition can easily lead to a simple, but incorrect, conclusion: that is important to invest in people in order to increase their 'human capital' and use them as instruments for the production of commodities. Investing in people is important not simply because it can reap positive economic benefits. More importantly, an investment in people contributes to the quality of life of workers, their families and all member of a community.

The evidence speaks for itself. In 1994, Canada ranked top in the world on the United Nations Human Development Index – a composite measure of life expectance at birth (a reflection of the general health of the population and the quality of health care services), the adult literacy rate and average years of schooling. This ranking no doubt can be attributed to the fact that Canada makes substantial investments in health and education – both of which are universally accessible through publicly-supported programs.

Next time Moody's and Standard & Poor's sit down in their American offices to scrutinize Canada's economic health, they may want to consider our social health as well. Next time the credit raters on Wall Street set out to calculate the pluses and minuses of Canadian economy, they may want to take into account the quality of life factors for which we never got credit – but which are crucial to good business and to the well-being of the country as a whole.

Sherri Torjman

1600 Scott Street, Suite 620
Ottawa, Ontario, Canada K1Y 4N7
phone: (613) 729-3340 fax: (613) 729-3896
e-mail: caledon@caledoninst.org
website: www.caledoninst.org