compared with the record of other countries. The share of Canadian exports in relation to world trade has tended to decline from the very high level in the early postwar period. The Canadian share fell from 4.7 p.c. in 1955-59 to 4.3 p.c. in the first half of the 1960's, although there was a slight increase in the share in 1964. The Council said sustained and effective efforts are required in both export performance and import-competing performance in Canadian industry if potential output were to be attained and maintained. It called on business to give high priority to these requirements which go hand in hand with adequate development of specialization and productivity and sustained strong industrial growth. The Council also said that government should facilitate such success in the business community by adapting and developing policies deliberately aimed at strengthening Canada's trade performance, particularly in non-agricultural products.

The most important current problem is to achieve and maintain adequate productivity growth, the Council said. This is the key to economic growth and to rising living standards for Canadians. It is also an important factor in maintaining reasonable price and cost stability and a satisfactory international competitive posture. Even the goal of sustained high employment ultimately depends on adequate productivity growth, especially in relation to the United States. Without adequate productivity gains in Canada, imbalances and distortions would sooner or later appear to undermine employment.

Sources of Economic Growth

Successive economic studies, especially in the industrially advanced countries, have shown that total increases in the output of an economy can only be partly attributed to the increase in the quantity of a nation's economic resources (labour, capital, land and natural resources). These studies typically reveal a large 'residual' which must be accounted for by a second set of factors. These include the improvement in the quality of productive resources (such as levels of education and skill), together with the growth in the efficiency with which these resources are combined (including the application of new technology, better organization and production, shifts from less to more productive employment of labour and other resources, and increased specialization and scale of production). An important part of the Council's *Second Annual Review* constituted a preliminary exploration of the roles and relative importance of some of the complex forces affecting Canadian economic growth.

The Council approached its task partly by comparing differences in real per capita income between Canada and the United States. The current gap in output and in money income per person between Canada and the United States suggested that although average per capita incomes in Canada have increased considerably during this century, they have remained persistently and substantially below the U.S. averages. The analysis suggested that, in 1964, average Canadian income was at least 25 p.c. below the U.S. level. Since the over-all averages of current price levels in the two countries appeared to be fairly close together, the Council assumed that differences in the average levels of *money* income between the two countries could be taken as an approximate measure of the differences in the average levels of *real* income.

It was not possible to provide a comprehensive and precise measure of the relative importance of the many factors involved in the differences. However, the role and contribution of at least some of these factors were suggested. For example, Canada has recently had a much lower percentage of its population in the labour force, and an even lower percentage of employment in relation to total population. One reason for this is the relatively lower proportion of people of working age in Canada, especially as the result of the exceptionally high postwar birth rates in Canada. Another reason is the lower