

Many factors may influence the size of the productivity gap in manufacturing. One of these—but only one—is scale and specialization. The term “economies of scale” is rather loosely used and in some discussions seems to be used almost synonymously with “size of market”, “size of firm”, “size of plant” or “size of production runs”. The latter—the size of production runs and the degree of specialization or diversification of production—appears to be highly relevant. There is a general pattern of greater diversification of products and typically shorter production runs in Canadian plants. This involves frequent changes and interruptions in production and scheduling, and this in turn contributes to less-efficient use of both manpower and capital, and has a pervasive upward influence on all the basic categories of cost per unit of output. The Council believes that greater specialization would contribute to the lowering of costs of all major types—material, labour and overhead. It would make possible in many lines of production an increase in output with essentially the same quantity of labour and capital facilities. This would reduce labour and overhead costs per unit of output and permit similar economies in materials on the basis of comparable developments in firms supplying materials and components.

Why has not more specialization occurred in Canadian plants? Many factors may be involved—national commercial policies, business concepts and practices, institutional factors, uncertainty about the application of restrictive trade practices legislation, purchasing practices of provincial and municipal governments, etc. In the Economic Council's view, a major part of the answer lies in the existence of both Canadian and foreign tariffs which have either reduced incentives for, or inhibited, greater specialization. Canada's commercial policy was historically designed to a considerable extent to foster a wide diversity of manufacturing activity in Canada. Tariffs play a role in the higher cost of manufactured products in Canada, contribute in an important way to the development and maintenance of short runs and, in turn, increase the production and overhead costs of Canadian producers. The structure of tariffs also indirectly restricts the extent of scale and specialization.

Now that the Canadian economy has grown and developed in many ways, a re-examination of the effects of the tariff has become increasingly essential, the Council reported. The Council observed that it is sometimes suggested that one route toward increased scale and specialization would be to facilitate intercompany agreements to permit more specialized patterns of production between firms and longer production runs within the plants of various firms. But the Council said it should be recognized that industrial rationalization may reduce competition within Canada, especially in circumstances in which trade barriers protect producers from external competition and in which there is already a relatively high degree of industrial concentration in many lines of Canadian manufacturing. The Council's conclusion:—

“The route of tariff reduction for manufactured products is, in our judgment, the most promising of all routes towards increased specialization in Canada and the consequent narrowing of the existing gap in productivity in manufacturing between Canada and the United States. By ‘tariff reduction’ we mean negotiated reductions in both Canadian and foreign tariffs.”

The Urbanization of Canada

The urbanization of any nation is closely related to the structure and growth of its economy and to rising income levels. In Canada, almost three quarters of the population lives in cities and towns occupying less than a hundredth of the total area of the country. The Economic Council says this degree of urbanization will continue to increase. Between 1966 and 1980, Canada's urban population is projected to rise by almost 5,800,000 people to over 20,000,000. By 1980, about 81 p.c. of the total Canadian population (estimated to reach almost 25,000,000 by then) will be urban and some 60 p.c. will be concentrated in 29 large city complexes of 100,000 or over. The net population gain to these large cities between now and 1980 is expected to be 4,500,000—a number equal to the combined total for metro Toronto and metro Montreal in 1967. The population