

ENTREPRENEURSHIP, ENTERPRISE DEVELOPMENT & PUBLIC POLICY

A VIEW FROM WESTERN CANADA

Mr. Lorne D.R. Dyke
International Consultant
West Vancouver, Canada

The article reflects the personal perspective of a first generation Canadian, from a small British Columbia (BC) interior town who attended the University of BC at Vancouver (B. Comm.. 1956) before joining Canada's Foreign Trade Service. After assignments in Athens, Boston and Port of Spain, he was appointed Deputy Minister, Manitoba Industry & Commerce.

Subsequently he was VP of the Caribbean Development Bank at inception, VP-General Manager, Boeing of Canada Ltd., President of his own company, CEO of Canertech, Inc. (a Petro Canada subsidiary), Investment Advisor for Canada, Los Angeles, consultant and VP of a major shipyard and an Associate of The ARA Consulting Group.

Since 1998 he has worked as an independent consultant with assignments from the International Trade Centre (WTO/UNCTAD), Geneva, the Commonwealth Secretariat, London and IBM Business Consulting Services, among others. In November, he was an

invited presenter at the Third Commonwealth-India Small Business Competitiveness Development Programme, co-sponsored by the NSIC. His topic was "Small Business Financing – Canadian & Caribbean Examples," focused on the enabling environments.

BACKGROUND

An Historical Perspective

Western Canada – the provinces of Manitoba, Saskatchewan, Alberta and British Columbia plus the Yukon and North West Territory – is still being "settled" and developed. The First Nations (aboriginal peoples) in the region began seeing newcomers in the 1600s. However, it wasn't until the 1800s and, more significantly after World War I that immigration and settlement accelerated. BC agreed to join the Confederation in 1871 on the promise of a transcontinental rail connection; Manitoba had joined in 1870. Alberta and Saskatchewan joined in 1905 (hived off from the NT). The region is thinly populated,

with roughly ten million people, about 30% of the nation's population in 47% of the country's land mass. Greater Vancouver, with a population of 2.156 million (50.7% of the BC provincial total) is Canada's third largest city, after Toronto (Ontario) and Montreal (Quebec).

An Economic Perspective

Early exploration and settlement of western Canada followed the pattern that had evolved in eastern Canada and was similar to that of the US. Settlers' prime motivation was access to and ownership of land, the possibility to earn income/gain wealth and importantly, freedom from the constraints and restrictions of "the old world" from whence they came. Enterprise, in the traditional sense of pursuing opportunities with courage and boldness, ready to "engage" and individual entrepreneurship, was implicit.

In addition to assisted passages and land grants, motivation came from expanding economic opportunities including new initiatives to supply the needs and wants of metropolitan populations in Britain and Europe as well as the growing American market to the south. Not the least of these was furs for fashion apparel, gold for bullion, timber and cereal grains. In the process, new communities needed local services and sustenance.

In the larger scheme of things, an explicit economic structure evolved, oriented to the needs and dictates of central Canada (ie., Ontario/Quebec) and export markets. As a former colony of Britain and a member of the British Commonwealth, Canada had preferential tariffs with Britain and other Commonwealth countries. This continued until the advent of multilateral trade negotiations, the GATT and the "most favoured nation" tariff category. As well, the growing demands of the huge neighbour's market and American ability to supply the small Canadian market affected all facets of economic development and policies.

At the same time, as American population and market needs grew, Canada became increasingly dependant on investment from and trade with the USA. From beginnings in resource extraction industries, American investment spread into manufacturing to serve the Canadian market (aided by the need to get "inside" Canada's tariff wall) and, following the time-tested axiom, trade followed investment. Today over 80% of Canada's exports go to the US while some 70% of Canada's imports come from the US.

In GDP terms, out of a 2005 number (in constant 1997 dollars) of \$1,079,343M, almost 40% was contributed by Western Canada, of which BC and Alberta contributed

just under 32%. Increasingly, economic activity is in the services sector (3 of 4 employed Canadians) as we move to a knowledge-based economy built on innovation and technology. Currently, however, strong global commodities and energy markets are driving western Canada's growth.

From a western Canadian perspective, the natural, historical south-north orientation of economic activity – evidenced first (and still) by trade and investment related to mineral exploitation and related services, has grown to the full range of activities in the services sector, including ICT, biotechnology, film and multi media, venture capital and more. In national terms this partly explains an economic and political perspective different from that of eastern Canadians, three time zones and 4-5 hours' flight time to the east. The implications of that different perspective as it relates to entrepreneurship and enterprise development will be discussed later in the article.

I will first touch on the subject of "issues and constraints" relating to entrepreneurship and enterprise development and the growth of small business in western Canada.

Issues and Constraints

A primary issue relating to western Canada's economic

development historically was rail transportation. To protect eastern manufacturers and suppliers, preferential rail freight rates were established, inhibiting the flow of less expensive products and merchandise from the US. At the same time, preferential commodity freight rates benefited western producers of minerals and grains, facilitating their access to the Great Lakes and eastern markets. These issues continued into the second half of the twentieth century, evidenced by the Manitoba Industry & Commerce "transportation" budget of that period. The constraint: a small domestic market/access to the markets of central Canada and the US.

Access to capital and growth financing was an issue of similar importance and one that continued longer. The need for capital for resource development (mining, forestry and fishing) led to the establishment of the Vancouver Stock Exchange and similar exchanges in Alberta and Manitoba (also home of the Grain Exchange). Raising risk (venture) capital via a share offering was often easier than getting a line of credit. Evolution of the banking system from local to national banking led to eastern Canadian head offices. That meant eastern control of credit limits that often reflected a lack of understanding of western Canadian business needs and opportunities. In recent history banks formed in western Canada failed or were

acquired, eg., the Canadian Commercial Bank (failed) and the Bank of BC (acquired by HSBC). Today only Canada's Western Bank has its head office in the west. At the same time, western Canada, especially BC, has experienced a rapid growth in credit union membership. The issue: limited access to growth capital.

The advent of venture capital companies and other risk investment vehicles in the last quarter of the last century followed the US experience. In Canada it was fostered by a system of tax credits from the national government for a type of funds eligible for retirement savings accounts. The tax credits were replicated by provincial governments for these "Labour Sponsored VC Funds." In the same time frame the BC Government allocated a portion of annual budgets to tax credits for investors in Small Business Venture Capital Companies (SBVCCs). That program continues to provide stimulus to nascent ICT, biotechnology and multi-media technology companies seeking growth financing. Regrettably, the SBVCCs are not yet attracting institutional capital in a significant way.

The role of education systems (a provincial responsibility) in fostering entrepreneurship has been addressed in a mixed way in different jurisdictions. The Junior Achievement

program is well established in many high schools across western Canada but not all high schools actively promote entrepreneurship as a vocation. At the post secondary level, commercialization of academic research has been actively pursued for several decades while courses in entrepreneurship are less common. On the other hand, technical colleges, eg., BCIT, NGOs and private trainers have filled the breach with a variety of incubators and start-up courses for aspiring entrepreneurs. The issue: strengthening enterprise culture as an avenue for self-employment and wealth creation. The issue of the enabling environment provided by governments – central to economic development in an open market economy - is the subject of the next section.

The Enabling Environment

Before discussing the role of governments in providing an "enabling environment" for private sector/SME business initiative we should define the SME sector in terms of enterprise criteria. There are several definitions of SMEs. They can be categorized by size according to the number of employees, the value of annual sales, revenues or borrowing capacity. In Canada we typically define SMEs in terms of number of employees and annual revenues. This is fairly consistent with other definitions around the world.

The EU defines SMEs as enterprises with fewer than 250 employees and an annual turnover under Euros 50M and/or an annual balance sheet total not exceeding Euro 4 million.

In the US the SBA (Small Business Administration) defines small enterprises as independent businesses with up to 500 employees. Unlike the EU and Canada with their simple definitions for all industries, the US sets size standards for each North American Industry Classification System (NAICS) category. This is in order to reflect industry differences. The most common sizes differentiating medium from large companies are: 500 for most manufacturing and mining industries; and 100 for wholesale trade industries.

In Canada the definition is “fewer than 500 employees; and annual revenues under C\$ 50 million. Excluded are unincorporated firms with under C\$30,000 revenues, non-profit and government organizations, schools, hospitals subsidiaries, cooperatives and financing/leasing companies. However, since 2000, the Survey of Suppliers of Business Financing has used a definition proposed by the Canadian Bankers Association – that firms with loan authorizations (credit limits) of less than C\$1 million are considered SMEs.

However, Industry Canada, in its Small Business Quarterly, Vol. 7, No. 4, February 2006, in reporting on “Business Establishments” describes small businesses as those with fewer than 100 employees, medium size businesses as those with from 100-499 employees and micro businesses as those with fewer than five employees. The table on the following page displays the range of business sectors and number of SMEs.

Entrepreneur Development/ Skills Training

The idea of “training” entrepreneurs developed in the 1980s. The notion that entrepreneurs are born, not developed has been proven wrong (though still debated). Certainly entrepreneurial instincts are within us all – starting with the desire and effort to survive! There is evidence of entrepreneurship and entrepreneurial initiative from the earliest times of hunter-gatherers.

The attributes of entrepreneurs have been ascribed to some cultures/societies more than others. However, the evidence is that all societies and cultures embrace entrepreneurship and entrepreneurial endeavour – in different ways, responding to different needs. It is impossible to differentiate the entrepreneurial spirit of Caribbean

(continued from page 2)

Table 1: Business Establishments by Size of Employment and Industry, June 2005

Industry	Employer Businesses												
	Grand Total	Indeterminate ¹	Total	Number of Employees								Distribution (%)	
				1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+	1-99	100-499
Agriculture, Forestry, Fishing and Hunting	195 039	136 867	58 172	44 184	7 016	3 957	2 182	559	202	63	9	5.7	1.2
Mining and Oil and Gas Extraction	15 712	7 148	8 564	4 957	1 153	929	813	349	195	117	51	0.8	1.4
Utilities	2 037	806	1 231	539	206	168	139	61	42	39	37	0.1	0.4
Construction	259 064	145 290	113 774	72 852	17 953	11 293	7 727	2 482	984	379	104	11.0	6.0
Manufacturing	97 454	36 744	60 710	25 014	9 183	8 209	8 647	4 744	2 900	1 603	410	5.5	20.0
Wholesale Trade	115 232	52 076	63 156	30 837	11 924	9 404	7 449	2 209	933	336	64	6.0	5.6
Retail Trade	216 120	81 917	134 203	60 047	32 101	22 038	12 699	4 283	2 137	794	104	12.8	13.0
Transportation and Warehousing	109 999	63 751	46 248	30 327	5 980	4 197	3 464	1 265	535	352	128	4.4	3.9
Information and Cultural Industries	31 501	17 863	13 638	6 806	2 143	1 757	1 698	635	329	182	88	1.3	2.3
Finance and Insurance	92 052	57 901	34 151	17 009	5 544	4 633	4 875	1 040	541	331	178	3.2	3.9
Real Estate and Rental and Leasing	172 965	131 479	41 486	25 092	6 836	4 566	3 233	1 050	434	205	70	4.0	2.8
Professional, Scientific and Technical Services	313 374	196 285	117 089	81 214	15 843	9 956	6 656	2 012	884	404	120	11.3	5.7
Management of Companies and Enterprises	83 282	65 856	17 426	10 261	2 526	1 892	1 493	621	350	194	89	1.6	2.4
Administrative and Support, Waste Management and Remediation Services	105 568	57 465	48 103	27 141	8 124	5 781	4 189	1 541	742	435	150	4.6	5.2
Educational Services	22 044	10 265	11 779	6 069	1 862	1 450	1 073	417	253	228	427	1.1	2.1
Health Care and Social Assistance	95 605	12 891	82 714	46 607	15 718	9 827	5 948	2 107	1 301	797	409	7.8	9.3
Arts, Entertainment and Recreation	41 930	23 683	18 247	9 422	3 225	2 442	1 926	720	327	141	44	1.7	2.1
Accommodation and Food Services	107 292	33 177	74 115	28 293	14 206	14 010	11 804	4 251	1 177	309	65	7.1	6.6
Other Services (Excluding Public Administration)	163 961	68 346	95 615	63 808	16 460	9 138	4 512	1 098	413	144	42	9.3	2.5
Public Administration	7 930	65	7 865	2 215	1 530	1 092	1 222	656	464	359	327	0.7	3.6
Total All Industries	2 248 161	1 199 875	1 048 286	592 694	179 533	126 739	91 749	32 100	15 143	7 412	2 916	100.0	100.0
Share of Employer Businesses			100%	56.5%	17.1%	12.1%	8.8%	3.1%	1.4%	0.7%	0.3%		

Source: Statistics Canada, *Business Register*, June 2005.¹ The indeterminate category consists of incorporated or unincorporated businesses that do not have a Canada Revenue Agency payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners.

higglers and hucksters from the renters of stalls at a North American farmers' market.

The Venture Program at BCIT, developed in 1988, was one of North America's first formal efforts to bring entrepreneurial training into academe. See www.bcit.ca. This three month program initially operated at "one remove" from the Institute, drawing on staff and facilities and utilizing outside mentors and coaches to augment the formal training. The original thrust continues – training for aspiring entrepreneurs with a solid commitment to starting a business; helping them develop techniques and skills to enhance their prospects for success; equipping them with a fully developed business plan and assisting in developing key contacts (banking/financing, legal, etc.)

Many community colleges across western Canada, from Winnipeg's Red River Community College to Vancouver Community College, today offer courses and programs in entrepreneurship/small business. The spring 2006 offering at VCC has 10 "How to Start a Business" courses at a cost of C\$85 per course or C\$495 for the package (a saving of C\$355!). Also, offered for the first time, "Branding – Creating the Image That Sells," a 30 hour course for C\$395. See: www.vcc.ca.

Also in the mid '90s entrepreneur training and development efforts were getting underway in the Caribbean, sponsored by such entities as the ILO and the Pan American Foundation. In Trinidad & Tobago the Small Business Development Company (SBDC) had been established by Government following extensive consultations. Its ownership is several government and private sector companies. Central to its mandate was a well-conceived small business loan guarantee scheme, a National Business Information Centre (NBIC) operated at the main office and two satellite locations and a host of special and sectoral SME training and development activities.

In the late 1990s, at the direction of Trinidad & Tobago's Prime Minister, the SBDC led a national "Task Force for Intensified Development of the Small Business Sector." In the Report, dated April 1999, one recommendation was the "...introduction of compulsory entrepreneurial training in the classroom." A further recommendation was for an SBDC – Junior Achievement alliance "to implement a nation-wide school campaign of entrepreneurial literacy."

Also in the mid '90s, the ILO formed a Caribbean Multi-Disciplinary Team with UNDP support to examine and report on "Small Business – Key Ingredients

and Constraints to Their Success in the Caribbean.” In the October 1995 report, section 4.3 under Human Resource Development, the distinction between education and training is noted as also the importance of training “..to raise individuals to a desired standard of efficiency, not only by instruction but also by the practical application of instruction.” It goes on to describe the role of various entities, including National Training Boards in Caribbean countries, noting that entrepreneurial skills development is, in fact, vocational training. The report notes the need for relevant training materials and instructors that are able to relate to and understand the diverse day-to-day skill needs of small business owners and managers.

Also in the mid ‘90s Barbados took steps to strengthen and expand its SME sector. The Ministry of Industry, Commerce and Small Business Development engaged a team led by the writer, under contract to The ARA Consulting Group Canada, to develop a plan and strategy for a national “Small Enterprise Development Initiative (SEDI).” Following extensive consultations with all stakeholders, eg., the Small Business Association (SBA), crafts producers, National Development Foundation, the Youth Entrepreneurship Scheme (YES), Junior Achievement, BIMAP (Barbados Institute of Management & Productivity) and the primary

government agency concerned, the Barbados Investment & Development Corporation (BIDC), an Action Plan was proposed.

Ten years on, it can be seen that Barbados has developed and sustained a vibrant SME sector with relevant skills training, easy access to information sources needed by SMEs and financing. However, the competitive pressures of globalization and regionalization, e.g. the CSME (Caricom single Market & Economy) are omnipresent, as in Canada.

Business Information, Advice and Assistance

This area of support for SMEs is exemplified by the comprehensive services provided by the US Small Business Administration (SBA) www.sba.gov. Other jurisdictions have established similar agencies, with emphasis on providing information that is useful to start-up and early stage companies. Recent examples include Business Information Centres established with EU PHARE Programme assistance throughout the newly independent states of the former Soviet Union. In Canada chambers of commerce/ boards of trade traditionally provided many such services. National and provincial governments moved into the activity post World War II, recognizing the vital role of small business in economic development and employment creation.

In western Canada (as everywhere in the country) the provinces and territories strive to establish their unique attractiveness to new industry, focusing on aspects of comparative advantage - from a well educated work force, to the costs of services, (e.g., utilities) and transportation to potential markets. At the same time expanded effort has gone into responding to the information and support needs of established businesses. Over the past several decades such needs prompted formation of regional and local development corporations and agencies as well as support, through cost subsidization, of services provided to the sector by NGOs and independent professional service providers.

An example of government-supported locally-based/managed development efforts are Canada's Community Futures Development Corporations (www.communityfutures.ca). In BC there are 33 CFDCs, each with information resources and professional staff engaged in outreach activities. These were established in the 1990s by the regional development arms of the federal Department of Industry.

Industry Canada's web site, www.strategis.ic.gc.ca offers a wealth of information, advice and assistance to established and aspiring businesses. Especially helpful is the Small Business Research & Policy section

and the Small Business Quarterly Links to other entities such as the Business Development Bank (www.bdc.ca) the Canadian Youth Business Foundation (www.cybf.ca) and many more reflecting the importance given to supporting Canada's small business sector.

Trinidad & Tobago's NBIC at the SBDC (mentioned earlier), was modeled on Small Business BC (www.smallbusinessbc.ca) before it became a joint BC-Canada initiative. Established in the 1980s by BC Trade as the BC Business Information Centre, it was networked with some 80 chambers of commerce throughout the province, each of which had a "BIC in a Box." Central to the BIC service was timely response to all queries, including a 24 hour fax-back service for questions requiring data search. Key features of all BICs and the T&T replica was/is street level access, a customer service counter and reference library/resource centre in the case of larger centres and computer/internet access.

The ILO report (mentioned earlier), in referring to all Caribbean jurisdictions, identified the dearth of information and technical assistance as impediments to SME growth in the region. Access to information is not as great a problem now, given the availability of data on the Internet. However, computer literacy and the cost (as well as efficiency) of Internet access remains a challenge. With its solid commitment to youth and to

literacy and computer education, Barbados has achieved a leadership role in fostering youth entrepreneurship in the Caribbean. Initiatives such as the Ministry of Education and Youth Affairs' YES (www.mes.gov.bb/youthaffairs) and the Barbados Youth Business Trust (www.youthbusiness.bb) are exemplary.

In closing this rather superficial comment on the importance of business information with examples of various initiatives, attention should be returned to the two other key ingredients – appropriate advice as to its use/application and assistance in so doing. This generally is described as “technical assistance.”

In the Caribbean the ILO report stated that “Generally, the quality of technical assistance to the sector is insufficient since the organizations [with responsibility to deliver the service] lack the human, technical and financial resources to provide relevant, timely and professional services.” This is less so today, especially in those jurisdictions that have NGOs and non-profit agencies utilizing coaches with directly relevant skills as well as private sector mentors. Also, the work of the Caribbean Development Bank's CTCS (Caribbean Technical Consulting Service) has improved the quantum and quality of technical assistance available to the Region.

The Changing Global Market Environment

This issue – the impact of globalization on SMEs – has not been widely examined. The main feature of “the globalized economy” (for which there is no generally accepted definition) is the central role of large, multinational enterprises (MNEs). In late 1995 Canada's Standing Parliamentary Committee on Foreign Affairs and International Trade tabled an “Issues Paper” on the subject: “SMEs in the Globalized Economy: the Canadian Experience.”

In that Paper, attention was focused on the implications for SMEs of the interlinking of national economies with the changing conditions for wealth creation and growing competition. Central to the discussion was recognition of the shift in Canada's comparative advantage in wealth creation from dependence on resource extraction to one that is increasingly dependent on creation/growth of knowledge-based industries and the application of their products.

Globalization continues apace as trade liberalization efforts continue and capital markets are increasingly active and diverse. Combined with that, technological advances – especially in communications – have given many more companies a global outlook. It is evident that countries

less well endowed with natural resources can create competitive advantage with entrepreneurial initiative, a skilled workforce, innovative businesses, reliable communication and transport networks and other infrastructure. The other key ingredient is public sector policies and programs that create, attract and maintain the necessary levels of investment capital.

SMEs generally have not been favoured in this environment. Multilateral rounds of trade liberalization and regional trade pacts have tended to favour MNEs which, by their very nature (size and resources) are better able to adjust to and take advantage of the enhanced opportunities provided. In Canada, SMEs have been sheltered by relatively high tariffs and often related to MNEs as suppliers (eg., to the automotive industry), or have developed a domestic market niche in protected sectors (eg., textiles, footwear, furniture, appliances). Depending on their success in the domestic market, they ventured into export – usually to the US (ease of access and common business practices) and the Commonwealth (preferential tariffs). The Canada-US free trade agreement and then NAFTA accentuated the trend of exports to the US as exports to the UK and EU declined.

In an Industry Canada Occasional Paper (26) dated

December 2000, “SMEs, Exports and Job Creation: a Firm Level Comparison,” the internationalization process of 3,022 SMEs over a three year period (1994-’97) is examined, focused on the role of three determinants of export performance – firms’ characteristics, technological capabilities and commercial capabilities. While the Paper acknowledges that more information is needed, a number of findings are highlighted:

- a) Technological capabilities such as adoption of advanced manufacturing technologies (eg., automation), enhance the scope and intensity of employees’ skills and companies’ export potential;
- b) Ability to meet international quality standards (eg., ISO 9000) is important for access to international markets;
- c) Commercial capabilities (e.g., proprietary products, strategic alliances) are often more important than the company’s technology strength;
- d) Re SME’s job creation and export performance, in Japan SMEs represent 99.5% of all establishments and 73.8% of the workforce (OECD, 1997). In Canada firms with less than 100 employees account for 99% of all businesses and the number of such establishments increased by 29.7% and their share of

employment rose from 44.5% to 49.5% over a ten year period; and

- e) Empirical evidence shows that SMEs with international activities have stronger growth rates, estimated at 2-3 times the average for OECD economies (OECD 1997). And exporting SMEs tend to be more profitable than those confined to domestic markets.

These findings lead inexorably to the subject of the enabling domestic environment for SMEs provided by the various levels of government within whose purview they operate. In the final section, I shall comment on some of the public policy issues that loom large in any consideration of job creation and economic growth relating to SMEs.

Lessons Learned and Worthwhile Initiatives

Given the economic underpinning provided by self-employment and small businesses, governments the world over are increasingly mindful of the importance of SMEs as generators of economic well being. The leap from awareness to positive, helpful actions is more challenging!

In the worthwhile initiatives category is a Government of BC program – cutting red tape. It is progressing well and is being copied elsewhere in Canada. In its 2001 election campaign the BC Liberal Party promised to reduce the Province's 400,000 regulations by one third in three years. Following their election win, they had cut the number by 37% as of June 2004. By mid October 2005 the reduction had reached 40%. In a statement at that time the Minister of Small Business & Revenue said that his staff had identified another 100 areas for review and his ministry would provide quarterly progress reports.

As the BC-Yukon Vice-President of the Canadian Federation of Independent Business said, "It's not that any of the 400,000 regulations was particularly odious – it's that there were 400,000 of them!" She observed that "Small businesses get overwhelmed by the number of regulations. Most businesses in Canada have less than five employees and they can't afford to pay someone to ensure they comply with all the federal, provincial and municipal regulations. We're not talking about health and safety rules – it's the red tape." The CFIB web site (www.cfib.ca) has a "red tape diary" that documents this burden on small

businesses across the country. A 52 page CFIB report released in December, "Rated R - Prosperity Restricted, by Red Tape" is available on the CFIB's web site.

From a BC perspective, the annual cost to BC businesses (and thus their customers) is C\$4.4 billion (C\$33 billion for Canada, or C\$1,100 for every man, woman and child in the country). Figures 2 and 3 on the following page, excerpted from the report, provide the cost of regulation (direct compliance costs) by size of firm and in dollar terms – the latter with an OECD ten country comparison.

Under lessons learned in the enabling environment we can point to the enhanced availability of risk capital in BC as a direct result of offering tax credits for investors in designated small businesses. A similar tax incentive, also introduced originally in the late 1980s, is extended to employees who buy shares in the company that employs them (ESOP). Information on BC's Investment Capital Programs can be reviewed on the Government of BC website: www.ecdev.gov.bc.ca/ProgramsandServices.

The last point to make is that taxation, necessary as it is to provide governments with needed revenues to enable management of the jurisdiction, whether nation, province/

state or city/town/village, must be balanced with the ability of the society to pay the taxes levied. This is a contentious subject in much of the developed world, including Canada.

In a study released in September 2005, the C. D. Howe Institute revealed that Canada has the second highest marginal effective tax rates on capital for large and medium-sized corporations among 36 countries. This is the share of pretax return on capital required to cover the taxes. For those interested, the title of the C. D. Howe Institute "Commentary" is "The 2005 Tax Competitiveness Report – Unleashing the Canadian Tiger" ISSN 0824-8001. It is available on the web site: www.cdhowe.org.

Small businesses in Canada are given a "preferential tax rate" subject to certain criteria. Under the Canada Small Business Financing Program, annual gross revenues of not more than C\$500,000 qualify as SMEs for preferential loans. Farming and non profit businesses are excluded.

The issues of government rules, regulations, requirements (eg., permits and licences) and taxation are omnipresent in Canadian discussions of small business operations and competitiveness. As a small, open economy, Canada is challenged by any and all factors affecting productivity. On taxation the province of Alberta has led the way with

Rated R: Prosperity Restricted by Red Tape

Figure 2

The cost of regulation: direct compliance costs by size of firm

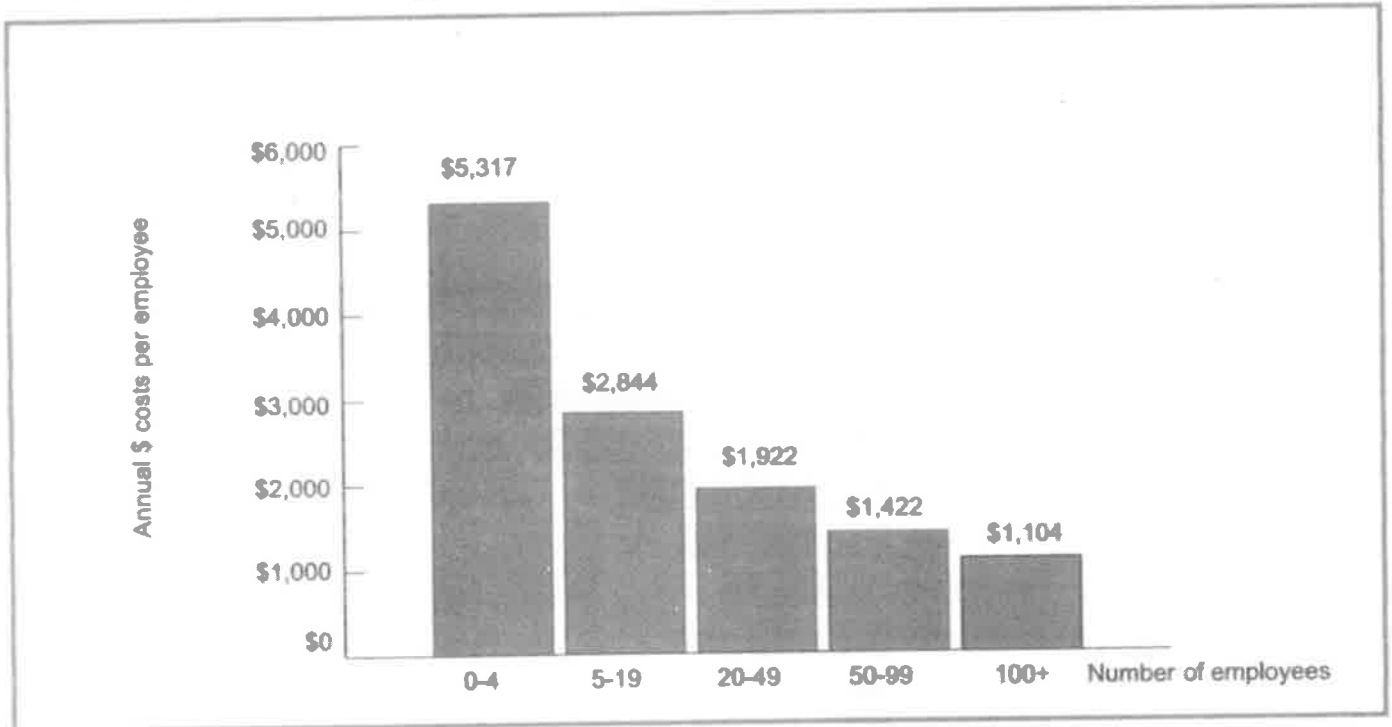
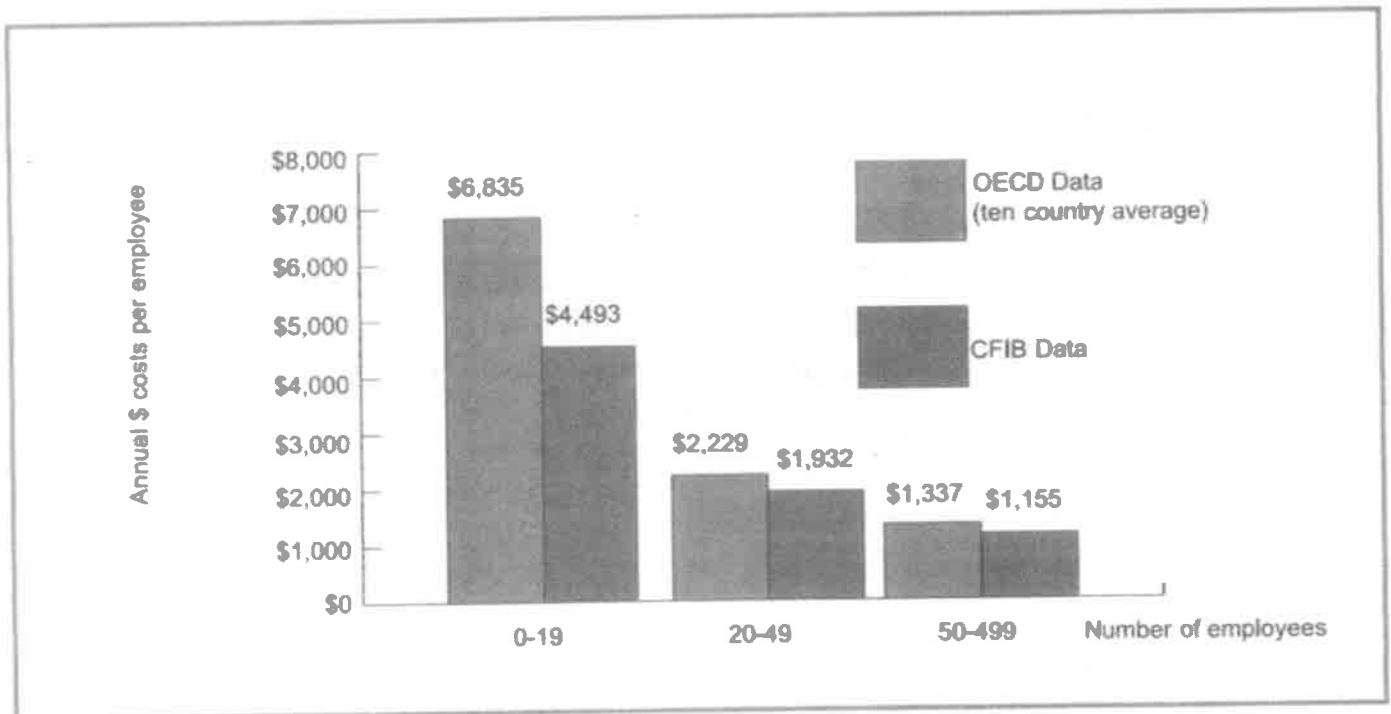


Figure 3

The cost of regulation: (direct compliance costs \$)



Below are another two sets of figures from the report showing the relative importance of the various regulations, permits and reporting requirements at the provincial and municipal levels in Canada.

Rated R: Prosperity Restricted by Red Tape

Figure 11
Most burdensome PROVINCIAL regulations

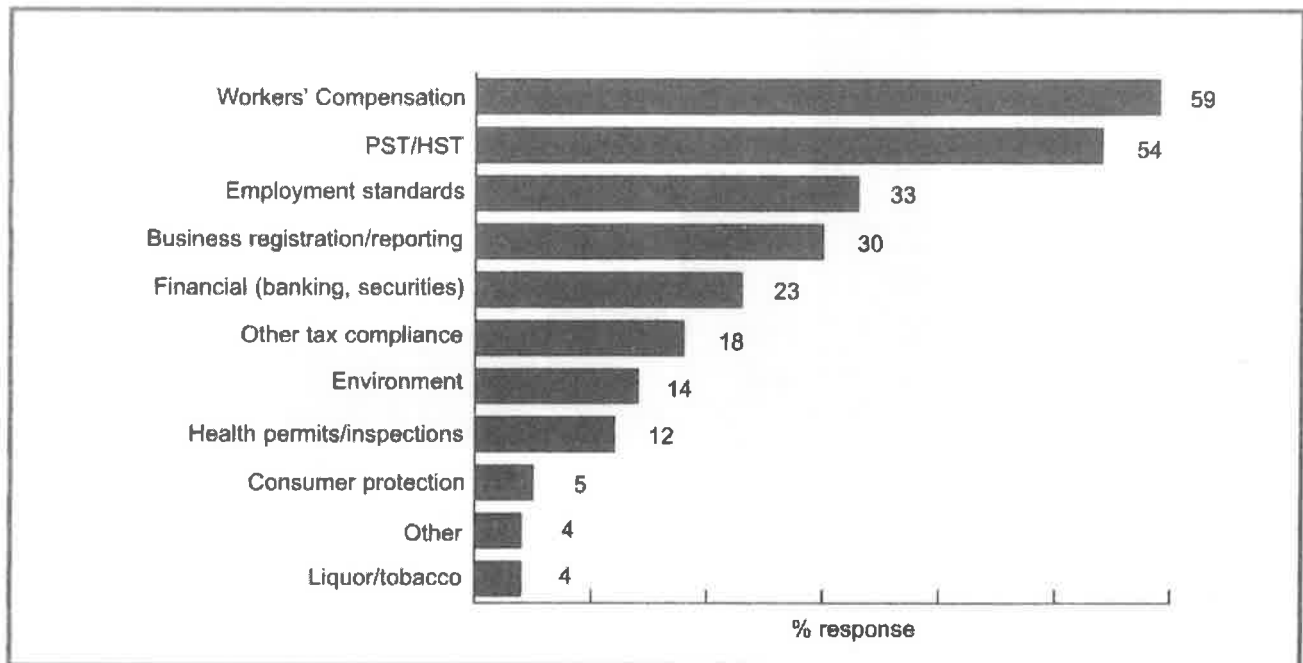
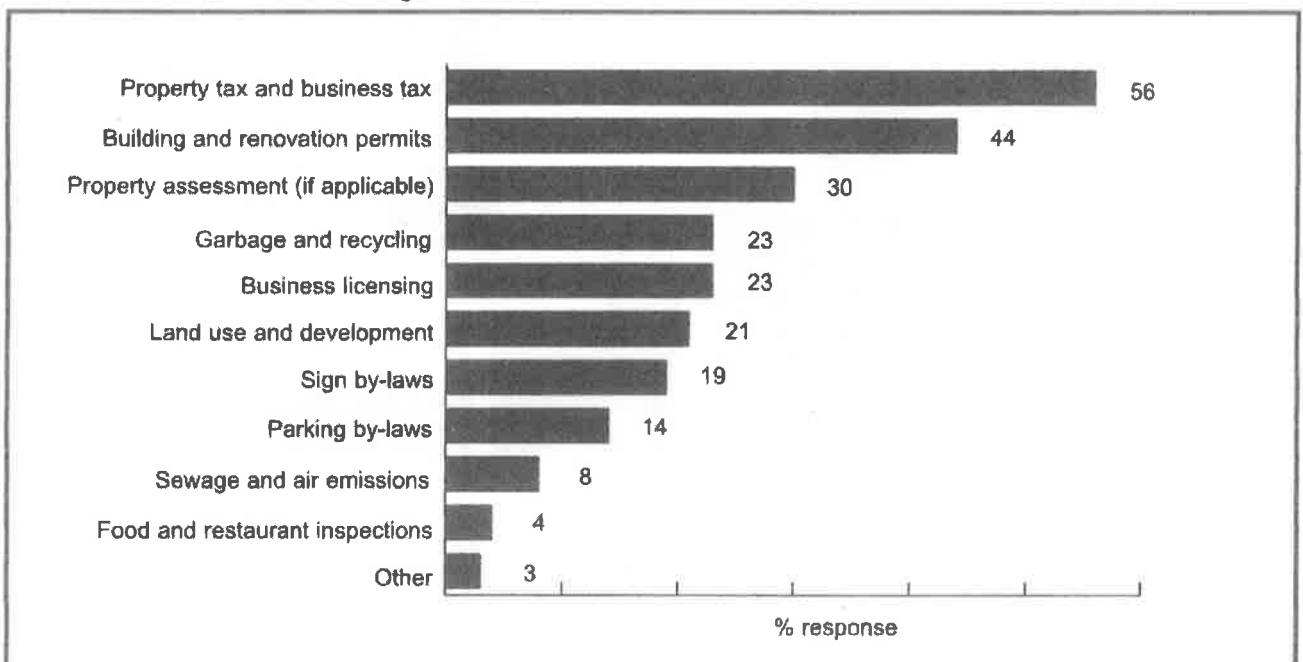


Figure 12
Most burdensome MUNICIPAL regulations



introduction of a flat tax rate of 10% on taxable income and a reduction of 50% in its corporate tax rate. The predictable result –an increase in goods and services output per capita of 50% over the Canadian average.

In addition to benefits to taxpayers, compliance is improved and investment enhanced as more capital is available to owners to put into their businesses. The benefits of flat tax are described in a 1999 study by economist Gustavo Ventura that detailed the positive effects on individual incentives to invest in productivity-enhancing learning, improved technologies, greater hours of work and increased labour productivity – by 9%. The productivity problem for Canada is that while we have the second most productive economy of major industrial countries, our productivity gap with the US, our most important trading partner and competitor is more than double what it was two decades ago at nearly C\$9,000 per person. In a 49 page report last year, the Institute for Competitiveness and Prosperity of Ontario detailed the dilemma – Canada generates 18% less economic output per hour worked compared with the US and Canadians invest less than Americans in education, machinery, equipment and technology.

This is a major public policy issue as Canadian governments have

shifted spending to health care and social services away from infrastructure and education. Approximately 49 cents is being spent on investment compared to every dollar spent on consumption, down from 58 cents a decade ago. The report states that Canada's underinvestment is most pronounced in post secondary education leading to shortages of skilled workers and managers.

Conclusion

While the entrepreneurial spirit is alive and well in Canada – and new business formation in western Canada is setting new records – the challenges are many and critical decisions are needed regarding government spending priorities. Although the current economic strength of Alberta and BC is quite dependent on US and global demand for commodities, clearly the future is in the technology-intensive areas of medical and health services, information/communications technology and multi-media.

Simplification and reduction of governments' demands on SME's, including taxes, along with appropriate incentives to foster entrepreneurship and enterprise development, will play a critical role in fostering overall economic growth and prosperity.

* * *