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The Commission's Final Report is a long and complex document and I support many of its recommendations. However, in certain areas I do not agree with the tone and thrust of the Report and I outline here my differences in viewpoint and conclusions.

My major concerns arise in connection with the Report's treatment of unemployment and inflation, monetary, fiscal and exchange rate policy and related topics. This is an area economists call macro-economics. The views expressed in the Report in this area may well reflect the views expressed in the Commission's research program. However, the profession is deeply divided on many of these topics and my own views differ substantially from those expressed in the Report.

1. There can be no doubt that the developed world today is suffering severely from the legacy of the extremely tight monetary policies pursued over the period from 1980 to 1982. These policies were based on a belief that the first step towards achieving good economic performance is to bring and keep inflation under control. What the world's central bankers may have failed to understand is that in breaking inflationary expectations they may also have destroyed the world's *real growth expectations*. It may be that far from setting the stage for good economic performance, they have ushered in an era of slow growth and semi-stagnation.

In capitalist enterprise economies, real growth is largely dependent on the strength of private investment spending. Because capital equipment is typically long-lasting, business firms will only carry out these expenditures when they are confident that a growing economy will bring about their utilization. Thus, it is anticipated real growth that is one of the keys to a prosperous high-employment economy. As Keynes so strongly emphasized, the volume of capital spending required to sustain high employment

growth is related to the savings level. In countries where the savings rate is high, such as in West Germany and Japan, a high rate of investment is required if this savings is to be realized in new capital equipment. In its absence, a high rate of savings simply results in a depressed economy and high government deficits, such as we have in Canada today. One of the primary causes of the high level of unemployment that exists in much of the developed world today may well be an excessive level of saving, that is, saving in excess of the amount private business firms are willing to invest. By the same token, the relative prosperity of the U.S. economy may reflect the comparatively low-saving level of the American people.

Private capital spending is weak in many countries today and this undoubtedly reflects uncertainty about future growth. As long as the world economy was growing steadily, as it was throughout the period 1948 to 1973, capital spending was strong. Since then, with much slower growth and more restrictive government policies, capital spending has been weak. In a sense the world economy has lost its growth momentum. It may not be easily restored.

2. The Report stresses the view that there is no long run trade-off between unemployment and inflation. If we attempt to reduce unemployment below a range of 6.5 to 8.0 per cent, it is argued, inflation will gradually accelerate. When unemployment rises above this level, the inflation rate will decline. I find it hard to reconcile this view with the exceptionally low unemployment levels achieved by many countries over the period from 1948 to 1973 with relatively moderate, if gradually increasing, inflation. For example, over this period unemployment rates averaged 1.5 per cent in the Netherlands, 1.6 per cent in Australia and 2.0 per cent in France and West Germany. I doubt that the "no trade-off" conclusion can be held with any certainty.

During the Commission's hearings, at least two economists argued that government policy should give priority to employment over inflation. We should aim, they argued, to reduce unemployment to some relatively low level, say 5 per cent, and if inflation developed along the way, deal with it directly. I think there is considerable merit in this point of view. I don't think we know with any certainty at what unemployment level inflation may become a problem, particularly in the context of stable commodity and energy prices, such as we experienced in the fifties and sixties.

3. The Commission's Report takes the view that some form of incomes policy may be useful on a temporary basis, but argues against any role for incomes policy on a longer-term basis. I disagree. I believe that it would be possible to work out on a co-operative basis between representatives of labour, business and government, a form of incomes policy which could contribute substantially to moderating the inflationary impact of future commodity price shocks.
4. I do not agree with the view that says we should take almost immediate steps to deal with our structural deficit problem. The federal deficit is primarily the result of a major private sector failure, the failure of the private sector to spend on new capital goods as much as it is saving. The

deficit, in turn, has represented a kind of *massive bail-out* to private sector savers, many of them in the higher income brackets. In the absence of the federal government's willingness to incur a deficit, these excess savings would have caused incomes to fall and unemployment to increase, perhaps to unprecedented levels. Canada would soon grow out of its deficit problem if we could stimulate a revival in capital spending and a reduction in saving rates. When we get back to 6 or 7 per cent unemployment, it may be time to adopt tax measures to reduce the deficit. The sooner we get there, the smaller our national debt will be at that time.

5. I view the suggestion that Canada should consider shifting from an income tax system to an expenditure tax system with a great deal of scepticism. If its effect would be to increase Canada's already high savings rate, the result might well be a disaster. I also have grave doubts about its effects on our income distribution.
6. If Canada should negotiate a free trade area agreement with the United States, one of the keys to a successful outcome will be a well-managed exchange rate. Canada's exchange rate policy should be oriented to the country's need for foreign investment as reflected by the difference between private sector capital spending and saving at a high level of employment. When capital spending exceeds saving at high employment levels, the difference can be made up either by means of a government surplus or through a current account deficit. When savings exceed capital spending, a current account surplus may be appropriate. The exchange rate is an appropriate method of adjusting our current account position. To achieve this will require the proper mix of monetary and fiscal policy.

The Bank of Canada could be of substantial assistance to private operators in the exchange market if it published on a regular basis a purchasing power parity value for the Canadian dollar, both as against the U.S. dollar and on a trade weighted basis. The appropriate price for use in such a measure is the implicit price of GNP.

7. Our experience in the early eighties has shown the enormous power that can be exercised by central bankers. In view of this, I believe that some steps should be taken to make the Governor of the Bank of Canada more accountable for his actions.
8. Finally, I must record the view that the Commission's macro-economics research program failed to deal with a number of important economic issues. Thus, there was no serious examination of why the sustained prosperity of the sixties suddenly gave way to stagflation in the early seventies. Nor was there an examination of the basis of the commodity price explosion between 1972 and 1974. Again, the whole question of capital investment which is so essential to the functioning of our economy, received very little attention, even though there has been very little growth in volume of capital spending in the developed world since 1973. Perhaps most important of all, demographers are now predicting that Canada may have a stationary or declining population within 35 years. We know little about how well a private-enterprise economy would perform in such a context. The subject is in need of serious examination as the Commission's Report recommends.

Albert Breton

I. Introduction

I hold with considerable conviction to the notion that the mechanisms which discipline and constrain democratic politics, especially democratic politics in federal states, operate with as much force as those which discipline and constrain economic life. That is not a widely shared view, though it is one that is gaining ground. The traditional and more conventional view is that economic mechanisms are so constraining as to be essentially deterministic, while politics, being the exercise of power, can be set in motion or stopped, as it were, at will. In that view, politics is always capricious and beyond rational explanation.

To my knowledge, Commissioners never held to the traditional view of politics, but it is fair to say, I believe, that neither did most of us accept the notion that political mechanisms are as constraining as economic ones. Over the last two and a half years, our views of politics, and especially of democratic politics in federal systems, have moved quite far away from the traditional concept, as readers of the Commission's Report will have been able to witness for themselves. However, in my opinion, the movement has not been sufficiently great. In a way, that is understandable because breaking away from traditional modes of thought, even in the face of dire necessity, is never easy.

The discussion that follows, submitted as a supplementary view to the Commission's Report, is therefore a clarification and an extension of the theory of democratic politics in federal states, a theory which I call the theory of competitive federalism. To put it differently, in what follows, I provide a brief but more extensive analysis of the mechanisms of competitive federalism, indicate some reforms that are necessary if we wish these mechanisms to be more efficient, and draw a few implications of the theory for certain key issues. I insist that there is still much research to be done in this area and many problems to be resolved. However, I believe that what can be defended seriously at this moment should be present in the debates which the Commission's Report will no doubt engender. Hence this document.

The following discussion is divided into four sections. After this Introduction, Section II examines the nature and properties of competitive politics in a federal state. In Section III, I derive implications of that analysis for a number of questions such as those of the economic union, intergovernmental grants, and municipal governments. Section IV concludes my statement.

II. Theory

It has been and, to a large extent, remains conventional wisdom that the two pillars which define Canada's political institutions—parliamentary government and federalism—lack congruence.¹ That view springs from an *a priori* abstract and formal definition of what constitutes parliamentarism to which is added a no less abstract and formal notion of federalism. The presumed lack of congruence has had enormous influence, not only on the way Canadians think about politics, but also on the way they have condi-

tioned the evolution of their political institutions. It is true that for almost a century and a quarter Canadian parliamentarism and federalism have co-existed in more or less harmonious fashion, but the general tendency—still present in the Commission's Report—to set parliamentary institutions and federalism in opposition or, if not, to view them as separate and unrelated to one another, is at the root of many of our difficulties.

From the beginning of their history as a country to the present, Canadians have reflected on their political institutions with one eye on the United Kingdom and the other on the United States. England was and remains a unitary-parliamentary system, while the U.S. was and is a federal-congressional structure. Hence the following questions: Could a federal-parliamentary system work? Should priority be given to parliamentarism or to federalism? With which one of these two pillars is democracy more closely associated?

I wish to argue that parliamentarism and federalism are congruent; that the issue of having to give priority to either in opting for democracy is a false one; and that it is possible to reform our national and federal institutions in ways that increase their effectiveness, while remaining true to their fundamental genius. A clarification of these issues is necessarily an intellectual exercise, one which requires the selection of a particular language. Being an economist by training and by preference, I feel more at ease formulating and discussing issues, even those outside the traditional frontiers of economics (problems of politics and of society, the traditional domains of political science and of the other social sciences), in the language of that discipline. At the same time, such a strategy makes it easier to draw on the powerful methodology of economics. There is, finally, a third bonus that comes from stating the issues of politics in the language of economics: it makes it easier to go from political to economic real life questions and issues and it makes it easier to formulate a theory of politics that is "compatible" with economic theory. I know from having worked with sociologists and political scientists over many years that the translation from one language to another is a relatively easy matter and that nothing substantive is altered in the process.

Parliamentary (that is, responsible or party) government was not designed. It evolved in response to pressures and influences applied first to monarchs by powerful interests and then, throughout history, to those in office by new emerging centres of power. The dynamics of parliamentarism are appropriately, if somewhat summarily, encapsulated by the expression "elite accommodation".

There is not much competition (or not many "checks and balances": the kinds of behaviours associated with political competition within governments, as distinguished from competition between governments) in such a system. There are, of course, the checks and balances that come from powerful interests, whether economic (like business and labour, though these are not usually of equal strength), religious (churches), intellectual (academics and research organizations), and so on. There are also the checks and balances that come from the Question Period in the House of Commons, from the log-rolling that takes place in caucus and from public opinion. Finally, and very

importantly, there is the competition that originates in the requirement of popular support elicited in contested elections at more or less regular intervals.

All in all, however, competition is quite weak, especially when Cabinet is supported by a good parliamentary majority. The weakness of the checks and balances that come from the lack of separation between the executive and legislative branches is aggravated by the “independence” of the judiciary, an independence which is reflected in the doctrine of “parliamentary supremacy”, as contrasted to the doctrine of “judicial review”. (I return to this question below (Section III.4), when I discuss the place of the Charter of Rights and Freedoms in Canadian politics.)

A necessary implication of the foregoing is that the preferences, aspirations and opinions of the public, unless they are adopted by the power elites, are not likely to be represented as vividly as they would be in a system in which competition was more vibrant. This overly schematic description of parliamentarism would be even more incomplete if I did not immediately add that the system is susceptible to improvements. The system is capable, as history documents, of absorbing further checks and balances, while at the same time remaining faithful to its own virtues and genius.

The Report contains recommendations which go in the direction of improving competition, such as those aimed at removing budget secrecy and at reforming the Senate, recommendations that I support, although I will have more to say on Senate reform below. But one could go further. I would suggest that in addition *serious consideration should be given to finding ways of reducing party discipline in the House of Commons and, to the extent that it exists, in Parliamentary Committees as well, for all matters, except budgetary ones.* If that was done—slowly, but deliberately—the power of elected representatives would be increased, their ability to voice the opinions of their constituents would be enhanced, and the capacity of constituents to influence governments would be augmented.

Responsible or party government in unitary states, however fine-tuned to better reflect the preferences of citizens, remains a weak mechanism in the performance of the task I have just noted. But when responsible government is married to federalism, that job is done much more effectively. I must hasten to add that some marriages are more successful than others and that some federal structures are better designed than others. I will explore these issues in the pages that follow and indicate what I believe are the ingredients of a good federalism and of a good marriage of federalism with party government. However, the central proposition holds: parliamentary government combined with federalism give the citizens of a country a more effective set of institutions for reflecting their will, preferences and aspirations. Responsible government is democratic government; but responsible government plus federalism is extended democracy, simply because there is more competition.

I must, therefore, address two preliminary questions: How does federalism introduce more competition in any system of government, more particularly, in a system of responsible government? Is competition a “good” thing, that is, something we should want in our political institutions? I will seek to answer

these two questions in Sections II.2 and II.4 below. As an introduction to that discussion—and in recognition of the fact that competition is so central to my view of politics and of democracy—I must devote some space to clarification of the meaning I give to the word competition.

1. Competition

The development of mainline economic thought in the Anglo-American tradition—by any measure the overwhelming tradition—has systematically restricted the notion of competition to price competition. This tradition has come to focus on the conditions under which this kind of competition leads to (Pareto) efficiency, that is, to that state in which no one individual can be made better off without someone else being made worse off. Significantly, this neo-classical tradition has not associated any particular behaviours or activities with its definition of competition.

Since the conditions under which competition is optimal in one sense or another will be examined later on for the case of competitive federalism, it may be worth noting that it is only in the case of price competition that the conditions are known under which competition is Pareto optimal. In other words, under certain conditions, Adam Smith's "invisible hand" allocates resources efficiently for the case of price competition. Although there has been much discussion in the literature on advertising and quality competition, and less, though still a respectable amount, on competition involving research and development expenditures, innovation and technology, it is not known if these various forms of competition are socially efficient. Until recently, the weight of opinion in the profession would have been, I believe, that they were not. Things have been changing in recent years, but no consensus, not even a minimal one, has emerged.

I mention this to underscore that even if it is not possible to specify all the conditions—those that are necessary as well as those that are sufficient—under which political competition in a federal state is optimal, that does not constitute a basis for rejecting such competition, any more than our inability to specify necessary and sufficient conditions for economic competition to be efficient is a satisfactory ground for rejecting market organization.

Price competition must be contrasted to other kinds of competition, which have from time to time retained the attention of economists and others. There are a number of strands in the literature associated with such labels as "working competition" and "countervailing power". One of the more important of these is the notion of *entrepreneurial competition*, sometimes also called Austrian or Schumpeterian competition. In the early 1900's an important number of (to become distinguished) Austrian economists (notably Joseph Schumpeter, Ludwig Mises and Frederick Hayek), seeking to come to grips with the crucial Marxian question of the dynamics of capitalism, proposed theories of economic development in which that particular notion of competition played a central role.

In the words of Schumpeter, one of the ablest analysts of this kind of competition:

In capitalist reality as distinguished from its textbook picture, it is not that kind of competition (price competition) which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization . . . competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives. This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door, so much more important that it becomes a matter of comparative indifference whether competition in the ordinary sense functions more or less promptly; the powerful lever that in the long run expands output and brings down prices is in any case made of other stuff.²

Notwithstanding the fact that barriers are sometimes erected to soften the impact of entrepreneurial competition, one must acknowledge that in seeking to understand the economic factors that determine how resources are allocated, as well as the forces that have shaped the broad development of capitalism, the Austrians' notion of competition is more useful than that of mainline neo-classical theory.³

It is not an accident that the extension of the analytical tools of economics to politics was initiated by Schumpeter (although Niccolò Machiavelli and John Stuart Mill, among others, had anticipated the possibility): it was a natural outgrowth of his work on entrepreneurial competition. Politicians, in that view, are entrepreneurs who compete for resources by introducing new politics, by developing new forms of organization, by heralding new unifying symbols, by structuring a new social consensus, etcetera. Recent writers have characterized entrepreneurial competition as "alertness to opportunities".⁴ If that is a good definition of entrepreneurship, it cannot be limited to the realm of economics, but extends naturally to politics and to other areas of life. To be sure, the "*modus operandi* of competition" (to use a Schumpeterian expression) will vary between business and political entrepreneurs, but their behaviour will have enough in common to be called competitive.

Having said that, it must be recognized that not much is known about competitive processes. Earlier, in referring to intra-governmental competition—the competition between political parties, between the executive, legislative and judicial branches of government (when such competition exists), between the various departments and bureaus that constitute the bureaucracy of a particular governmental unit, such as that of Quebec or Saskatchewan—I used the American expression "checks and balances". These words correspond to more or less specific and precise behaviour and are useful in characterizing that kind of competition. In his study of *American Capitalism*,⁵ Galbraith used the evocative term "countervailing power" in an effort to describe a particular process of competition. Recently, Nelson and Winter⁶ have sought to model entrepreneurial competition in terms of two activities: "do research" or "do imitation". A friend of mine, having read an earlier draft of this statement, suggested that the behaviour associated with federal-provincial competition was "complement and countervail". To illustrate, if the federal government chose to subsidize post-secondary education by giving money directly to students instead of giving it to provincial governments, these latter could "complement" by targeting their

spending on education more closely to their own priorities, or “countervail” by taking the money away from students.

This area of study is in its infancy. I cannot therefore associate particular competitive processes with the various kinds of entrepreneurial competition that I will discuss below. Because it is appropriate, I use the words “checks and balances” for intra-governmental competition; otherwise, for politics as for economics, I use the word competition, having in mind entrepreneurial competition, but no particular behavioural process.

2. Federalism

At its simplest, that is, before introducing real world complications into the picture—a task to be undertaken later—a federal state can be formally defined as a type of political organization in which there are at least two levels of jurisdiction—in Canada, national and provincial—between which the entire set of constitutional powers is divided. The assignment of these powers between the governmental levels is not made by one level alone. That distinguishes federalism from confederalism, a system in which the assignment of powers is made by the provinces alone, and from unitary states, structures in which powers are assigned by senior governments acting in isolation. According to that definition, Canada is and has been a federation and never a confederation. The Canadian provinces, on the other hand, in their relationship with their municipalities, are unitary states.

The division of powers and the mode through which it is effected define federalism well, albeit in a way that is too formal to be very useful in understanding how such a system actually works. From that point of view, what is much more important are the implications of any division of powers for the operations of, and relationships between, the governments of the federation, all of which are responsible governments. The central and most important implication is that in the search for popular support—something that is as needed for the effectiveness of governing parties as revenue is essential for the effectiveness of business firms—the governments of a federation will find themselves competing with each other. Federalism thus adds more competition to that already present in responsible or party government.

One point needs emphasis. Political competition is not something that politicians choose or want, whatever their commitment to federalism and, more broadly, to liberty and to democracy. In that respect, they are exactly like business entrepreneurs who do not want competition either. Competition arises from the necessity to respond to the actions of others; it is “forced” on people by the environment. One does not even have to be aware that one is competing to be competitive. A business firm that adopts a new technology to reduce its costs is acting competitively; one that advertises and places some of its output on sale is acting in a competitive fashion; someone who supports a particular social movement or a particular lobby is competing; as is the politician who seeks harmony with provincial governments by removing the contentious questions from the agenda of federal-provincial encounters.

There is so much mystification about this that I must dwell on two corollary points, at the risk of seeming to insist on the obvious for those who

have seen their way clear on the subject. First, there is the whole bag of issues that are best summarized by the words “co-operative federalism”. What is co-operative federalism and how is it to be distinguished from other types of federalisms? To my knowledge, the expression has never been formally defined. That may not be a lacuna because we all have, from practical experience and observation, a good intuitive idea of what is meant by these two words. Two or more persons working together to lift a heavy object; two or more persons engaged in a search for something lost; two or more persons removing snow from a road; these are examples of the kind of behaviour we have in mind when we think of co-operation. In other words, someone helping someone else achieve a certain goal or objective.

Co-operative federalism by analogy would exist if all the politicians of a federation worked together to achieve some collective end. Instead of working on their own for their citizens, governments would work together for the betterment of all “the people”. Before examining what is meant by co-operative federalism in more detail, I would like the reader to ask him or herself why it is that we do not, as societies, organize the search for justice on a co-operative basis, but instead set defence against prosecuting attorneys in courts of law? Why do we not organize the working of party politics on a co-operative basis, but instead pit political parties against each other in grand electoral contests? Why do we not organize the search for truth on a co-operative basis, but instead require scholars and scientists to compete for research funds and for limited space in research publications? And, finally – though the list could go on – why do we not organize the production of goods and services on a co-operative basis, but instead implement laws that make co-operation an offence?

These examples underline the fact that in some areas, co-operation is *not* an efficient principle of social organization and that it is less efficient than competition, essentially because co-operation can easily degenerate into collusion, conspiracy and connivance and that this is not necessarily good! In the case of federalism, would co-operation be a better principle of social organization than competition? I will only begin to answer this question here; the answer will be completed in Section II.5. To answer the question, it must be recognized that co-operative federalism is aimed at removing the competition which is a natural by-product of federal organization. Consequently, to be able to answer the question, it is necessary to know whether competition is a “good” feature of political organizations. I do not address this issue before Section II.4.

I have posed the question here, however, because I wish to stress that the notion of co-operative federalism is part and parcel of the politics of “élite accommodation” which plays such an important role in the dynamics of party governments. Indeed, in practice, co-operative federalism is nothing but executive federalism. This has been defined by Smiley “as the relations between elected and appointed officials of the two orders of government in federal-provincial interactions and among the executives of the provinces in interprovincial interactions”.⁷ I will argue later that there is a place for a limited executive federalism. The executive federalism contemplated by co-operative federalists, however, effectively extends to all the areas of federal-

provincial contact. It transfers to executive and bureaucratic bargaining and negotiation what properly belongs to the realm of the political.

Co-operative federalism does not necessarily eliminate federalist competition, but by moving it into executive and bureaucratic offices and corridors, it mutes its public manifestations and its effectiveness. The heart of co-operative federalism is secret deals, not the stuff on which a lively democracy thrives! There are other implications of the doctrine of co-operative federalism; I mention two.

A first is a by-product of drumming into the psyche of Canadians the belief that federalism is or should be co-operative. Once that is achieved, it provides a fruitful background for the arguments of those, sometimes in one province, sometimes in another, who wish to promote and foster separatism. Indeed, a process that is inherently competitive, even if it is called co-operative, is bound to throw up incidents which separatists—themselves competitive individuals—will use to argue that “the system does not work”, because on a particular matter the politicians of a province have been rebuffed or have simply lost in the competitive game. It would be relatively easy to document that the rhetoric of Canadian separatists is often based on the notion that federalism is not as co-operative as one had been led to believe it should be. I cannot undertake that documentation task here. I simply note that if Canadians had been helped to understand that federalist politics, like all politics, is inherently competitive, the propaganda of separatism would have fallen on more barren ground.

A second implication of the doctrine of co-operative federalism relates to the condemnation, by those who adhere to it, of unilateralism, that is, of independent action by any one government of the federation. Unilateral action by one government is, of course, a derogation from co-operation, since when one is acting alone one is not co-operating. Consequently, those who espouse co-operative federalism decry unilateral action on the part of any government in the federation. Although in principle, the condemnation applies to all, in practice it strikes much harder at the federal government, simply because the provinces, if they want to act in unison, have to come to an agreement—something that is not easy to do for essentially competitive entities. To put it differently, in the normal course of affairs, the central government is likely to act unilaterally more often than the provinces, to the extent that these wish to act as one, because the costs of co-ordination are positive. A condemnation of unilateralism, if enforced, would therefore affect the central government more than the provinces.

Co-operative federalism, because it proscribes unilateral action, is therefore a disguised ploy to shackle the federal government, to prevent it from addressing the problems it alone can resolve and is constitutionally responsible for resolving. Indeed, condemning federal unilateralism is condemning the federal government for acting constitutionally! This is so true that if one takes the trouble to go behind the language of co-operative federalism, to the reality of the arguments which it seeks to convey, one discovers either confederalism or a conservative view which seeks to reduce the role of the federal government and, indeed, of all governments in society.

In concluding this argument, I note that the condemnation of unilateralism is also a denial that the division of powers between orders of government is essential to federalism. That indeed is the crux of the matter. Co-operative federalism, if it came to pass, would deny federalism itself. Those who seek co-operative federalism and labour for its realization, seek and labour for a unitary state, disguised in the trappings of federalism, but from which competition would have been reduced to a minimum or even eliminated.

The second corollary point related to the mystification surrounding the notion of political competition pertains to the language of competition and of federalism. Competition in the marketplace, in courtrooms, in parliaments, on hustings, in university seminars, and wherever it takes place is sometimes smooth, so smooth that one could be led into believing that it is not there. But at other times, it is rough, so rough that outsiders are often at a loss in trying to understand why so much energy and effort are displayed, why opponents are characterized in such vile fashion, why the parties become uncouth and impolite in the process of competing. In describing this second circumstance, it is not uncommon for the outsiders, who would have no problem with "well-behaved" competition, to describe the situation in terms of conflict, rancour, combat, suspicion, disharmony, and so on, and to attach to these expressions a negative connotation. The stage is then set for appeals to co-operation and for a rhetoric that praises the virtues of co-operative federalism.

Words have emotional content. For that reason, debates and disagreements are sometimes resolved by using a different language. It is important, however, that the change in vocabulary be only that, not the occasion for unnecessary changes in institutions. When competition is acrimonious one may wish to reduce its acrimoniousness; that can be a legitimate objective. But it is not because we choose to relabel a competitive process by some other name, such as conflict, disharmony, or rivalry, that we will have improved things. Indeed, if relabelling leads to the search for unwarranted institutional changes, we may have worsened the situation. Prosecuting and defence attorneys may be uncouth and antagonistic to each other; things could possibly be better if such behaviour did not exist, but surely justice would not be well served, if, to remove such behaviour, courtroom procedures were transformed from competitive into co-operative ones!

Many a time I have been struck by the fact that those who resist the notion of competition and its reality in fact take offence at the language of competition. The question of how a language can be made more genteel and gracious is an interesting and difficult one. It may be possible to have a genteel and graceful competitive federalism, but whether it is or not has little bearing on whether competitive federalism is desirable or not.

Before moving on to a discussion of the costs and benefits of political competition and to an overall evaluation of its worth, I must deal with two subjects that are likely to be of most interest to specialists of co-operative federalism, but which must be cleared up if what I call competitive federalism is to be understood. For that reason, I encourage even those who are not co-operative federalists to stay with me through the next section.

3. Not Co-operation and Not Anarchy

The "proof" that co-operation in federations is beneficial has traditionally been based on sentimentalism and romanticism. Many people do not mind this, but scholars have generally sought to extract themselves from such clutches; consequently they have searched for a rigorous theory of federalism that would provide them with the desired proof. One of the theories used by these scholars derives from an application to federalism of the theory of games, specifically an application of the theory of the non-co-operative game known as "prisoner's dilemma".⁸

That theory is a representation of a situation in which non-co-operative behaviour on the part of individuals leads to an outcome that is inefficient, in that if the individuals could enter into a pre-game binding agreement to co-operate, they would choose another outcome than the one that obtains in the absence of co-operation. In the words of Luce and Raiffa, the prisoner's dilemma game can be characterized as follows:

Two suspects are taken into custody and separated. This district attorney is certain that they are guilty of a specific crime, but he does not have adequate evidence to convict them at a trial. He points out to each prisoner that each has two alternatives: to confess to the crime the police are sure they have done, or not to confess. If they both do not confess, then the district attorney states he will book them on some very minor trumped-up charge such as petty larceny and illegal possession of a weapon, and they will both receive minor punishment; if they both confess they will be prosecuted, but he will recommend less than the most severe sentence; but if one confesses and the other does not, then the confessor will receive lenient treatment for turning state's evidence whereas the latter will get "the book" slapped at him.⁹

If they could co-operate, the two suspects would decide not to confess. But being separated and held incommunicado, they will both confess, each to "receive lenient treatment", but both will get "the book". This serves to show that non-co-operative behaviour is inefficient.

The question is whether the prisoner's dilemma game is an appropriate model to think about and to analyse federalism. In other words, will the co-operative behaviour which would lead to efficient results in the prisoner's dilemma game also lead to efficient results in the case of federalism? The answer must be a resounding no. The prisoner's dilemma game is simply not an appropriate model for federalism. Why? For two reasons.

The first and the most obvious is that the governments of federal states are not kept incommunicado. In Canada, with close to one thousand federal-provincial meetings per year, it is hard to assume that the parties are separated.

The second reason for the inapplicability of the prisoner's dilemma model to federalism is more basic. As the Luce and Raiffa narration makes clear, there are no gains from competition in a prisoner's dilemma model: there are only gains from co-operation. To understand the full burden of this point, assume that the parties in the game are not criminal suspects, but ordinary

oligopolists. Would we also conclude that they should co-operate (collude?) to improve their position? The logic of the prisoner's dilemma model would seem to push us in that direction. In this "oligopolist's dilemma" game, it is our instinct as economists – for those of us who are – which keeps us in check; we know that the logic of co-operation appears correct only because consumers are left out of the game. Once their presence is acknowledged, it is easy to understand that competition is for their benefit. We must conclude that co-operation benefits the oligopolists, while competition serves consumers. That is why the prisoner's dilemma model cannot be used to analyse oligopolies.

It is essentially for the same reason that the prisoner's dilemma game cannot be used to analyse federalism. In this case, citizens are left out of the picture. They are the ones who benefit from competition. If that is the case, how are thoughtful scholars led to adopt a completely inappropriate model to analyse federalism? The answer must be that underlying the use of the prisoner's dilemma model is the (tacit) assumption that provincial governments perfectly embody the interests of the people of their respective provinces. There is no role for competition because each provincial government is assumed to be serving its people perfectly! All models of co-operative federalism in fact make the same assumption.

We are therefore back to competition and to competitive federalism. But competitive behaviour is not unconstrained or anarchical behaviour; indeed competition would not survive, still less be efficient, if such behaviour was the rule. In fact competitive behaviour is restrained and disciplined behaviour.

One thing that can discipline competition is legally enforced property rights. One of the best definitions of these is that provided by Dales. I quote:

In everyday conversation we usually speak of "property" rather than "property rights", but the contraction is misleading if it tends to make us think of property as things rather than as rights, or of ownership as outright rather than circumscribed . . . When you own a car, you own a set of legally defined rights to use the vehicle in certain ways and not in others; you may not use it as a personal weapon, for example, nor may you leave it unattended beside a fire hydrant. Among the most important rights you do have are the right to prevent others from using the vehicle, except with your permission and on your terms, and the right to divest yourself of your ownership rights in the vehicle by selling them to someone else. We may say, then, that ownership always consists of (1) a set of rights to use property in certain ways (and a set of negative rights or prohibitions, that prevent its use in other ways); (2) a right to prevent others from exercising those rights, or to set the terms on which others may exercise them; and (3) a right to sell your property rights.¹⁰

Property rights extend beyond physical objects like cars, to things such as bonds, shares of stock and money. They extend to one's time (which can be sold as labour or consumed as leisure); it is important that they extend to roads, canals, air waves, and, as the Law of the Sea Conference made abundantly clear, especially during the last four or five years of negotiations, to the oceans and the seabeds.

It is important to stress that property rights may or may not be related to private property. Indeed, property rights can be vested in individuals, in groups (such as corporations) and in governments or other public bodies. That is, property rights can be private or collective. On August 8, 1983, *The Globe and Mail* reported on a debate in the Department of External Affairs in Ottawa on whether the Antarctic should be considered the “common heritage of mankind” or be assigned to “a select group of nations that already have scientific and commercial interests in Antarctica” (p. 9); that is a debate about property rights.

But sometimes legally-enforced property rights do not exist. That may result from failures in legislation or in law enforcement, but it may also derive from intrinsic problems as in the case of public goods, intellectual property, common property, and so on. In such instances, substitutes have to be found if they do not “spontaneously” arise; otherwise competition will be inefficient. I cannot here analyse all the—sometimes nearly perfect, sometimes much less than perfect—substitutes for legally-enforced property rights. I suggest two which I believe have a special role in disciplining competition in federal states. The first is trust, which, even if it is important, cannot be legislated and is less susceptible to improvement through institutional reform. I will, consequently, just mention it. The second is “monitoring”,¹¹ which I introduce here, but will discuss at length below, in Sections II.8 and II.9.

Trust can be a substitute for property rights. It need not, obviously, be a perfect substitute for them, in the sense that both trust and legally-enforced property rights can co-exist. Trust is a substitute for property rights if the competing parties are confident (i.e. trust, believe) that each will abide by the rules of the game. The parties compete, but there are certain behaviours and activities which are proscribed—possibly only through tacit understanding—and to which neither party will resort.

Another substitute for property rights (and for trust) is “monitoring”. The function of property rights is to define penalty-reward structures which, if they are efficient, ensure that one party does not, through his or her actions, impose costs on others that are out of proportion to the benefits he or she derives for these actions. A “monitor” can obviously do this. A “monitor” can be a person, but it can also be an institution. I distinguish below between horizontal and vertical competition. The first refers to interprovincial competition, while the second relates to federal-provincial competition. I will argue that the federal government and a number of “self-regulating” federal institutions are natural “monitors” of horizontal competition. I will also argue that the natural “monitor” of vertical competition is a reformed Senate. Before I can do justice to that problem, there are a number of issues that must be cleared up.

One point needs to be emphasized immediately, however. Property rights are never perfect, trust is never absolute, and “monitors” as well as “monitoring” devices are all of human fabrication. Because of this, competition is never absolutely efficient. It will sometimes attain its maximum efficiency, which may be far from the ideal; at other times it will even attain less than that maximum. That is true in politics, as it is in economics.

There is no doubt that at times competition in the Canadian federation has been less than efficient, possibly even destructive. The problems of economic union, which are at the centre of the Royal Commission's mandate, raise this question with urgency. Are certain policies adopted by governments in the pursuit of local objectives, but which impede the free flow of resources, inefficient competitive policies? I address this and other like questions below.

It is important, however, when faced with a situation of inefficient competition not to conclude that competition is always inefficient. When such situations arise, we must turn our attention to the property rights, the trust and the "monitoring" which are supposed to guarantee the efficiency of competition, and seek ways to strengthen all of them or any one of them. I try to do this in the pages that follow.

4. Checks and Balances

The remainder of Section II deals with the benefits and the costs of competition: this subsection with intra-governmental competition and the next five with intergovernmental competition. In this section, I ask and seek to answer the following question: Are checks and balances a "good" thing? There are at least two different ways of answering this question. One which is more formal, in that it focuses on structural features of political institutions, and a second one which is more behavioural in that it concentrates on the mechanisms and responses which characterize institutions marked by checks and balances, compared to those which are not. Because there is an element of truth in both lines of inquiry – although it will soon transpire that I accord more importance to the second – I will look at each in turn.

As the words checks and balances indicate, a system in which they play an important role is one in which more barriers have to be opened, more hoops jumped, more obstacles circumvented and more impediments negotiated in an effort to obtain the passage and implementation of a piece of legislation, than would be the case in a system in which they played a lesser role. From a static short-run point of view, checks and balances reduce the legislative and executive efficiency – defined as the ratio of laws passed and implemented to the time and effort put in passing them – of political institutions.

Looked at from another point of view, the reduced efficiency of law-making bodies is nothing but the greater popular control over the exercise of political power which is automatically achieved by the fact that checks and balances exist. In terms of this formal way of looking at the problem, one's view about the costs and benefits of checks and balances – and about whether they are "good" – centres one's conception of the role and importance of political power for the conduct of public affairs on the one hand, and on the extent to which that power should be controlled for the greater blossoming of individual and collective liberty on the other.

The virtues of efficiency versus control are not as easily described as the above formulation may inadvertently signal. Indeed, in some instances, liberty is guaranteed by a swift and unequivocal exercise of political power. For this reason, constitutions which recognize that there is a genuine trade-off between political power and liberty nonetheless acknowledge that that trade-

off is not always “well-behaved”—that, in other words, it is sometimes subject to exceptions—by vesting in constitutions clauses which permit the rapid employment of power in emergency situations, such as that pertaining to “peace, order and good Government” in the Canadian Constitution.

From a structural point of view, parliamentary systems, such as the Canadian system, are characterized by far fewer checks and balances than are congressional systems such as the American. Thus from a short-run static or formal point of view, the Canadian political system, if we disregard its federal dimension, would seem to be more efficient at “making laws” than the American system, again neglecting the federal dimension. Or to put the point differently, political power is more controlled in the American political system than in the Canadian system.

However, the effective differences in the law-making efficiency of the two systems are not as great as one would have to conclude from an analysis of their structural characteristics. Should one impute the similarities in the two systems to characteristics of federalism or should one look elsewhere? There is little doubt that federalism has an important role to play in explaining the *de facto* similarity in the law-making performance of the two systems, but the second aspect of checks and balances that I noted at the beginning of the section is also of great importance.

This second aspect pertains to the dynamics of checks and balances. A system which places barriers and other impediments to the passage of legislation at the same time and in the very fact of forcing people to deal with the barriers and with the other impediments, stimulates discussion and debate on the matters to be legislated. It is as if the items remained longer on the agenda and consequently attracted the interest—voiced approval or disapproval—of a larger number of persons.

The people who develop an interest in discussing and debating matters kept on the agenda by the checks and balances are not only those who have a professional or para-professional concern for the matter—politicians, bureaucrats, lobbyists and others like them—but members of the general public, including academics, free-lance intellectuals, writers, social critics, organized groups and others. The greater involvement in public affairs which checks and balances generate will, in general, not be limited to haphazard intervention, but will stimulate the publication of magazines and other periodicals intensely concerned with the evolution of policy. It will, in other words, stimulate organized interest in public affairs.

Strong checks and balances will also mean that those citizens who get involved in public discussions and debates will want to engage in meaningful participation and consequently will seek to acquire more information on public affairs than professionals would of themselves freely choose to make available. The pressures for more information imply that over the longer term, the presence of more checks and balances leads to less secretive political institutions.

As a consequence, checks and balances, by raising the level of political involvement on the part of citizens, increase the legitimacy of the political process. Checks and balances still act to control the exercise of political power, but because, from a dynamic point of view, they raise the legitimacy

of that political power, they make its exercise more efficient. The dynamic longer-term effects of checks and balances partially or even completely reverse the static shorter-term effects.

I wish to emphasize that the foregoing argument about dynamic effects reversing the static ones does *not* mean that law-making will be more rapid in systems with more checks and balances compared to those with fewer. The efficiency of checks and balances must be sought elsewhere. I mention two possible areas.

In a system with more checks and balances there should be fewer policy reversals over time. That is, changes in governments as a result of elections should produce fewer returns to the *status quo ante*. It is possible to argue, for example, that the cycle of nationalization and de-nationalization of certain industries which has taken place in Britain would not have happened if the British parliamentary system had had more checks and balances. This is a blatant case; the reader can surely provide some possibly less blatant but still spectacular cases in Canada.

A second area of increased efficiency of checks and balances due to the long-term effects over-turning the short-term one pertains to social consensus. More social consensus means that the difference between majorities and minorities have less saliency. As a consequence, other things being equal, it is easier to enforce laws. (The "other things being equal" relates to the desire or will of the population to have laws enforced, as revealed, among other things, in the amount of resources they choose to allocate to that task.)

The dominance of long-term over short-term effects is important. It provides part of the basis for the recommendation I made earlier for a reduction of party discipline in the House of Commons and in Parliamentary Committees for all non-budgetary matters. The reduction of party discipline would slow down the passage of legislation but, in the longer run, the benefits of this slow-down will be a more politically involved citizenry and policies and programs that are more broadly accepted by citizens. It is for this reason that I support the recommendations of the Commission's Report that are aimed at reducing and even eliminating the secrecy surrounding the budgetary process. I also support, for the same reason, the establishment of a permanent Economic Policy Committee of the House of Commons, which would hold annual pre-budget hearings and whose proceedings would be televised. In short, I support both recommendations because they increase checks and balances.

I deal with Senate reform later. I simply note here that any reform which increased the legitimacy of the Senate would automatically increase its ability to check and balance. Again, that would sometimes slow down the passage of legislation, but in the longer run, through the process described above, it would increase the involvement and the participation of Canadians in public affairs. That must be deemed a net benefit. Checks and balances within our national institutions, as long as they are designed with care and prudence, are therefore of overall benefit.

What about the competition that is introduced in the political system through the medium of federalism? Is it also of overall benefit? That is the question to which I now turn. To proceed with the analysis, I distinguish

between the competition which organizes the relationship of federal and provincial governments and that which structures the relationships of the provinces with each other. I call the first vertical competition and the second horizontal competition. I examine each of these under different aspects in the next five sections.

5. *Division of Powers*

Competition plays no role in the conventional approaches to federalism, whether these approaches derive from political science, law or economics. Competition is (unwittingly) removed by two assumptions which are both, in my view, unacceptable. The first of these, which will occupy my attention in this section, rests on a confusion between what could be called the *de jure* and the *de facto* division of powers. The second assumption, which I will analyse in Section 11.7, relates to what may be called the territorial basis of interests and, hence, of community: the idea that federal states rest or are based on territorially more or less well-defined communities.

There can be little doubt that from a *legal-constitutional* point of view, an optimal assignment of powers is one in which the degree of concurrency, of overlap or of joint occupation of any one power has been reduced to a minimum. Constitutions that embody such an assignment are sometimes said to be the hallmark of “classical federalism”. The need for the smallest possible degree of *de jure* concurrency does not originate in a desire for neatness, nor is it a relic inherited from the long-dying nineteenth century conception of political sovereignty enshrined in early definitions of federal countries as states constituted of two “sovereign and independent orders of government”.

Instead, a minimal degree of *de jure* concurrency is required by the necessity of “judicial accountability”. Ultimately, when things come to a crunch, a court must be able to decide whether a government has the authority to implement a particular policy or not; whether it is acting *intra vires* or *ultra vires*. If there is no “compartmentalization” within which legal authority can be exercised, there will be no basis on which a court can make decisions and, in fact, no meaning to a juridical division of powers. I will insist below that courts, and in particular the Supreme Court, are often called upon to act as “monitors” of federalist competition and to insure that competition is efficient. They cannot play that role unless the degree of *de jure* concurrency is small, for if it is significant, the courts would find it harder to impute responsibility to one or the other governments involved.¹² The fundamental democratic principle that parliament must be accountable becomes meaningless.

That much seems incontrovertible. But at the political or *de facto* level things are different: there, concurrency is the rule. We have to be clear about what that means if we do not want to become victims of the confusion between *de jure* and *de facto* concurrency which pervades the literature and which is used to argue against competitive federalism.

Before examining why an air-tight *de facto* division of powers is not possible in principle, let me illustrate the nature of the problem with a few

examples. Consider the (welfare) economist's standard classification of powers into allocation, redistribution and stabilization, to which may or may not be added a revenue power, depending on how the first three have been defined. Now assume that for whatever reason, the redistribution and stabilization powers *de jure* are assigned to the federal jurisdictional level while allocation is somehow, again *de jure*, divided between the federal and provincial levels. If the division of the allocation powers is air-tight, we have a "classical" assignment of powers.

Now suppose that some provincial governments decide to use some of their allocation powers – those in areas such as education, transportation, or urban land use – in ways that fully respect the Constitution, but which change the distribution of income in a direction that the federal government does not like, so that that government feels obliged to implement policies of its own to "re-establish" the distribution of income it desires. Would not the air-tight separation of powers have *de facto* been broken? I believe so, since the federal government's actions are now governed by decisions taken at the provincial level.

Consider a second case. Suppose that to stabilize the economy the federal government increases or reduces some or all of the expenditures resulting from policies implemented under the allocation powers juridically assigned to it in a way that is respectful of classical federalism's dictum regarding concurrency. But, from a behavioural point of view, will it still be respectful of that division? Not if there is any relationship between federal and provincial policies, because if there is, decisions by the federal government will impact on the provinces, and, what is even worse, not equally.

We can now turn to general principles. As I hope the examples have made clear, the various day-to-day policies which can be implemented by the governments of a federation under the powers which have juridically been assigned to them, stand in all sorts of relationships to each other. In the way citizens look at these policies (formally, in the utility functions of citizens), some will be independent, while many others will be either substitutes or complements to each other. On the other side of decision making, in the way politicians and bureaucrats look at policies (formally at the technical level of "production" and implementation), policies will be independent, substitutes or complements, but not necessarily in the same way as they are for citizens.

That is the reason why *de facto* all powers tend to be concurrent. It is important to be clear about what that means and what it does not mean. It does not mean that both orders of government will, at the same time, legislate in the same policy area. It simply means that governments at the two jurisdictional levels will, in general, be legislating in policy areas that are closely related to each other. As noted, that "closeness" has two possible sources: the preferences of citizens and the technical properties of production and implementation technologies. In other words, policies can be related to each other in one fashion or another because of the way citizens value them; or they can be related, because their production and implementation connects them to each other. These connections create the *de facto* concurrency.

Once this is acknowledged, it is impossible not to recognize at the same time that governments at different jurisdictional levels will be in competition

with each other. The competition originates in the desire of governments to obtain the support of citizens by providing them with the policies they want. Since these policies will not have the same relationships in the preferences of citizens and in the technical structure of the implementation technologies that they have in constitutional documents, governments at one level will be implementing policies which are substitutes or complements to policies that are the responsibility of governments at another level, hence the competition.

Does this *de facto* concurrency – the outcome of characteristics of policies and of the political process – imply that constitutions do not matter? That the juridical division of powers is meaningless? That any *de jure* division of powers would be equivalent to any other? The answer to these questions must be an emphatic no. There are better and there are worse *de jure* divisions of powers. There is a view – the outcome of the confusion between *de jure* and *de facto* concurrency – which holds that the best constitutional assignment of powers is the one which leads to the smallest degree of competition possible. The bookshelves of Canada's libraries are littered with constitutional blueprints aimed at working out a division of powers that would eliminate *de facto* concurrency, so as to eliminate federalist competition.

Such constitutional blueprints are impossible to design for the only reason that people and the environment change. A blueprint that succeeded in assigning powers so as to suppress competition today would be obsolete, in that respect, tomorrow. What then is the optimal constitutional division of powers? To answer that question would take me too far afield. In addition, it is not, for the issues that concern me here, of prime importance; consequently I skip over the question.¹³

6. Executive Federalism

The discussion of the last section clearly acknowledges the existence of interdependence. Indeed, it associates interdependence with two prime sources: the preferences of citizens and the characteristics of “production and implementation” processes. The question I address here is whether that interdependence calls for federal-provincial co-operation and co-ordination.

The question is easy to answer. To the extent that interdependence originates in the properties of the preferences (utility functions) of citizens, there is no need for formal institutionalized co-ordination. Indeed, one should rely on vertical competition between governments at different levels to deal with the co-ordination problem. The rule is the same as for market co-ordination. That is one reason why in its day-to-day operations federalism tends to be “messy”, but one should keep in mind that it is this messiness which is the secret of its efficiency!

When we turn to the interdependence on the production and implementation side, there is a strong case for formal federal-provincial co-ordination. That is the limited case for Executive Federalism. The co-ordination activities are embodied in federal-provincial committees which involve various levels and various departments of governments, all of which seek to find better ways to “produce” and implement the policies which have been decided upon and designed by the political arm of governments.

There is a real temptation, reinforced by the internal logic of parliamentary government, to extend executive federalism beyond production and implementation questions to the elaboration, formulation and design of policies. If the temptation is not resisted – and it must be acknowledged that many times in the past it has not been – Executive Federalism serves to reduce the beneficial effects of competition.

For this reason, I believe it is important that *federal-provincial consultation on virtually all matters follows, not precedes, debates in the House of Commons and in provincial parliaments. Parliamentary debates should extend to a specification of the areas that could be reasonably co-ordinated and those which should not be.* This kind of sorting is currently undertaken at the Cabinet level. Bringing these matters before Parliament would increase checks and balances and hence democracy. It should be favoured on that ground. Furthermore, *it is essential that such matters be debated publicly if a reformed Senate is to perform its “monitoring” role efficiently.* To those who argue that this will slow down the decision-making process, I reply with the argument developed earlier, that such a procedure will increase public involvement in public affairs and, over the longer term, will make for a more politically mature citizenry.

But a more intense involvement of parliament in the policy design of federal-provincial matters and a restriction of executive federalism to “production” and implementation of policies are not sufficient for efficient competition. *Efficient competition also requires that more information be available to the public, not only on the federal-provincial and provincial-provincial policies that are co-ordinated, but on the nature and form of the co-ordination.* At present, in the *Access to Information Act*, federal-provincial communications are accorded a status equal to that of national security. That is ludicrous and should be changed.

7. The Territorial Basis of Interest

The search for a basis that would make it possible to define a community has absorbed much time and effort in the last two or three centuries. Such a search has had many motivations, some more noble than others. One of these has been the belief that some notion of community was a necessary adjunct to the definition of the still dominant, and not receding, idea of the nation-state. Community was therefore sought along cleavages or lines of demarcation between people such as race (colour, blood and cranial measurements having been the most important indexes of race), language, ethnicity, religion, and in more recent times, culture and “society”, these defined in purely socio-institutional terms.

Much of the reflection on federalism developed in juxtaposition to that on the nation-state. In addition, federalism appeared to some as a way of salvaging the idea of community, based on whichever cleavage was cherished at that moment, together with the notion of some minimum efficient size of country. It is not an accident, therefore, that in much of the literature on federalism – even fairly sophisticated literature – federalism as a “community of communities” or as a compact, a confederation or an alliance of communities based on particular cleavages, keeps coming up.

In Canadian thought, this intellectual atavism has nourished two dominant views of what may be called communitarian federalism and a number of minor derivatives which it would serve no purpose to even acknowledge. The first of these dominant traditions, and by far the one with the highest profile, asserts—in language that has changed as times and circumstances have changed—that Canada is made up of two “peoples”, “two races”, “two cultures”, or “two societies”. According to that view, the fact that there are ten provinces in Canada is seen either as an illusion—a way of shifting attention away from the cherished dichotomy—or as a sinister ploy to deprive one of the peoples-races-cultures-societies of its identity (one that is re-defined as the terms of the dichotomy are re-defined).

The second major tradition of Canadian communitarian federalism acknowledges the fact that there are ten provinces in the country, and goes on to assert that they constitute ten communities. History has played havoc with the first or “dichotomy” tradition as the constant change in language indicates. But things are worse for the “ten-provincial-communities” tradition, if only because any definition of society and culture that has the barest elements of operational significance will not be applicable at the same time to the provinces and to the nation. In other words, if one adopts a definition of culture or society that makes Alberta, Ontario, Quebec and Newfoundland—the provinces most often mentioned—into distinct communities based on cultural or societal dimensions, then on that definition Canada will not be a community.

Before indicating why we must divest ourselves of these atavistic intellectual notions, let me note one implication of the doctrine of communitarian federalism. Since the communities are based on race, language, culture, or whatever, there is no place for horizontal competition between the various provincial governments, because a provincial government, which is assumed to be catering to a community of individuals whose preferences are assumed to be defined by communal characteristics, will be able to do very little, if anything, of interest for individuals of another community whose preferences are defined on an altogether different set of communal characteristics. And, may I add, as a matter of logic, the federal government is superfluous, in that system. It is true that it has a role to play in the “dichotomy” tradition where it is seen as the government of one people-race-culture-society, replacing the nine other superfluous provincial governments!

Horizontal competition has no role to play in a model of communitarian federalism because that notion of federalism is always used as a device to collectivize interests. To put it differently, the notion of community is used as an instrument to make the interests of Manitoba dominate those of Manitobans and the interests of Prince Edward Island those of individual Islanders. Consequently, only the government of the community can know the interests, preferences and aspirations of the community. Other governments, not being of the “proper” race, blood, language, religion or culture, are by definition strangers to these interests. It is a neat assumption to use to remove competition.¹⁴

It is essential to acknowledge that provinces are made up of people, some of whom have traits that are similar to those of other people in the same

province and in other provinces, but also of some who have dissimilar traits. There is no province in Canada that is made up of a homogeneous mass of people and there is no province in Canada in which the interests, preferences and aspirations of all the people are the same. And it is to be hoped there never will be.

But even if there were, even if the people of Canada were sub-dividable into x or y homogeneous globs of humankind, that would not furnish us with a rationale for a federal state. That rationale, as the *Federalist*¹⁵ in the great debates that preceded the Philadelphia Convention of 1787 recognized, is to provide the political system with more (additional to those in each government) competition to insure that over the long run, political power is exercised both efficiently and legitimately in the interests of citizens. In a political system based on parliamentary rules of the game, the importance of additional competition cannot be over-emphasized.

The foregoing is *not* a denial of the existence of communities. I recognize that these exist and that they play an irreplaceable role in the life of people. Without the communities provided by families, professions, workplaces, churches, associations and groups of various sorts, anomie, disintegration, and even a Hobbesian “war of all against all” would be the norm. I am only saying that there is no independent definition of community that can serve as a guide to the design of federal structures and to their governance. *The task of governments is to meet the preferences of citizens who happen to be in the provinces or in the country they have been elected to govern.* Meaningful provincial communities do not exist, except as provinces.

8. Nation Building and Province Building

Earlier, in Section II.3, I noted that unless property rights are well-defined, unless trust is sufficient or unless “monitoring” is efficient, competition will not produce the beneficial results which it can be expected to produce. I repeat that it is possible to have property rights that are so inappropriately specified and/or so poorly enforced, to have such a lack of trust, or to have “monitoring” that is so inefficient, that the effects of competition will be perverse. This is therefore a central issue. In this subsection, I look at some of the factors that govern or at least should govern horizontal competition. In Section II.9 I turn my attention to the same question for the case of vertical competition. I must insist immediately on two points: first, as I have already noted, it is not possible, given the present state of knowledge and research, to describe all the conditions—those necessary and those sufficient—that make for efficient horizontal political competition in a federation; second, in the discussion on the division of powers (Section II.5), on executive federalism (Section II.6), and on the territorial basis of interest (Section II.7), I have already indicated some of the conditions that are necessary for efficient competition. Those that follow are additional.

The first of these conditions pertains to a notion of “competitive equality”. To be sure, efficient horizontal competition does not require that all competing units be of equal size any more than efficient competition in markets requires that firms be of equal size. But it must be that the large

units are not in a position to continually dominate, coerce, and in other ways prevent the smaller units from making independent autonomous decisions; nor are they in a position to inflict "disproportionate" damage on them. The smaller units must be able to compete with the strong on an equal footing. This problem is more acute in some federations than in others, and is certainly an important one in the Canadian federation in which the disparity in the size of provinces is large and possibly growing.

The responsibility for insuring that the smaller units are able to compete against the larger ones cannot lie elsewhere than with the federal government. That is a first reason why the central government is different from provincial governments. How does the central government play this role or fulfill this responsibility? Before answering this question, let me note that it cannot be an easy role to play, because, as I have already indicated, the federal government, also competes with the provinces. We are faced with the situation in which a government, competing with those at another level, must act to insure that the competition between the latter is "fair" and "productive". That is necessarily a difficult task, one that cannot be left exclusively to the day-to-day push and pull of politics, but must be institutionally entrenched. I discuss the problem in Section II.9.

Conventional wisdom about public policy in Canada is overlaid with the words "nation-building" and "province-building". When the view is not made explicitly, it is implicit that nation-building is the business of the central government, while province-building is that of the provinces. I would like to suggest that a look at the record would indicate that that attribution is largely wrong: the central government in Canada (and I would submit in other federal countries also) has been and continues to be engaged in province-building as much, if not more in certain instances, than the provinces themselves. That is one of the ways it acts as a "monitor" of horizontal competition.

How does the federal government foster province-building? It is not possible in this brief statement to indicate all the ways this is done. It will do if I give examples taken from various modes of interventions to illustrate what I mean; the reader will then be able to provide more examples for him or herself.

One notorious example of federal province-building was the creation of the Borden Line, the line which forced a differential price in oil and oil products, such that the prices east of the Ontario-Quebec border were lower than those west of that line. The policy permitted the development of an oil industry in Western Canada at a time when the pure economics of the case would not have permitted that to happen. Although it was not called province-building, nor labelled regional policy either, there can be no doubt that the policy played that role, and quite effectively so.

A second example of province-building is the entire set of policies which have come to be labelled regional policies and over which there is still so much uncertainty and controversy. An analysis would indicate that the federal government has always pursued regional policies: it has always tailored or adjusted relevant policies to regional or provincial realities. However, the modern development of regional policies begins in the post-war

period, more exactly in the 1950s, and continues to expand and grow until the present. This is not an accident. If one of the roles of regional policy is to insure that the smaller and least favoured provincial governments are able to compete with the larger and more favoured ones, it must be that regional policies will grow and acquire more significance as the intensity of competition increases. The most casual observation confirms that the extent and the degree of horizontal competition in the Canadian federation have grown enormously in the post-World War II period as the provinces have “come of age”. This coming of age has manifested itself in a number of ways, not the least of which is the increase in the size of provincial budgets—relative to the total of public expenditures—and the development of competent, mature provincial bureaucracies.

A third example of province-building policies by the central government—that is, of policies which make all provincial governments, if not equal, at least capable of horizontal competition that is efficient and productive—is equalization payments. These grants, to which I devote some discussion in Section III, are primarily an instrument aimed at improving the competitive position of the weaker *governments* of the federation and ameliorating the productive features of the competition in which they are engaged *vis-à-vis* other provincial governments. They are not instruments aimed at achieving “horizontal equity” between the inhabitants of the provinces. This does not mean that considerations of equity and of narrow (neo-classical) economic efficiency do not enter their design. But these grants would be of minor importance if their primary role of acting as province-builders was set aside. That is why it was appropriate for the federal government, after the increase in the price of crude oil that made the Ontario government a “have-not” government, to change the equalization formula so that government remained a “have” government: in the competitive game, it is hard to imagine that the Ontario government is not a “have” government.

One could continue giving examples, (for example, transportation policy, procurement policy, etc.), but the point, I hope, is made. Before moving on, I stress two subsidiary points. First, the fact that the various programs I have listed to illustrate the nature of province-building by the federal authorities exist, does not mean that they cannot be improved. Therefore, the fact that the federal government engages in province-building activities does not tell us whether it does too much or too little of it. The second point, which I mention only to remove all ambiguity, is that even if the federal government pursues province-building policies, this does not mean that the provincial governments do not also pursue policies aimed at the same end. Furthermore, province-building policies, whether federal or provincial in origin, contribute to nation-building. These obvious points have to be made only because the conventional dichotomy between nation-building and province-building tends to obscure them.

Besides competitive equality, another condition, this one pertaining to the appropriability of costs and benefits of public policies, must be satisfied. (A not dissimilar condition must also rule in markets if competition there is to be efficient.) The condition requires that the benefits and costs of decisions made by the government of a province be borne by the people living in that

province, and, therefore, by the government of the province. This condition is particularly relevant for costs, so let me re-state it with respect to that variable. In competing to attract businesses to its jurisdiction, either by supplying particularly attractive local public goods, such as theatre, concerts, or dance, by offering tax advantages, or by buying part of the output of the sought-after enterprises, the government of a province should not be able to shift the burden of the offered amenities to the citizens of other jurisdictions. It is clear that otherwise the competition would be inefficient. There is already considerable machinery in place in Canada to ensure that benefits and costs are appropriated by decision makers themselves. This is particularly the case in the field of taxation. But there is room for improvement. I will return to this question when I address the issue of "economic union" in Section III—a matter that is important enough in our terms of reference to have given the Commission part of its name.

Were I engaged in writing a formal treatise instead of presenting a broad framework that can help decide on appropriate policies, I would devote considerable space to another condition for efficient competition which could be called "entry". For competition to be efficient, those who can elicit more support should be able to enter the competitive arena and those less effective at doing that should have to leave it. Although there is some evidence—mostly American—that the life expectancy of political incumbents has been increasing, it is not known whether that phenomenon is "natural" or contrived.¹⁶ Should future research indicate that anywhere in the Canadian federation, entry by existing or new political parties to the apparatus of state is reduced by artificial contrivances, that would be a matter for serious concern, because that would greatly reduce the competitive nature of Canadian politics, not only between parties, but overall.

The matter is particularly important in respect of electoral rules, because these may, under certain circumstances, prevent the representation of groups of citizens in political institutions. There is some weak evidence that the operation of electoral rules in Canada, both nationally and provincially, may be artificially lengthening the tenure of incumbents. If that is ever seriously documented, these rules should be altered.

9. Who Monitors the Monitor?

"Who monitors the monitor?" is the most fundamental question of economic, social and political organization. It was raised in the first century of our era by Juvenal (*nam quis custodiet ipsos Custodes?*) and continues to be asked to this day.¹⁷ It is a fundamental question, but, ironically, it is one that possesses no satisfactory logical answer. For, indeed, if one finds a monitor (guard) who will guarantee that an appointed monitor (guard) will do an assigned job well, how are we to know that the first monitor will do his or her job the way it should be done? Economists have been somewhat cavalier with the question, and, given how hard it is to answer, they are somewhat justified. They have usually assumed that the state should monitor property rights, competition and market behaviour, but have seldom asked who should or would monitor the state. Economics, indeed, has no worthwhile theory of politics.

I suspect that it is this fundamental question, lurking in the back of people's minds, which is the biggest impediment to an acceptance of the obvious fact that democratic politics is competitive. The idea of competition is, of course, intimately related to the notion that individuals pursue their own interest. If politics is competitive and driven by self-interest, who will monitor politics? To assume that politics is not competitive, or should not be, has been the classical way out of the problem. The assumption will not do and, indeed, has never done.

Historians report that when the Fathers of the Canadian federation met in Quebec City and in Charlottetown in 1864 and 1867, as well as when the Constitutional Convention met in Philadelphia in 1787, the debates on the division of powers in both cases took very little time. Agreement was reached almost immediately on the conviction that the proposals envisaged were reasonable, and that in any case, marginal changes in the division of powers could be achieved subsequently either formally, informally, or by judicial interpretation. The wisdom of both groups of Fathers has been vindicated by history.

What required much time and debate and was the source of intense bargaining in both cases was the Senate. To my knowledge, why things happened that way has not been considered, nor has an explanation been provided of why the structure of the Senate mattered so much to these wise men. The explanation, I wish to suggest, rests on the fact that senates play an absolutely central role in "monitoring" the vertical competition that exists in federations—the competition between the federal and provincial (state) governments. Because of that central role, it is desirable that senates be designed so as to guarantee that competition is as fair and as unbiased as possible. In my view, the Americans understood this,¹⁸ whereas the Canadians did not; they were too British in their outlook to understand federalism and the role of a senate in that form of political organization.

The Senate acts as a "monitor" of vertical competition by injecting a provincial dimension in the central government. In a well-functioning federation, although it would always be an integral part of the central government, a senate would in some important sense be related to both orders of government. The Supreme Court was therefore right, and revealed a profound understanding of federalism, when it recently argued that the federal government could not alone, that is, without the provinces, change the basic structure of the Canadian Senate.

It is interesting to note, in passing, that the New Democratic Party as well as its predecessor, the Canadian Commonwealth Federation, have consistently favoured, not the reform of the Canadian Senate, but its abolition. One must also acknowledge that these parties—less so in recent years than in the past—have often been luke-warm *vis-à-vis* federalism as a way of organizing politics.¹⁹ I find great logic in that position, and, to me at least, it confirms that in a federation, a senate has an important "monitoring" role to play. To the extent that federalism becomes absorbed in the interstices of NDP thought, I would expect that party to move from abolition to reform of the Senate.

A senate can only play a "monitoring" role if it has legitimacy, and, in our time, *that can be achieved only if it is popularly elected*. Comparisons with the House of Lords in the United Kingdom are beside the point. The United Kingdom is not a federation and therefore whether the House of Lords has legitimacy or not cannot be an impediment to a role of "monitor" of vertical competition.

However, legitimacy is not enough. If a senate is to inject a provincial dimension in the federal government and thus become capable of "monitoring" vertical competition efficiently, *the basis of representation must be provincial*, not regional, as is current practice. The persistent confusion between provinces and regions that one encounters in the literature and in public debates is a close cousin, I believe, to the notion that interests are communal. The size of provinces and the location of their frontiers are not "rational" in any real sense of that term, but they are there and they determine the jurisdictions of provincial governments.

There is a growing recognition in Canada that the basis of representation in the Senate should be provincial, but there seems to be no rationale underlying this developing awareness. Because the notion of provincial representation is not derived from a well-structured theory of federalism, but appears to be no more than a component of the current *Zeitgeist*, it could be as fleeting as all *Zeitgeists*. It is therefore important to know why provincial representation is better than regional representation.

The House of Commons is elected on the principle of popular representation: that is as it should be. But if the Senate is to "monitor" vertical competition efficiently, it must be elected on a different basis. *The best rule would be, as is the most common practice in other federations, to make all provinces equal*. Thus, each province could elect ten or twelve senators. The current practice is not only inefficient, it is perverse, since it gives more, considerably more, senators to the large regions (provinces), thus adding to the "competitive inequality" that is inherent in size differences, however measured. It is hard to imagine that the larger and more powerful provincial governments—Ontario and Quebec—would accept changes in the rules of the game that would oblige them to compete more fairly with Manitoba and Prince Edward Island; but without being an incurable dreamer, one can hope that the genuine sense of fairness that characterizes Canadians may, one day, induce these governments to adopt such a change.

The primary role of the Senate should *not*, therefore, be that of a "chamber of sober second thought", although it would continue to play that role. *Its primary role should be to give saliency to the provincial dimensions of public policies*. I stress that this is not essentially a representation role; it is a "monitoring" function. In other words, in the competition over resources and policies that takes place in the national government, it is imperative, if the competition is to be efficient, that provincial interests be competing with each other on an equal footing. It is not sufficient, to put it still differently, that provincial interests be represented appropriately in national debates. They must be able to vie with each other on a basis of "competitive equality"; otherwise the checks and balances that characterize national politics will be

biased against the weaker provinces, even if their points of view are represented. A capacity to compete is more than a capacity to talk; it is also, and radically, a capacity to exert a real influence on decisions. That is the real meaning underlying the notion of “monitored” competition.

To fulfill its “monitoring” role, the Senate should keep some distance from the House. This would be achieved *if the Senate was not elected on the same basis as the House*. I have already noted that the basis should be provincial and that equal representation of the provinces should be the objective. In addition, *it would be best if the Senate was elected on the basis of proportional representation, at fixed intervals and for fixed periods*. If these were the rules, the distance between the House and the Senate would be great enough to insure that the Senate could “monitor” vertical competition effectively. If the distance was any less, it would be too much a creature of the House of Commons to do effective “monitoring”.

It has often been suggested that the Senate be given a six-month suspensive veto. That raises a difficult problem. A suspensive veto, it would seem, is not consistent with legitimacy acquired at the ballot box. Elected Senators are unlikely to be satisfied with a temporary delay, especially if the matter is a pressing one. At the same time, it is important to leave the matter of confidence in the Cabinet with the House. What should be done? I think that it would be best if the Senate was not given a suspensive veto. *Instead, a bill that was amended or defeated in the Senate should be passed anew by the House of Commons*. That would leave the ultimate power with the House, and would be conducive to bargaining between MPs and Senators. A suspensive veto does not encourage compromise.

The Senate is not the only national body that serves to “monitor” vertical competition. That is also done by the Supreme Court. It is that body which interprets the division of powers and determines the competitive behaviours which, from a legal point of view, are constitutional and those which are not. In the absence of an efficient Senate, the burden which must be carried by the Supreme Court, in its role of “monitor” of vertical competition, tends to be too heavy. However, the remedy for the problem is *not* to reform the Supreme Court, as some have proposed, but to reform the Senate.

III. Applications

A theory of competitive federalism, such as the one adumbrated in the foregoing pages, has great power not only in providing an integrative and unifying framework to matters which otherwise appear not to have any meaning and consequence, but also in making it possible, as I hope I have already shown, to address matters of institutional reform in other than a purely *ad hoc* fashion. That is true in respect of Senate reform, a matter that has provoked countless suggestions, not many of which, however, are anchored in a strong rationale related to the purpose or role of that body. That is also true for the institutions of Executive Federalism and for regional development policy, a subject to which I return below.

In the discussion that follows, I wish to demonstrate the power of the theory by applying it to sundry issues that have been raised in one locality or

another during the Royal Commission's hearings. These are usually matters on which there is considerable debate, that is, matters which are difficult to discuss because of the lack of a consistent framework of analysis. Applying the theory of competitive federalism to these questions and deriving the recommendations for reform which seem to follow from it will shed more light on the approach.

I will look at five questions which are "natural" questions for a theory of competitive federalism. Because neither time nor space allow an extensive and detailed treatment, I will only sketch the problems and point to the solutions. The reader will have to supplement the development with his or her own insights. I will examine the following five questions in the order indicated, although that order is not an index of significance or of saliency: 1) economic union; 2) intergovernmental grants, that is, equalization payments and established program financing; 3) Tax Collection Agreements; 4) the Charter of Rights and Freedoms; and 5) municipal governments.

1. Economic Union

Economic development policies, of which industrial and regional policies are a sub-set, now play an important role in the policy arsenal of every jurisdiction. Many times, of course, they are not called by that name; they may even be implemented as a part of other policies. For example, it has been said that industrial and regional considerations play a significant role in the defence and military expenditures of the United States government;²⁰ it is, in any case, a fact that the Pentagon publishes yearly a map which displays defence expenditures by congressional districts!

These economic development policies are, as I have already argued, the product of federalist competition, but in two different senses. First, some of these policies are responses by federal and provincial governments to opportunities created either by the demands of citizens or by comparative public entrepreneurial capacity. For simplicity, I will call these demand-supply development policies. Secondly, some policies are implemented, mostly by the federal government, but not inappropriately also by both orders of government acting together, to ameliorate the degree of "competitive equality" between the provinces of the federation in order that competition between them be more efficient and productive.

It is absolutely essential to keep the above distinction in mind in analysing industrial and regional policies, and, more generally, economic development policies. The distinction is a feature of federations which is absent from unitary states. In the latter, indeed, the only source of economic development policies is demand and supply considerations; the establishment of property rights aimed at making federalist competition efficient is, by definition, absent in these political structures.

Though it is important to distinguish between the two identified "sources" of development policies, it is also indispensable to keep in mind that they are not independent of each other. The relationship between them can be put in the following way: the more efficiently designed the economic development policies that serve to promote "competitive equality" and thus to "monitor"

federalist competition, the higher the benefit-cost ratio of development policies implemented in response to demand-supply considerations.

To see why that must be so, we must first identify the benefits and the costs of the development policies I have called demand-supply policies. The benefits are easily ascertained, at least for those who assume that when governments respond to what people want, they raise the well-being of these citizens.

The costs arise because economic development policies almost invariably create impediments or barriers to the free movement of goods, services (for example, the services of lawyers, nurses, etc.), labour, capital and entrepreneurship. These barriers—in the present discussion solely a by-product of responses to the demands of citizens—reduce the specialization that would otherwise be achieved in the use of scarce resources. It is these barriers that constitute the “economic union problem”.

The affirmation made above that if the economic development policies designed to “monitor” federalist competition are efficient, the ratio of the benefits and costs just defined would be maximized, rests on the notion that federalist competition is a self-corrective mechanism. To put it differently, federalist competition, like all competition, if it is well “monitored”, is efficient in the sense that it will economize on scarce resources in achieving the objectives willed by people. Indeed, efficient “monitoring” means, among other things, that costs imposed on others in the competitive pursuit of a target must be proportionate to the benefits obtained. In addition, self-correction or restraint is brought about by the fact that under efficiently “monitored” federalist competition, the benefits of economic development policies are closely related to their own costs.

If the above analysis is correct, it has one empirically testable implication: there should be more inefficient barriers to the free flow of resources in unitary than in federal states. In unitary states, indeed, the discipline of competition is much weaker, and the obligation to meet the preferences of citizens less constraining. I should insist that to test the proposition, one must focus on demand-supply development policies, and exclude from the analysis those policies implemented to make federalist competition efficient. It is not an easy proposition to test, but my own casual observation of both unitary and federal states supports the proposition.

In the Canadian context, “monitoring” is not as efficient as it could be, not only because the Senate does not interject the “proper” provincial dimension in federal institutions, but because Executive Federalism is too “encompassing”, and because of other reasons, some of which have been noted above. Consequently, the economic development policies that should serve to improve “competitive equality” and to make federalist competition more productive are less than optimal; and the benefit-cost ratio associated with demand-supply policies is lower than it could be.

What should we do to correct that situation? The best solution is to reform the Senate and the institution of Executive Federalism along the lines recommended earlier, as well as implement other measures, such as those suggested in this supplementary view, that would make federalist competition more efficient. If this was done, the only other things that would be needed would be to implement the recommendations of the Commission’s Report

pertaining to section 121 of the Constitution Act and those relating to interprovincial trade.

If significant institutional reforms cannot be achieved, then *as a second-best solution*, I support the Report's recommendation that a Federal-Provincial Commission on the Economic Union be established to implement a "Code of Economic Conduct" that would be a "monitor" of the economic union. My own version of the code, would, however, require that the distinction made above between what are in effect "framework" policies and demand-supply policies be entrenched and respected. The code would then be aimed at restricting the implementation of demand-supply development policies that have an "obviously low" benefit-cost ratio. The code should seek to achieve through administrative and bureaucratic means what, in a more ideal situation, would be the "automatic" outcome of the operations of Parliament, federal-provincial machinery, and federalist competition.

2. Intergovernmental Grants

All theories of intergovernmental grants reflect or are derived from some theory of federalism. That thought may seem obvious, but it bears repeating, because there are many theories of government grants which present themselves as independent of any conception of federalism. I do not have the time nor the space to demonstrate that point here; that will have to wait. It will be clear, however, that the theory of grants that follows is an integral part of the theory of competitive federalism. It does not rest on such intractable and pious notions as "Canadians are a sharing people" or "Canadians are compassionate"; it does not, in other words, derive firstly from notions of equity, because if equity was the basis for governmental grants, one would be led immediately to the view that transfers should be made to persons, not to governments.

I have already indicated that the role of government grants is the promotion of "competitive equality" between the provincial governments of the Canadian federation. The purpose of this section is to amplify this point. I consider equalization payments first, and then turn my attention to the financing of established programs.

I must repeat that in a federation, the competition that I have called horizontal takes place between the *governments of the federation*. Equalization payments are aimed at making that horizontal competition work more efficiently. That rationale is not inconsistent with section 36(2) of The Constitution Act, 1982 which says that equalization payments are made "to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation".

An efficient equalization formula redistributes tax revenues between provincial governments but, importantly, it does so according to certain (temporarily fixed) rules and thus acts as an "automatic monitor" of horizontal competition. Equalization payments, therefore, allow weaker provincial governments to "hold their own" *vis-à-vis* stronger ones in federalist competition; but also, they serve to deter any provincial government

from engaging in competitive actions that would be privately beneficial to itself, but socially inefficient and destructive.

Let me give an illustration of this last point. Suppose that a provincial government sought, through predatory behaviour, to attract the head offices of corporations to its province, so as to increase corporate profits in the province and hence revenues from that source. In the absence of an equalization formula (or of other "monitoring" devices), such action, even if destructive, could be profitable to the province. But an efficient equalization formula would produce a reduction in equalization payments to the province and would thus deter such predatory behaviour. It is clear that the deterrent should not be absolute; indeed, it should be incremental. It is also clear that an efficient equalization formula need not subject all provinces to the same marginal deterrence. The current formula, based on a five-province standard, is different in that respect from the older formula which was based on a ten-province standard, but it is not necessarily inferior to it. To come to a decision on the matter requires a judgement about the relative competitive ability of provincial governments.

Equalization payments do redistribute income but their primary rationale and their prime function is allocational. It is because of this allocational role that equalization receives the support of all provincial governments, those of the "have" and those of the "have-not" provinces. It is also because of the allocational function that equalization payments have to be unconditional; if they were not, they would suppress federalist competition.

In this regard, it is important to stress that an efficient equalization formula should "monitor" competition, not seek to eliminate it. Suppose, for example, that a provincial government, as a result of some fortuitous or deliberately sought event, benefits from a windfall revenue which would permit it to compete more effectively with other provinces for resources and people; should the equalization formula redistribute all of this windfall between the provincial governments and thus impede federalist competition? Certainly not. Such a provincial government is indeed in the same position as a firm which, following a favorable event, is able to expand its clientele at the expense of other firms.

Those who would suppress federalist competition in that way usually embrace a Benthamite notion of government, according to which governments act in the public interest because the public interest is their business, and because to be in public life is to be motivated by the public interest. When governments are assumed to always maximize social welfare functions, why have competition, indeed, why have governments in the first place?

I note in passing that the view of equalization grants advanced here is, broadly speaking, the one to be found in the *Report* of the Royal Commission on Dominion-Provincial Relations, commonly known as the Rowell-Sirois Report. It is true that that Commission's conception of federalist competition appears to be different from mine, at least on a first reading: it seems to be arguing that federalist competition is essentially destabilizing and destructive. That Commission's views reflect the analysis of the realities of interprovincial fiscal competition during the 1930s, as well as the prevalent idea of the period which viewed competition as generally inefficient even in markets.

The “monitoring” role of the federal government in the 1930s was by any reckoning quite limited. It is intriguing that Rowell-Sirois recommended the introduction of National Adjustment Grants (NAG), admittedly different from, but close in spirit to the present equalization grants which I argue make competition more productive. The Commission also recommended that the NAG be unconditional. The rationale for its recommendation, though shunning the language of competition, is so suffused with its spirit that it is worth quoting at length:

It should be made clear that while the adjustment grant proposed is designed to enable a province to provide adequate services (at the average Canadian standard) without excessive taxation (on the average Canadian basis) the freedom of action of a province is in no way impaired. If a province chooses to provide inferior services and impose lower taxation it is free to do so, or it may provide better services than the average if its people are willing to be taxed accordingly, or it may, for example, starve its roads and improve its education, or starve its education and improve its roads – exactly as it may do today. But no provincial government will be free from the pressure of the opinion of its own people and if, when it applies for an increased adjustment grant on the basis of need, it has to produce figures which indicate that although it might, without specially heavy taxation, have provided better education but did not do so, it has, of course, to justify this to its own voters.²¹

But, given the *Zeitgeist* of the period, the Rowell-Sirois Report could not imagine that, even after the implementation of the NAG, the federal government would become a true “monitor” of horizontal federalist competition. For that reason, it proposed dealing with competition by re-assigning taxation and significant expenditure powers to the federal government. That was the solution adopted everywhere at that time. It rested on a confusion between competition and the mechanisms that insure its efficiency: property rights, trust, “monitoring”, and so on – a confusion which still today is far from fully exorcised.

That notwithstanding, there is still something that we can learn from the Rowell-Sirois Report and from section 36(2) of the Constitution Act which reflects that Commission’s view of NAG. To put it as simply as possible, the current equalization formula reflects only the revenue needs of provincial budgets. *Competitive equality would require a formula designed to reflect expenditure needs as well*, but only if the costs of incorporating the expenditure side in the equalization formula do not exceed the benefits.

Equalization grants are negotiated grants; the negotiating parties are the federal and provincial governments. Because these grants are aimed at improving “competitive equality” between the provinces, the role of the federal government cannot be symmetrical to that of the provinces, for if it was, the outcome of the negotiations could easily be more competitive inequality instead of more competitive equality. Indeed, a neutral role on the part of the federal government would eliminate the “monitoring” function that must be played by the central government. In some circumstances, it may even be necessary for the federal government to act unilaterally as it did a few years ago, that is, to forego all negotiations with the provinces.

The Established Program Financing agreements, as they currently exist, are of a class and kind that is altogether different from the equalization payments. Their intent and purpose is to limit and even to eliminate interprovincial competition in certain areas. Whether that is good or bad is not at issue here. (In fact, I support the recommendation of the Commission's Report that the mode of financing of education be changed with the aim of increasing interprovincial competition at the level of post-secondary education.)

But if, for any reason, the federal and provincial governments choose to restrict horizontal competition in certain domains, such as is presently done in health and education, *then the grants used for that purpose must be conditional grants*. The situation in which we currently find ourselves regarding this matter derives from the fact that the grants are unconditional. Unconditionality, in turn, is the product of a reliance on a theory of intergovernmental grants in which the decision makers are neither real governments, nor competitive.

The problem which unconditionality creates is analogous to a "free rider" problem. By agreement and by choice of financial instruments, federalist competition is suppressed in, let us say, post-secondary education. The device used to suppress competition is "national standards" or "minimum standards". Since competition is eliminated, unconditional money will not be spent in that area, but will tend toward areas where competition is greater. Consequently, "national standards" are not achieved, federalist competition is distorted, and federal-provincial relations soured.

3. Tax Collection Agreements

There are substantial real economies of scale in tax collection. It is not clear and certainly not known whether these economies persist over all the taxable units in the country. But it is not impossible that they do. There are therefore advantages, possibly large, to the Tax Collection Agreements whereby the federal government collects personal income taxes for all provincial governments (except that of Quebec), and also collects the corporation income tax (except for the governments of Alberta, Ontario and Quebec).

The economies of scale derive from many sources. Not unimportant among them are the following: the tax bases used by all parties must be defined in the same way and, secondly, though tax rates can differ, they cannot differ by much. The Tax Collection Agreements therefore serve as a way of reducing tax competition between the provinces and possibly between the provinces and the federal government. The economies of scale in tax collection are not, therefore, dissimilar to the economies of scale that would result if dress manufacturers were to sign a Fashion Standardization Agreement whereby dress styles and designs would be restricted and differences in them greatly limited.

The analogy is appropriate not only in illustrating how the Tax Collection Agreements restrict competition, but in indicating why so many tax experts think they are a good thing! It is, indeed, only recently—some thirty to forty years after the introduction of "monopolistic competition" as a model of

markets in which businesses compete with each other through the medium of fashion and product characteristics—that economists openly acknowledge that product differentiation may raise economic welfare instead of always reducing it.

The point can be put differently. There are often costs, in addition to advantages, in exploiting economies of scale. In the case under consideration—the Tax Collection Agreements—the benefits of standardized tax bases and (to some extent) rates are readily appreciated. The costs resulting from restriction of competition and over-standardized bases and rates are, however, no less real even if less direct and palpable.

The foregoing does not mean that tax collection agreements should not exist. But the advantages must be balanced against the costs. After study, it may be decided that collection agreements should bring together the provinces in three or four sub-sets in which the federal government would not be involved. The bulk of the economies of scale could thus be exploited and the benefits of tax competition reaped.

Whatever is done, it is well to stress that tax competition would not necessarily produce large differences in tax bases and rates. Indeed, to the extent that there are no differences in preferences of citizens and in technologies of production, competition would operate to eliminate differences in tax rates. However, if there are real differences, especially in the preferences of citizens, competition would guarantee that these are not forgotten. Since differences in preferences between provinces are not absolute (see Section II.8), there is a “natural” limit to the extent to which competition would lead to differences in tax bases and rates.

4. The Charter of Rights and Freedoms

Everybody who has made it into the twentieth century and who pronounces on the matter supports rights and freedoms. The issue, if there is one, is not there; it is instead with the notion of a charter that has constitutional strength. The argument is sometimes made that a charter of rights and freedoms encroaches on parliamentary supremacy by allowing the judicial branch of the Government to pass judgement on and to review matters that have been decided by Parliament (as well, of course, as on other matters).

The flavour of the argument that a charter of rights and freedoms is not congruent with parliamentarism resembles, in many ways, the one to the effect that federalism and parliamentarism are not congruent. In fact there is enough resemblance between the two lines of reasoning that one can venture the hypothesis that those who in 1981–82 opposed a charter for Canada, would in 1864–67 have opposed the formation of the Canadian federation.

However that may be, let me ask if a charter and parliamentary institutions really lack congruence. The answer suggested by the theory of competitive federalism is that a charter and parliamentarism are congruent, because a charter makes the whole political system more competitive. It does this by bringing the courts, more especially the Supreme Court, more effectively into the competition that characterizes the political process. First, it sharply increases the competition between the judiciary and the two other branches of

government—the executive and the legislative. That, by itself, is a major contribution of the Canadian Charter, for inevitably, over the longer term, the competition will tighten the democratic link between governments and citizens, by giving more importance to citizens, as citizens, in the political process. One implication of this is that the Charter will heighten the degree of competition between the public and the private sectors and to the extent that the latter responds, will truly raise the well-being of Canadians *by increasing market competition*.

It is important to note that the closer government-citizen link that the introduction of the courts in the political process will foster is not limited to the federal government, but will affect all the governments of the federation. To put it differently, the interests of citizens will, henceforth, not be met and served by eleven parliaments only, but also by the courts since citizens will be able to use the courts to be better served by parliaments. Through this second channel, the Charter of Rights and Freedoms will stimulate horizontal competition in the federation. This has already begun: through the courts, interests in one province are challenging rulings and laws in another. That can only serve the public good.

There is a third channel through which the Charter will affect the working of the political process, namely, by strengthening the ability of the Supreme Court to “monitor” vertical competition between the central and the provincial governments. This is achieved through the ability of governments at each level to appeal to the courts if they believe that decisions of governments at one level bias the workings of competition in an unfair and inefficient way. As I have already noted, that role of the courts, and again especially of the Supreme Court, is likely to be considerably larger than it should be unless the Senate is reformed in a way that introduces an effective provincial dimension in the federal Parliament.

The Supreme Court, of course, already “monitors” vertical competition. The reason why that role is likely to grow in the future derives from the fact that with the Charter, the pressure of citizens on their governments will increase and, consequently, governments will vie with each other more aggressively.

To the question of whether the Charter of Rights and Freedoms is a real third pillar of political institutions in Canada, congruent with parliamentarism and federalism, the answer must therefore be a resounding yes. The Charter, by bringing citizens more directly into the political process, increases the degree of competition in the system and, by making “elite accommodation” more difficult, will force the system to be more attentive to the preferences of all citizens.

5. Municipal Governments

Municipalities, as the saying goes, are creatures of provincial governments. This means that the government of a province can unilaterally alter the boundaries of municipal jurisdictions, alter the division of powers between itself and municipalities and overrule decisions made locally in all areas of policy. As time has passed, there has been a tendency for the provinces to

consider and to treat municipal governments in many important areas, as *de facto* administrative bodies. It is noteworthy that this has been going on at the same time that provincial politicians, in their dealings with the federal government, were arguing in favour of more decentralization.

Should municipalities be creatures of the provinces, or would Canadians be better off if municipalities were more autonomous decision-making bodies, thus more capable of reflecting the preferences of their citizens and of adjusting to local circumstances? In other words, would the allocation and distribution of resources be more efficient if the municipalities stood *vis-à-vis* the provinces more or less as the latter stand *vis-à-vis* the federal government?

The standard case against an entrenched division of powers between the provinces and the municipalities is that it would lead to a recapitulation at a lower level of the problems encountered at a higher level: on the one hand conflict, rancour and disharmony, and on the other, overlap and duplication. At this point, the reader will not be surprised if, in relation to the first point, I simply say that in my language that means competition, something which, if well "monitored", I hold to be beneficial. With respect to the second point, I simply note that duplication and overlap are, in practice, what competition implies, whether we have market or political competition in mind. The point is readily grasped in the context of competitive markets: how could they be competitive if only one firm supplied a particular product?

The above objection to an entrenched division of powers between provincial and municipal governments is based on a misconception of federalism. Another objection is more simple-minded: it is that provincial governments will be opposed to the idea and consequently that it has no chance of being implemented. The objection is simple-minded because it is obvious that the provinces will be opposed to the notion; no one likes competition when that competition is directed at him or her; no elite with power readily gives it up! One should therefore expect provincial officials to marshal all available arguments— including ridicule— against the idea that if municipal officials were given entrenched powers, the country would be better governed.

Canadians would be better served if municipalities had entrenched powers. Such entrenchments would be provincial-municipal matters. They would be different from province to province. In some cases, a provincial entrenchment law might state that (say) the division of powers between the two orders of government would require some direct participation of municipalities. In other cases, the entrenchment might be more limited, so that changes in the division of powers (say) would be legislated in the provincial legislature, but require a two-thirds majority to pass. Other forms are possible.

No entrenchment can be meaningful unless municipalities are provided with tax bases that can generate revenues capable of matching expenditures. There would, of course, still be "equalization grants" to help "monitor" horizontal intermunicipal competition, but the present total mismatch of revenues and expenditures would have to be corrected.

If one province chose to promote the well-being of its citizens by giving entrenched powers to its municipal governments, it should be aware that the problems that it would face would be no different from those that have to be

resolved in federalism as we now know it. In acting as “monitor” of the horizontal competition that would exist between the municipalities, it would have to face the issues of competitive equality, of the appropriability of benefits and costs of local decisions, and others like them. These are not trivial problems, nor are they problems that the highly competent officials now employed at each of the two levels of government – provincial and municipal – could not resolve, if they chose to.

When we come to the matter of “monitoring” vertical competition – that between the provinces and the municipalities – I would suggest that this could be more economically and more effectively done by the federal government than by any other body. That role could be fulfilled by a department, such as the now defunct Department of Urban Affairs, which would develop “municipality-building” policies. The reason for placing the responsibility with respect to vertical competition with the federal government is simply that municipal governments will compete not only with municipalities located in the same province, but with municipalities everywhere in the country. In view of that, it appears difficult to avoid the conclusion that however difficult such a role would be for the central government, no one else can substitute for it.

IV. Conclusion

In the Introduction to this document, I stated my conviction that the mechanisms that discipline democratic politics, especially in federations, are as constraining as the mechanisms that discipline economic behaviour. I trust that the discussion in the two preceding sections, which has outlined a theory of competitive federalism, has gone part of the way in showing that this conviction can be held rationally. I also believe that further developments of the theory of competitive federalism will reinforce the rational basis for such a conviction.

To conclude this already long document, I ask the following question: what does it mean to say that the mechanisms of democratic politics and those of economics are equally constraining? At its most simple, it means that there are, not one, but two broad arenas in which people seek to obtain the things which increase their well-being: markets and governments. Markets, when they are well-structured and competitive, do a good job over the longer term in allocating resources in ways that maximize the well-being of the population. That is a generally accepted proposition and one in which I strongly believe. What is less accepted, but an idea in which I nonetheless believe just as strongly, is that governments, when they are well-structured and competitive, do as good a job as markets, and like them over the longer term, allocate resources in ways that maximize the well-being of people.

I must therefore reject the *a priori* notion that markets are more efficient, more flexible, and more responsive to change than governments. In some circumstances and in the performance of certain tasks, that is certainly the case. However, unless one specifies the circumstances and the tasks – an undertaking which requires the use of comparable theories of politics and of economics as well as solid empirical comparative research – affirmations to

the effect that governments are less efficient, less flexible and less capable of responding to change than markets, add up to little less than propaganda.

If comparable²² markets and governments do equally well, why not suppress one and give all the responsibilities and the kudos to the other? The reason is that they do not weigh the preferences of people in the same way and do not perform the same tasks equally well. There are some jobs which markets do better and others which governments are best at performing, although it is difficult, *a priori*, to sort them out. There is an enormous literature²³ devoted to that question, but it is not, on the whole, a very helpful one.

It is known,²⁴ however, that to solve this assignment problem on the basis of principles, one must contrast the relative efficiency of governments and markets in the performance of the tasks to be assigned. That is more easily said than done, because as just noted, comparisons must, at the very least, start with two theories, one of politics and one of economics. Furthermore, the two theories must have enough in common to make the comparisons possible and meaningful.

Conventional welfare economics—the most common theory used by economists to address the assignment problem—lacks a theory of politics; instead, it uses the assumption that governments seek the “common good”.²⁵ It therefore “solves” the assignment problem by assumption. Indeed, if governments pursue the common good and if one can demonstrate “market failure”, one must conclude that the tasks which markets fail to do perfectly should be assigned to the state. In recent years, a “reverse logic” has been used to generate the opposite conclusion. In that case, the assumption is made that markets always allocate resources efficiently. It then suffices to demonstrate “government failure” to argue that those tasks which governments fail to do perfectly should be assigned to markets.

That reverse logic model also solves the assignment problem by assumption. Why? First, because the work on market “imperfections”—on the increasing returns to scale of many technological processes, on the declining marginal revenue of many business enterprises, on the often less than arm’s length relationship in transfer pricing, on the incidence of tie-in sales, on the presence of entry deterring strategies by oligopolists, on the downward stickiness of many prices (including, of course, the price of labour), on price fixing arrangements, on racial, gender and other forms of discrimination, and on other market imperfections—is not usually brought to bear on the matter. Second, because that model also lacks a theory of politics; it demonstrates “government failure” by reference to market mechanisms alone.

The search for a solution to the assignment problem based on first principles is probably beneficial, although that is not certain. My own view of how modern societies work is that the assignment question is “resolved” through competition between governmental and market institutions and that that competition, in turn, is shaped and conditioned by the demands of the public and by the supply of entrepreneurial talent to each sector. Consequently, a growing government sector reflects first the fact that people want not only the things governments supply better, but also those things which governments provide differently than markets, and second, the fact that more

aggressive and talented entrepreneurs have found their way in that sector. A declining government sector reflects opposite tendencies. If I am allowed a conjecture, I would suggest that a number of things which are done by governments in Canada could have been done privately, if private sector entrepreneurs had been more imaginative and more aggressive. In that sense, the success of business lobbies in preventing the implementation of an effective competition policy has contributed to the growth of the public sector in Canada.

However that may be, if markets and governments are two competing arenas for meeting the preferences, objectives and desires of people, it is no longer possible to hold to the view, so dear to those who adhere to a Benthamite notion of politics, that all taxes, regulations, subsidies and other forms of intervention by public bodies always cause “distortions”.

The notion of distortion is not an easy one to work with. Consider the simplest possible case, that is the case of an economy made up of perfectly competitive neo-classical markets in which the cost of a unit of resources allocated to any use—producing goods and services, moving them around, informing people of their quality, etc.—is exactly equal to the social value of that unit of resources. In such an economy, there are no distortions by construction. The presence of monopolies, pollution, sticky prices, and of taxes, quotas, subsidies, regulations and other public interventions *may*, by introducing a wedge between private and social valuations of resources, create distortions. But they may not. If we acknowledge that governments can influence monopolies, pollution, regulations and taxes, it is essential to know why interventions take place before calling them distortions. It would indeed be a perversion of language to put the name distortion on a deliberately sought policy objective.

An illustration may help. Suppose that the population of a jurisdiction unanimously agrees to ask its government to levy a tax on alcoholic beverages, because, assuming that these are harmful to health, it believes that people could not resist the temptation of drinking more if prices were lower. If the government levies the demanded tax, it would simply be wrong to say that the tax is a distortion; it is an efficient instrument used in the pursuit of a particular objective, which it is hardly the business of analysts or observers to approve or condemn.

The situation would be different if the demand for the tax was not unanimous. Those who found themselves in the minority, unlike the others, would face a distortive tax. It is, therefore, impossible to know if public intervention is distortive or not without a theory of politics. Given that fact, declarations to the effect that the tax system should be neutral, that industrial policy should mimic the market, or that Crown corporations should be privatized, unless they are grounded both in economics and politics, may cause serious distortions, if ever implemented, by preventing the political system from doing its job effectively.

I have run out of time and space and so rest my case. I hope that the theory of competitive federalism which I have suggested above, both as a model of what actually goes on in the Canadian political arena and as a guide to institutional reform, serves as a useful clarification and extension of the

discussion of these matters in the Commission's Report and that it helps nourish the public debates which that Report will stimulate.

Notes

1. To these two pillars, a third, in the form of a Charter of Rights and Freedoms, has been added in 1982. I will consider its implications in Section III.
2. J.A. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper and Row, 1942, 1975) pp. 84–85.
3. Mainline neo-classical theory is a very large building. There are consequently almost always some more or less obscure rooms in it in which little-talked-about subjects are being worked at. Work on research and development, on innovation and invention, on technical change, and even on the economics of entrepreneurship has been carried out by someone or other at all times. Much of this will surely be re-interpreted and given new life in the light of the recent re-discovery of entrepreneurial competition.
4. I. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973).
5. J.K. Galbraith, *American Capitalism, The Concept of Countervailing Power* (Boston: Houghton Mifflin, Sentry edition, 1962).
6. R.R. Nelson and S.G. Winter, "Simulation of Schumpeterian Competition", *American Economic Review* (February, 1977).
7. D.V. Smiley, *Canada in Question: Federalism in the Eighties*, (Third Edition, Toronto: McGraw-Hill, Ryerson, 1980) p. 91.
8. A research paper done for the Commission also uses that model. See J.A. Brander, "Economic Policy Formation in a Federal State: A Game Theoretic Approach" (1984). Brander rationalizes the use of the prisoner's dilemma model on the basis of what he calls the "public interest" approach to politics. But it is essentially a "collectivist" or "organicist" assumption. See below.
9. R.D. Luce and H. Raiffa, *Games and Decisions* (New York: John Wiley and Sons, 1957), pp. 95. Italics added.
10. J.H. Dales, *Pollution, Property, and Prices* (Toronto: University of Toronto Press, 1968) pp. 58-59. Italics in the original.
11. There is no good word to identify that activity or the role of "monitor". I use this word because it seems to me to be the most neutral. I would take any acceptable synonym as a substitute.
12. *De jure* concurrency is often inevitable. Such cases have led to the development of doctrines such as that of "paramouncy" that help settle the accountability issue.
13. The reader, if he or she desires, can form an impression (but no more) of how I would address the question by referring to A. Breton and A. Scott, *The Economic Constitution of Federal States* (Toronto: University of Toronto Press, 1978) which is largely concerned with that matter, but in a different framework of analysis.
14. Earlier, in condemning the use of the prisoner's dilemma model as a model of federalism, I noted that it was this very same assumption which had led to its adoption. From the point of view of classical political science doctrine, the assumption derives from "organicist", as contrasted to "non-organicist" or "personalist" approaches to behaviour. The lure of organicist assumptions, even on the best minds, is always somewhat of a puzzle to me.
15. A. Hamilton, J. Jay and J. Madison, *The Federalist* (New York: The Modern Library, 1787, 1937).

16. It is possible that the life expectancy of "incumbents" is also increasing in the marketplace.
17. Juvenal's question is: "For who will guard the guards themselves?". Among the more important contemporary students of the question are J. Rawls, *A Theory of Justice*, (Cambridge: Belknap Press, 1971), R. Nozick, *Anarchy, State, and Utopia*, (New York: Basic Books, 1974), and J.M. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: University of Chicago Press, 1975).
18. The Americans did not understand that role for the Senate perfectly. They designed a Senate to which Senators were appointed by the States. That proved to be a disaster. Their present elected Senate, giving equal weight to all the states, is as close to the ideal as one can hope to come in designing an efficient "monitor" of vertical competition.
19. A classic exposition of that view is F.R. Scott, "Social Planning and Canadian Federalism" in M. Oliver, ed., *Social Purpose for Canada* (Toronto: University of Toronto Press, 1961). The resistance to federalism is, in effect, a traditional feature of democratic socialism. That case is nowhere better put than in H.J. Laski, "The Obsolescence of Federalism" in A.N. Christensen and E.M. Kirkpatrick, ed., *The People, Politics and Politicians* (New York: Holt, 1941).
20. R.B. Reich, "An Industrial Policy of the Right" *The Public Interest* (fall, 1983).
21. Canada, *Report of the Royal Commission on Dominion-Provincial Relations* (Ottawa: King's Printer, 1940) Book II, p. 84.
22. The kind of problems raised by Mancur Olson in his *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982) can affect markets and governments equally. For that reason, they are neglected in the following discussion. It would be easy to incorporate them in the analysis.
23. I have in mind the literature of welfare economics. At one time, that literature even served as a basis for the formulation of a theory of government. See W.J. Baumol, *Welfare Economics and the Theory of the State* (Cambridge: Harvard University Press, 2nd Edition, 1969).
24. See, for example, G.S. Becker, "Competition and Democracy", *The Journal of Law and Economics* (October 1958).
25. In modern welfare economics, governments are assumed to be maximizing a social welfare function. The "common good" is then defined by choosing a particular degree for the elasticity of substitution among the utilities of persons in society.

E. Gérard Docquier

Preamble

With a view towards contributing to the debate over the economic future of Canada, I wish to submit for the public record a statement on the parts of the Final Report of the Royal Commission on the Economic Union and Development Prospects for Canada with which I dissent.

There are at least four areas with which I cannot agree—some in total and some in part. These are: the lack of a serious effort to eliminate unemployment; the advocacy of U.S.-Canada bilateral free trade; proposals to roll back the Unemployment Insurance Program; and some recommendations on labour-management relations.

My most fundamental disagreement with the Final Report is over unemployment. Unemployment is the single most important question facing Canadians today. It affects not only how much wealth there is to be distributed amongst society's members, it also reflects itself in the tragic unravelling of our social fabric. The unemployed are not statistics to be manipulated on charts and graphs—they are human beings with faces and personalities with a right to live in dignity, a right they are deprived of today. In this way the Commission has failed the people of Canada.

A Commissioner's Personal Account

In 1982, I was asked to serve on the Royal Commission on the Economic Union and Development Prospects for Canada. Canadians were living through the worst recession since the 1930s. My union, the United Steelworkers of America, the largest private sector union in this country, had 205 000 members in 1979. By mid-1982, that number had dropped to 128 000. I could put names and faces to many of those numbers. The devastation of the recession led me into homes where I found fear, pleas for help, and often-times hunger. I felt at first hand, as an immigrant, as a worker, and as a Quebecer, the personal costs associated with the destruction of our social fabric. Thousands of miners lost their jobs. Permanently. Dozens upon dozens of plants locked their doors. Permanently. Hundreds of thousands were thrown into the streets, losing their jobs and often-times their homes. Families were torn apart. By mid-1982, thousands had exhausted their unemployment insurance benefits. Many of the people I knew and represented were thrown onto the welfare roles. Many lost the means to feed and to house their children.

Canadians have experienced dramatic changes in technological, economic, political and social conditions that have recognizably altered the world in which we live. These changes have been no less fundamental than the Industrial Revolution of the last century. When the Commission was established, there was a need to devote time and resources to finding out what Canadians thought of these changes and how we should respond to achieve the future we wanted.

Canadians have been victimized by a recession over which we have had no control and to which we can see no end. We have undergone a progression of

emotions that have ranged from fear and insecurity to anger, and from loss of dignity and humiliation to despair. Our fears have been heightened by watching the rest of the world go through the same agony. We are not alone. We are all helpless. Soup kitchens, food lines, and unions of the unemployed have become daily reminders of the vulnerability of Canadians to severe structural change. And still, permanent jobs are disappearing. Our country, one of the richest in the world, seems incapable of stabilizing the economic and social environment. The human hemorrhage continues.

I was haunted by these concerns because I knew that the changes we were experiencing were more than just the result of a short-term recession. I felt a great deal of uneasiness about participating in such a process. The Canadian Labour Congress and the Government of Canada were at odds on almost every issue that faced the working people of Canada. There was virtually no dialogue on the major issues that confronted the main participants in our society. Nevertheless, I felt that the Commission's mandate was broad enough to encompass the views of those Canadians who are never asked what they think of our economic problems. Their voice needed to be heard in shaping the solutions to our problems. I came to the conclusion that it would be unthinkable not to have the labour movement represented on the Commission. I talked to many people whose advice I respect, first, within my union and, second, within the labour movement. Having received the full support of my membership, and the endorsement of the Canadian Labour Congress, I agreed to sit as a Commissioner.

In many ways, the experiences that have shaped me differ from those that have shaped the rest of the Commissioners with whom I have travelled across this vast country during two complete rounds of hearings. The majority of us, however, did have one thing in common – our concern was for the future, for what the country might become in the 21st century. We may have had differences of opinion, but we all had a sincere and deeply-held respect for the Canadian people.

Statement on the Final Report

Not long after the start of our mandate, it became clear that the work of the Commission would be separated into two tracks. While the Commissioners concerned themselves with the day-to-day experiences of Canadians, the staff of the Commission embarked upon a research program that was noticeably divorced from the realities expressed by those who appeared before us. For the most part, this theoretical research was based on assumptions which I do not support.

The research has exposed for me two views that have been treated as a new orthodoxy: “self-reliance” and “market forces” became the constant litany. I resist the casual adoption of this language because it does not match our reality. This new economic orthodoxy assumes that: we are overly dependent; most unemployment is voluntary; we lack initiative; and that government spending is out of control. Yet, we are the people who work in Faro, on Little Cornwallis Island, in Hibernia and in James Bay. We are the people who

have developed the Canadarm. We are the people who gained the attention and respect of the world for the odyssey of one-legged runners.

The Final Report of the Commission states: "We have not come up with a single, simple, compelling message." I clearly heard a single, simple, compelling message: "*Canadians want to work.*" While the Report includes rhetoric about the priority of jobs, its research program and recommendations do not reflect a commitment to a full employment economy—a job for everyone who wants one. *Our number one objective is jobs.*

The mandate of the Royal Commission on the Economic Union and Development Prospects for Canada was to report and to recommend to Canadians on their economic future. Instead, it has produced a Report more preoccupied with our past. In many fundamental ways, the Commission's Report has done a great disservice to those Canadians who have shaped our nation. The economic philosophy of the Report is expressed in its Introduction:

We seek a new relationship between the political system and the economy and society within which incentives will induce the making of choices compatible with social goals.

I disagree fundamentally with this principle. Our social goals are clear. They have not changed. Indeed they should not change. Canadians want to work. *Our goal is to create jobs for those that have been deprived of employment.* At the same time, we want to take care of those amongst us who are incapable of caring for themselves. We have long accepted the moral and ethical responsibility to protect those least able to fend for themselves. This is the legacy of the Canadian experience. Our commitment is to full employment and to social justice.

The major concern in the current political environment should be to allocate our financial resources for the attainment of these social goals. *The task of economic management should serve social development.* The biggest single problem which threatens to retard both our economic and our social development is unemployment.

The continuous stream of lay-offs, plant closures and production cutbacks have caused unemployment to increase dramatically. From August 1981 to December 1982, total official unemployment reached 12.9 per cent. The official unemployment rate has been above 10 per cent since May of 1982, and by March of 1985 it remained at 11.2 per cent. When hidden unemployment and underemployment are added, the real level of unemployment is much higher. In March of 1985, Statistics Canada's *Supplementary Survey* showed that at least 270 000 men and women have given up looking for work. They are no longer counted as officially unemployed. Since 1982, approximately 700 000 full-time, permanent jobs have disappeared. Our younger workers, those under the age of 25, are particularly hard hit. By March of 1985, the official jobless rate for our sons and daughters had soared to 17.5 per cent. More than 300 000 jobs have disappeared for this age group alone.

We cannot speak of growth or recovery in an economy where so many of those for whom we have responsibility continue to be jobless. In this society,

our self-worth is still largely defined by a job. What will happen to a society where 35-year olds will hold a job for the first time? What will happen to their work habits? What will happen to our work ethic? What will happen to an economy whose spending habits are not driven by the formation of new family units, of productive employees and consumers? How many of we older Canadians will continue to stay in the job market to support our 30-year-old children? Can the word "growth" ever become a positive word to a generation that has no work? How many of us have looked into the eyes of our sons and daughters, our nieces and nephews, our grandchildren, and asked, "What will become of this lost generation?" How can we have a future if we waste it now in joblessness and despair?

For those of us who live in daily contact with the unemployed, the pressures of not being able to affect change have become intolerable. The growth that has been generated by our economy during the last three years is *jobless growth*.

From 1981 to 1983, unemployment has added one million more "new poor" to the ranks of poverty. Poverty is not a rural, regional or "those too lazy to work" problem. Poverty exists from one end of this country to the other. There were 967 000 poor families in 1983 and the majority of those, 557 000, lived in large cities. In poor families, more than one million of our children are being denied a decent upbringing.

Families headed by women have a far higher likelihood of being poor than families headed by men, and the numbers are growing. Of the total number of families headed by women under 65 years of age in 1983, more than 50 per cent were living in poverty, compared to 11 per cent for families headed by men. Close to one-third of all poor families are headed by single-parent women.

To be elderly, a woman and living alone also means to be poor in Canada. Almost 60 per cent of unattached women over 65 years of age are in that desperate situation. It's not much better for men — poverty has claimed 48 per cent of all elderly unattached males. There are 2 500 000 recipients of Old Age Security in Canada. In 1983, 1 500 000 had incomes below \$9000.

Poverty includes men and women of all ages, farmers and fishermen, the sick and the disabled, and the unemployed. Contrary to popular belief — large numbers of the "working poor" are men and women with jobs who don't earn enough to escape poverty.

In 1982, well over one-half of the heads of poor families worked, and nearly two-thirds of all poor families had at least one wage-earner. The problem was that they could not get full-time jobs with a decent salary. I am convinced that the only protection these men and women have is the minimum wage law. I fundamentally disagree with the view of the Commission's Report that such laws are simply "rigidities" and insignificant to improving the lot for the working poor.

By February of this year, total employment was back to slightly above the August 1981 level. However, the number of full-time jobs was still 150 000 below the August 1981 level. Permanent full-time jobs have been replaced by part-time jobs of unknown duration and low pay.

In the goods producing industries, close to 500 000 jobs were lost and only 200 000 have been regained. There are still 300 000 fewer jobs in goods producing industries than there were in August 1981.

For youth, there has been no recovery of the jobs lost. By March 1985, employment for workers under 25 years of age was still 300 000 lower than in August of 1981. The youth unemployment rate is 17.5 per cent.

The growth in joblessness of the last two years has occurred despite the strong growth in exports – which grew in volume by nearly 9 per cent in 1983 and by a dramatic 22 per cent in 1984. However, the domestic economy continues to be weak. *Greatly increased trade has not increased our levels of employment.*

I can speak personally of this failure by referring to the changes in composition of the Steelworkers' membership. The changes over the last half decade reveal fundamental structural upheavals. The mining sector, particularly base metals and coal, were among the hardest hit. There has been no recovery. (See Table 1.)

TABLE 1 Mining Membership 1980–84

Sector	Percentage Change
Iron mining	–47.7
Copper	–42.8
Silver	–39.5
Nickel	–44.7
Coal	–33.1

The Canadian steel industry has also undergone significant work force loss. (See Table 2.)

TABLE 2 Steel Industry Membership 1980–84

Sector	Percentage Change
Basic steel and rolling mills	–22.9
Steel wire and nails	–23.6
Pipe and tube	–19.2
Structural fabricators	–31.2

There have also been important membership losses in the metal fabricating sector which consumes the production of the steel industry. (See Table 3.)

Several factors have led to these changes. The recession, new sources of foreign competition for traditional industries, and technological change are all moving us toward a more service-oriented economy. These changes are

TABLE 3 Metal Fabricating Membership 1980-84

Sector	Percentage Change
Iron foundries	-42.0
Steel foundries	-48.0
Hand tools	-40.0
Farm equipment	-53.7

eroding the traditional wage and job structure upon which our patterns of consumption, social opportunity and support have been built. The "middle class", as we have known it, is in danger of disappearing. Incomes are becoming more polarized. We will have even more poor, and more rich, with less and less in between.

In absolute numbers, our Union's membership has gradually returned to 160 000 individuals—the level of the late 1960s. But our new members have come largely from the lower wage service sector. New groups we have organized include security guards, restaurant and rest home workers.

How does the Commission see these problems being resolved? It has adopted a simplistic belief in "free trade" with the United States and with the rest of our trading partners. *This will not solve our unemployment problems.* The last few years have proven it. Nor will we be lifted out of our current and future problems by "getting the incentives right" and relying on the invisible hand of the market.

Real business investment in plant and equipment fell 9 per cent in 1982 and declined by a further 12 per cent in 1983, levelling off in 1984. By the end of last year it was over 20 per cent below the peak reached during the second quarter of 1981. At the same time, tax incentives to corporations, which by 1980 had reduced the federal corporate tax rate to 15 per cent of profits from 36 per cent, have had little effect on stimulating investment and creating growth over the last three years. In the 1950s, corporations paid 58 per cent of federal income taxes while individuals paid 42 per cent. In the 1970s and 1980s, *corporations had their share of federal taxes reduced to under 30 per cent. The share paid by individual taxpayers rose to over 70 per cent. Businesses need customers, not tax incentives.* As long as our industries can satisfy demand for products by operating at three-quarters of capacity, there is no need to expand, to invest or to create jobs.

Tax incentives have not encouraged or resulted in more jobs. For some, tax incentives may have become good politics, but they are not good economics. Indeed, it is this tax structure that is the underlying reason for the problem of underfunding experienced by governments today. Manipulating Canadians' behaviour through the tax system has not been successful. Many of the social objectives that the tax system was designed to achieve have not materialized and the revenue-raising capacity of the tax system has been seriously eroded. I see two reasons for this: slow economic growth and the unfairness of the tax system. The well-advised or the wealthy pay far less than their fair share. Major changes to the tax system are a necessity. Tax reform should begin

with the introduction of a minimum tax on high income earners. It is unacceptable to think that in order to have more economic growth we have to create more inequality.

I do not believe that we are over-governed and that the key to renewed growth and prosperity lies in a federal administration that will abandon Canadians to the whims of the market. Among the most forward-looking sections of the Report are those covering social support and human services.

The Report recognizes that:

Since the overall level of social policy expenditures in Canada is low by OECD standards, there is no strong general case for attacking the deficit by reducing social expenditures.

The recommendations propose a package of changes to our income security programs. The Report endorses a guaranteed annual income in the form of a Universal Income Security Program (UISP) as the most appropriate foundation for Canada's income security programs. I welcome this initiative as both a step in the direction of social justice, and a recognition of the importance of social support to our economic vitality.

The Transitional Adjustment Assistance Program (TAAP) would provide adjustment assistance for Canadians who have exhausted their unemployment insurance benefits. Through this program it would also be possible to assist workers to purchase equity in plants, or invest in other forms of community economic development projects. I do not agree with the proposal that funding for the program should be drawn from "savings" from the Unemployment Insurance program.

The proposed Unemployment Insurance "reforms" represent a reduction of benefit levels, and an increase in the qualifying period. This amounts to an outright attack on the unemployed. The victims should not be punished for their plight. The way to reduce the costs of unemployment insurance is to create jobs.

Furthermore, the packaging of the above proposals does not distinguish between income support programs and insurance programs.

Further, the Report identifies occupational health and safety as an area of importance and growing concern. The recommendation calls for:

The federal and provincial governments to immediately consider the development of a comprehensive social insurance disability plan to deal with the longer-term effects of occupational health problems, as well as with other forms of disability in the working age population. This plan could be implemented either by expanding worker's compensation into a comprehensive disability scheme or by extending the present disability provision of the Canada and Quebec Pension Plans.

This too is welcomed as it has long since passed that the needs of the disabled in Canada, regardless of cause of disability, have been met.

With respect to occupational training, increased attention is paid to encouraging on-the-job and job-related training. The recommendations call for a special wage subsidy for labour-force entrants who have not had other forms of vocational training or post-secondary education. In addition, the

recommendation is made to provide for a Registered Educational Leave Savings Plan. I disagree with this proposal and would opt instead for a levy-grant system on employers.

Recognizing that our children are the ones who must shape our future, access to higher education for low-income students becomes an area of special concern. The educational system is being starved through lack of funding. Deregulation of the fees structure is no solution.

I agree with the general recommendations on labour-management relations; however, I do so for different reasons and without endorsing all of the findings and comments. Collective bargaining plays a critical role in the distribution of income in this country. It determines, both directly and indirectly, the income of the vast majority of Canadians. I must express reservations about some of the Quality of Working Life experiments that have taken place. Furthermore, I reject the proposal of gain-sharing as a substitute for negotiated wage increases.

The Commission recommends that:

Labour relations boards be permitted to create multi-employer and multi-union bargaining units when this is likely to facilitate the bargaining process.

Our voice was heard in shaping these solutions.

The Report is obsessed with Canada's "competitiveness". There is no doubt that we should strive for economic efficiency. If competitiveness were our only goal, corporations would probably pay no taxes, we would ignore the environmental impact of economic activity and we would abolish social security. None of these objectives are acceptable to Canadians.

The drive for "competitiveness" almost always is an attack on wage levels. The competitive game is a game we cannot win. Someone, somewhere in the world, with enough starvation or repression, will underbid us. It is neither necessary nor desirable to encourage mindless wage-bashing.

The Report describes, sometimes eloquently, the growing phenomenon of global economic interdependence. Interdependence has the potential for developing international solidarity, co-operation and peace. I support the general description of the global environment in the Report, including its human, environmental, economic and political aspects. The danger of workers being pitted against other workers has been dramatically increased as a result of recent monetary and fiscal policies. Canadians have been placed in the position of destructive competition for shares of low-growth markets, made worse by global attacks on current wage levels. These conditions now threaten to destroy the international system of trade and finance established after the Second World War. This system is badly in need of reform. It is especially true, if it is to continue to encourage and assist the development of the countries of the Third World. The collapse of this system would be disastrous. Some of these sentiments are expressed in the Report and I wish to affirm them.

I disagree with the Report on the Third World debt problem. The Third World debt problem has not been resolved. Furthermore, it places insurmountable pressures on fragile economies when they are expected to repay

their debts both in the time periods and on the terms being dictated to them. The debt issue is not resolved and the problem will not go away. It also makes other problems worse. Third World producers are dumping goods on the world market as they desperately try to earn foreign currency to pay off interest and debt re-scheduling payments which have continued to mount. This undermines prices and intensifies the global wage squeeze, which in turn generates more and more protectionist pressures, so that the system is brought to the verge of collapse.

The Report makes much of the recent developments in U.S.-Canadian trade. Our increasing dependence on U.S. trade, however, should be seen as a sign of weakness and trouble in our economy, not as a major opportunity for growth. Trade with the Americans must continue. Furthermore, Canada can indeed be seriously harmed by some of the protectionist proposals being put forth in the United States Congress. *An even greater reliance on that imbalanced relationship in the form of a comprehensive Free Trade Agreement is, however, dangerous.* First of all, the current situation is highly artificial. The acceleration of exports to the U.S. in recent years is the combined outcome of a highly over-valued U.S. dollar and continued high real rates of interest in Canada. The spread in interest rates today is as high as it was in August of 1981 when the rate was 23 per cent. As the Americans turn to correct their huge trade deficit, Canada will not escape Congressional notice. Canada is second only to Japan in terms of a trade surplus, and even higher by total volume. The Report recommends addressing this by negotiation of a free trade agreement with the United States. I believe that free trade does not represent a solution to our economic problems. I believe in negotiated trade between nations, within the framework of multilateral agreements. *Unrestricted free trade with the Americans is a blind and imprudent act,* described by some as a necessary leap of faith. Negotiated, secure access to U.S. markets is something I support. However, the terms for access to Canadian markets must include production and employment guarantees, such as were secured in the Auto Pact, and since then embodied in Canadian-content regulations. These are included in the option of "managed trade" which I favour, but which the Report explicitly rejects.

There is an alternative to the free trade option and that is promotion of import substitution and a direct role for government in an industrial strategy. This does not have to mean that a bureaucrat in Ottawa picks the country's economic winners and losers. The Commission recommends free trade as a solution to unemployment and growth. The research work extensively and repeatedly claims that there will be an increase in income and employment as the result of free trade. What all the studies and computer simulations cannot tell us is when these presumed benefits are to flow and to whom:

[. . .] in the long run, Canada would benefit substantially from bilateral free trade with the United States, particularly from access to the expanded, unrestricted market and from economies of scale.

The surge in exports in the last two years has not solved our unemployment problem. Whatever gains may result will be diffuse and longer term, while the

pain is immediate and specific. A Camco Steelworker laid off in London asks: what is my future, where is my next job, and what support systems are available to my family?

On stabilization policy and unemployment, the fundamental problem identified by the Report is a highly abstract academic construct called the "NAIRU" (non-accelerating inflation rate of unemployment). This in plain English, is to say that there is a new "natural" rate of unemployment of 6.5–8.0 per cent. *Anything below 6.5 per cent is regarded as voluntary unemployment.* Canadians do not accept this. The unemployment rate of a society is a social and political choice; there is nothing natural about it. The current rate of unemployment of 11.2 per cent is unacceptable to all Canadians. Suggesting that approximately 1 000 000 men and women, 8 per cent of the work force, are "voluntarily" unemployed is ridiculous. Recommending that 1 000 000 Canadians should resign themselves to an unemployed existence is criminal. Endorsement of the NAIRU concept in the Report relegates Canadians to a twenty-first century of underdevelopment.

Finally, as for the Commission's discussions of constitutional matters and its recommendations in this area, I cannot associate myself with its views, nor will I comment on them. Matters in the constitutional arena are in too much of a state of flux in Quebec at this moment in our history to enable me to make any reflections that are of lasting value. Until the Quebec debate over the Constitution is more clearly defined I shall withhold comment.

Lament for a Lost Opportunity

The research work of the Commission and the Final Report have provided the people of Canada and the Government of Canada with no better understanding of the problem or its solutions. Original research on the causes of our unemployment was not undertaken. As a result of its argumentation, the Report leads its uncritical readers to the conclusion that unemployment is not the major problem facing Canadians today, or even if it was, that there is nothing that government can do to resolve it.

Unemployment *is* the major problem facing Canadians today. The gap between the "haves" and the "have-nots" has continued to widen. The recession and the joblessness of many of us has accelerated the process of adding to the ranks of the poor.

The work of the Commission has fallen short of fulfilling its mandate. Many of the serious problems facing the next generation of Canadians remain unanswered or inadequately addressed. The "single, simple, compelling message" expressed by Canadians is reflected in the Papal Encyclical *Laborem Exercens*:

Human work is a key, probably the essential key, to the whole social question. . . .

The Report has endorsed market based fantasies as a solution to our nearly two million unemployed. Instead, I advocate the continued responsibility of government to manage the economic environment and to encourage new forms of popular participation in public institutions.

John R. Messer

Economic man is an imperfect fiction created by economists. He does not exist as a whole person in real life.

Nor are nations born, nurtured and built as strictly economic entities. Left to economic determinism, it is not likely that Canada would exist today as a relatively independent, sovereign state. The north-south economic advantage would have prevailed, the tenuous east-west ties would have collapsed, and the history of Canada would have been much shorter. That this did not happen was the result of the exercise of political will—of the competition between political and social objectives on the one hand, with economic objectives on the other.

We live very much in a *political* economy; and I, for one, would have it no other way. It is in this context that I record a supplemental view to the Commission's Report. While there are appropriate references to the political role, the Report embraces the currently fashionable economic nostrum which judges market determinations as "good" and government interventions as "bad". In some cases I support the particular judgement. But I do not accept the general proposition that "the best government is the least government".

On this point, I find the arguments of my fellow Commissioner, Dr. Albert Breton, persuasive. I quote from his statement:

... what does it mean to say that the mechanisms of democratic politics and those of economics are equally constraining? At its most simple, it means that there are, not one, but two broad arenas in which people seek to obtain the things which increase their well-being: markets and governments. Markets, when they are well-structured and competitive, do a good job over the longer term in allocating resources in ways that maximize the well-being of the population. That is a generally accepted proposition and one in which I strongly believe. What is less accepted, but an idea in which I nonetheless believe just as strongly, is that governments, when they are well structured and competitive, do as good a job as markets, and like them over the longer term, allocate resources in ways that maximize the well-being of people.

With respect to the relationship between the two sectors and the division of roles, Dr. Breton says this:

My own view of how modern societies work is that the assignment question is "resolved" through competition between governmental and market institutions and that that competition, in turn, is shaped and conditioned by the demands of the public and by the supply of entrepreneurial talent to each sector. Consequently, a growing government sector reflects first the fact that people want not only the things governments supply better, but also those things which governments provide differently than markets, and second, the fact that more aggressive and talented entrepreneurs have found their way in that sector. A declining government sector reflects opposite tendencies.

On the whole, Canada has been an economy of markets and governments. Governments have actively intervened in the transportation, resource development, energy and agriculture sectors over time. While every

intervention has not always had positive results, we are, in my view, the better economy and the better country on balance.

I would go further. Whatever may be said for the market as the determinant of economic efficiencies, it is a singularly insensitive instrument in measuring social consequences. Not only is it appropriate for government to arbitrate those consequences; to do so is a prime political responsibility. And if, in exercising this responsibility, a government deems it advisable to curb the “freedom” of the market, that too is appropriate. Thus, I find myself at odds with some of the basic underpinnings of the Commission’s Report. In no section do I feel more strongly about this than the one which discusses agriculture.

The Family Farm

I find the most logical focus for discussing the agricultural sector to be the primary unit of agricultural production – the family farm. Certainly one must examine markets and marketing, transportation and grain handling, research and development, land use, import replacement and other economic components. But the agricultural sector is more than simply the production, distribution and marketing of food products. As a society, we have a substantial investment in a particular mode of agricultural production: the individually-owned and operated family farm. Unless we are prepared to sacrifice that investment, it behooves us to examine our agricultural and economic policies as they affect the family farm.

There are those that imply that this focus is pure sentimentality. Not true. All that space between Canada’s major population centres is not a vacuum. Much of it is filled with farm families and small communities which serve farmers and farm production. When we talk about preserving the family farm, we’re talking about preserving jobs, communities, and all the infrastructure of schools, hospitals, power, roads and other services. We are talking about the Wheat Pools, of course, which have served Prairie farmers with such distinction over the past half century. But we are also talking about community co-operatives and credit unions, and small business people, such as farm machinery dealers and other entrepreneurs, who are important participants in the small farming communities across Canada. This is the family farm economy.

It is true that agriculture, in the national context, has shrunk in importance over time relative to other industries. But to say this overlooks its regional importance. In Saskatchewan, which I know best, agriculture is not only the king-pin of the economy, its family-farm base is the core of our way of life for urban as well as rural people. Of course, the family farm is no more a static entity than any other part of our economy. It has changed, and it will change, in response to economic and technological forces. But through all the changes of the past, and with all the changes in farm size, the basic nature of the production unit remains.

For these reasons, I find the discussion of the family farm in the Commission’s Report both confused and out of touch with reality. Although

many of the economic problems farmers face are the subject of comment, most are dismissed as cyclical problems which farmers have faced before. The question of growing farm size and an accelerated reduction in the number of farmers is disposed of as an economic necessity. I disagree with this view.

To take the Saskatchewan example, a myriad of public programs, federal and provincial, were put in place between 1946 and the present to assist family farmers to be more productive and to reduce costs. They have included the rapid extension of rural power, an improved road network, improved access to credit, farm machinery testing, tax relief, and the Land Bank, to cite only a few. These and other actions, of course, did not halt the process of farm consolidation and the reduction of the farm labour force. But they were public policy responses which improved farm viability and made the adjustment process less damaging to individuals and the community. I would argue, they also slowed the pace and severity of farm consolidation.

If the market is allowed to take its course in current circumstances, the wrong farmers will be lost. The most vulnerable farmers today are not the inefficient, the marginal, the bad managers. They are the young farmers who acquired their land and machinery at high prices, but who are among the most innovative and productive farm managers to be found. If the Report has its way, we would say, "Hands off, market forces are the best arbiter." Then we would lose some of our most productive farmers. True, efficiency will not be served.

The Commission's Report also fails to consider the alternative costs to society of moving, resettling, retraining and finding productive employment for the displaced farmer. Or, alternatively, the social and economic costs of swelling the ranks of the unemployed. Particularly in times like the present, these costs are high indeed.

The Commission's Report also appears to endorse accelerated urbanization. The costs of rural depopulation are not addressed, except to reject the idea that there are any special attributes associated with rural life. But surely these costs are real: in lost employment, lost investment, underutilized infrastructure, and resettlement costs. I would have a difficult time in my native province in dismissing these costs as unsubstantial.

The family farm is in greater jeopardy today than many believe it to be. The recession, present economic trends, high interest rates, the rising cost of inputs and lower product prices have all depressed the farm economy. The natural hazards, regional drought, flooding and pests, have added an additional squeeze. The resulting decline in farm land values has brought many farmers – particularly young and able farmers who entered the industry at the wrong time – close to insolvency.

That many of these events are cyclical, as the Report points out, makes them no less real for the farmers concerned. That the generic family farm has survived down-cycles in the past is also true, but irrelevant. I reject the conclusion that these are persuasive reasons to suggest that governments should simply permit survival to be determined by market forces. Public policy responses to assist with interest rates, loan restructuring and working capital requirements for many of these farmers are both appropriate and necessary.

With respect to the longer term development of the agricultural sector and the family farm, I find myself in full agreement with the Commission's recommendation for greatly expanded research and development. I will comment later on some specific areas which hold promise for the family farm of the future.

I would like now to turn to the Commission Report's discussion of some key areas of agricultural policy which will help shape agricultural production in the future: marketing arrangements, transportation and grain handling, and prices and input costs.

Marketing

The individual farmer and the individual consumer fit well into the classic model of the free market. They each have minimal market power, compete freely with other producers/consumers in selling/buying food products. Unfortunately, other participants in the market fit less well. In transportation, processing and retailing, for example, those standing between the producer and consumer tend to dominate the market.

The historical fact is that the individual agricultural producer in Canada has had virtually no power in the market place. Left exposed, his cash receipts have been the residual sum remaining after processors, commission agents and retailers have taken their share of the end price. It was only through intervention, either through collective action of producers or through public action, that farmers have been able to gain even modest market power. The modesty of that power is clearly demonstrated by the fact that domestic food consumers in Canada enjoy the second lowest food costs, as a percentage of income, in the world. Only in the United States, blessed with a more favourable climate and a much more competitive food processing and retailing environment, do consumers fare better.

Producer marketing boards are a target of the Commission's Report. My argument with the Report is with both what is said and what is not said (or not said clearly enough). The Report correctly distinguishes between institutions which simply provide marketing muscle and expertise for producers of a particular product (for example, the Canadian Wheat Board) and those which, in addition, manage the supply of the product through quotas and other means. Yet, having done so, the Report by implication damns all marketing boards.

What troubles me in the discussions of supply-management marketing boards is the assumption that the other actors in food marketing – processors, wholesalers and retailers – do not engage in practices which affect supply and price. Let me cite two contrary examples in my home province of Saskatchewan.

Saskatoon and Regina are very similar food markets, in both size and location. Yet for several years, the price of a basket of groceries in Regina has consistently cost 10 to 12 per cent more than an identical basket in Saskatoon. The reason: the Regina market is dominated by a single large retailer, while two are battling to dominate Saskatoon. This no doubt benefits Saskatoon consumers in the short run, but when the chains sort out their

market share in Saskatoon – as they will – one can be sure that retail margins will rise to or above the Regina level. And because they will have eliminated some of their independent competitors, their market shares will be larger.

In another example, Weston and McGavin recently engaged in a price war in Saskatchewan which saw the price of bread drop below the cost of production. It is doubtful that Weston and McGavin were fighting each other, but rather were attempting to gain market share by forcing independent bakers out of the market.

The point is that these exercises in market power are designed to reduce, not enhance, competition. Furthermore, they demonstrate the power which the independent producer of, say, eggs, milk or poultry faces in marketing his product.

If it is supply management *per se* which the Report finds objectionable, why is there no criticism of supply management which is exercised, not through government intervention but through market domination? The drive to control supply, and therefore maximize prices and profits, is ever-present in our economy. One needs only look at the big three auto manufacturers. If there are too many cars, prices do not fall appreciably; production is cut back.

Similar examples in the food industry are not unknown. One can manage supply in two ways: create a government marketing board which can act on behalf of a number of small firms producing to quota, or reduce the number of firms so that in concert or by tacit agreement they can accomplish the same thing. The latter can happen and does happen. And one device which makes it easier to accomplish is vertical integration.

Having said that, I agree that there are some problems with supply management by boards as currently practiced. Among these, the capitalization of quotas is a major problem. Nevertheless, I cannot agree that all these marketing boards should be scrapped. I support the maintenance of Canadian production, both nationally and regionally. I support the equal opportunity of producers to access markets. I reject the idea that any insurance scheme could provide a satisfactory alternative.

In the larger sense, I find wholly unacceptable the implicit assumption in the Report that managing price and/or supply through economic power in the market place is entirely acceptable (whatever the effect on the consumer), whereas public intervention to provide some balance of market power for the farmer is not.

Grain Handling and Transportation

In its discussion of the Canadian response to export opportunities for grains (essentially, wheat), the Commission's Report deals with three main issues:

- The development and production of varieties other than hard, red spring wheat which will make Canada more competitive in changing world markets
- Inefficiencies in the country elevator system and the associated grain transportation system
- The resolution of the compensation issue pursuant to the abandonment of the Crow rate.

I support the Commission's view with respect to the first; I have reservations and disagreement about the apparent conclusions with respect to the second and the third.

The country elevator system as it has evolved is certainly not above criticism. I share the view that the technology exists which could reduce the historical shrinkage charge to farmers. It should be applied. There may well be changes in the grading system which could improve the efficiency of grain storage and movement.

But the Commission's Report stops there, without comment on the efficiency of railways in serving the country elevator system and the grain producers. The assumption appears to be that the *movement* of grain from shipping point to export position—now that the railways are to receive compensatory rates—will be highly efficient. How is that assumption to be tested? Grain producers and the elevator system have no transport options in Western Canada. There are no inter-modal alternatives. They are captive to a single transportation mode and to two giant, non-competitive rail companies.

Furthermore, one important thrust of these companies in improving their corporate efficiency in grain transport is to *shift* some of their costs onto others. Clearly, their *corporate* efficiency—and the visible costs of the rail transport of grain—will be improved if they move grain from larger, mainline terminals instead of dispersed country elevators.

But, surely, any useful analysis of the system must include *all* the costs, whether borne by the railways directly, or by governments, communities and producers in the form of larger farm trucks, road building and maintenance, fuel, employment, rural community decline, etc.

The Report's broad conclusion that "there is much room for reorganization of the entire system" may be true. But the sketchy and selective evidence considered, combined with the absence of a comprehensive analysis of benefits and costs, robs it of significance.

The failure to consider the key monopoly role of the railways in the system carries over to the Report's consideration of the Crow rate compensation issue. The elimination of the Crow Rate in its present form represents an abrogation of a fundamental historical concession, which farmers had received in return for the costs imposed on them by the other features of the National Policy. If this circumstance is not to be reversed, then the problem is to manage the decision so that the grain producers, and not others, reap the benefits to which they are entitled. That was the deal. And how those benefits are paid is crucial to fulfilling the deal.

The Commission's view is that freight rates should be fully compensatory. The economic argument as it relates to the primary producer is that this is the only way to remove market distortions which are disadvantageous to livestock production and processing in the Prairies. I will deal with that argument in a moment. First let me deal with one potential result of the Commission's proposal which is totally ignored in the Report: the imposition of grain freight rates which vary on a cost-per-mile basis, or variable freight rates.

If we turn over to the railways the determination of rates, there will be no brake on the railways' ability to reshape the country elevator system and the system of rural communities of which it is a vital part. By offering lower per-

mile' rates from mainline points—as the CNR is already proposing—the process will be underway, and the shifting of costs will begin. If this reshaping of Western society is to occur, it should be a conscious decision by the people most directly concerned on the farms and in the communities of Western Canada—based on an assessment of *all* the costs—and not left to “market” determination managed by the railways. One great advantage of the statutory Crow rate was that it was neutral in its impact on shipping points except as to distance from export position. This equity cannot be preserved except through performance guarantees attached to compensatory payments by government to the railways, leaving the basic rate structure in position.

The main argument advanced in the Report for full compensatory freight rates—the distortion in location of livestock processing—I find unpersuasive. To give this argument credence, one must assume that:

- There are economic advantages to the producer to be derived from a major shift in the structure of prairie agriculture from grain into livestock.
- There is a market in North America and the world capable of absorbing a substantial increase in red-meat production.

The Report presents no evidence to support either of these assumptions. A study prepared for The Prairie Pools by Arcus Consulting Ltd., however, casts serious doubt on both. Arcus was asked to project, among other things, the impact on the livestock industry of the adoption of a “pay the producers” formula. Among Arcus’ key conclusions were the following:

Increased livestock output (in Western Canada) is projected under the inelastic domestic grain demand scenario. . . The effect of this increase is a small net gain in livestock gross revenues in Western Canada. . . primarily from changes in the chicken and pork sectors. . . offset in part by a decline in gross revenues of beef producers in the prairie area.

Livestock producers in the rest of Canada would suffer a decline in gross revenues in this situation.

The Prairie Pools conclude that, because of the structure of the North American meat packing industry, it is doubtful there would be greatly increased slaughtering in Western Canada or, indeed, anywhere in Canada.

Citing Agriculture Canada figures, Roy Atkinson pointed out in his submission to the Commission that “beef consumption—on a per capita basis—on the North American continent is now some 20 per cent lower than it was only six or seven years ago.” (Roy Atkinson, Brief, November 28, 1983, p.11.)

It is my own conclusion that substantial shifts to greater production and slaughtering of livestock in Western Canada simply would not occur in the short or medium term, and they would not occur at all unless totally unforeseen new markets were found.

Farm Prices and Input Costs

The relationship between farm prices and input costs, currently central to the survival of many family farms, has not received adequate treatment in my

view. The facts are, of course, that over time farm prices have been much more cyclical than input costs; that the rising trend lines in input costs has been much steeper than has the trend line in farm prices. When farmers feel and say the problem is getting worse, they are right. The problem is *both* cyclical and secular.

There are perhaps three appropriate responses, one of which is identified in the Commission's Report. Farmers must become even more efficient, changing farm practices, continuing to adopt new technologies, all underpinned by substantial increases in research and development.

A second necessary response, particularly in the short run, is government intervention to reduce current input costs. The costs of fuel, fertilizers, herbicides and operating capital are the most critical. On the Prairies, at least, reductions in the price of farm fuels and lower interest rates for operating loans would seem to be the most practical measures for governments to adopt.

A third possible, if less desirable, response would be government action to support prices. For export commodities like grain, there are many attendant problems in addition to the required expenditure of public funds. But, while I do not recommend this course of action at this time, I would point out that the United States has been heavily involved in support payments to grain farmers for many years, and the European Economic Community even more so. These are our competitors in grain export.

The Commission's Report considers stabilization programs only as a possible substitute for marketing boards, which they are not. A number of stabilization programs are in place in Canada, for example, federally for grain farmers, and in some provinces for pork producers. They are important in the context of dealing with the volatility of prices and production in agriculture, not because they add significant new resources, but because they help even out cash flow. They should be improved and extended to producers of other agricultural products on a federal or federally-approved basis for provinces to administer.

Access to Capital and Intergenerational Land Transfer

The Commission's Report is correct in its conclusion that farmers are disadvantaged in their access to capital under terms appropriate to the risks and variability of cash flow typical of the farm enterprise. It recommends, without being specific, the retention of special credit schemes for agriculture. Presumably this means the Farm Credit Corporation, since the Report suggests that programs such as the Saskatchewan Farm Purchase Program and Ontario's Beginning Farmer Assistance Program have not been effective. No evidence to support the latter judgement is presented.

What is missing here, in light of the current pressures on farmers, is any reference to the need for the restructuring of debt, particularly for those young farmers who entered the industry or expanded at the height of land prices. No special credit programs currently in place fill this need. Nor can

we expect it to be filled by commercial credit institutions. Again, I would argue, this is a role for government which is both appropriate and necessary. Action is urgently needed.

On the question of intergenerational land transfer, the Report recognizes the problem, but again, is non-specific in its recommendations. I would place much greater emphasis on the problem than the Report appears to do, particularly because it compounds the already severe capital accumulation problems of a highly capital-intensive industry. To recapitalize the land resource every generation is a very costly and increasingly unworkable way to provide for the retirement of the older generation.

Yet the impetus for farmers to look to land accumulation as the way to provide for retirement is very strong. Existing alternatives are few. The Canada Pension Plan is inadequate, both because of its level and because many farmers would fail to qualify for maximum contributions every year. Retirement Savings Plans look less attractive than land to most farmers because, historically, the appreciation in land values has provided a more attractive return. Nevertheless, better solutions should be sought. The Land Bank alternative, despite the controversy surrounding it, has much to commend it. Perhaps in time it will become more acceptable to the farm community.

I would like to see other, more innovative approaches explored. For example, why not a government-sponsored contributory retirement plan for farmers similar to that available to many employees in the private and public sectors? It would need to be flexible to relate contributions to the variability of farm income. It would need to be locked in to ensure its application to retirement. It would require some measure of matching contributions from government to make it attractive. But, if successful, it could lessen appreciably the farmer's felt need to accumulate land as his only retirement security. This would lessen the pressure on land prices when farm incomes are high. It would permit more flexible arrangements for land transfer on retirement, which could improve the chances of the son or daughter or other young farmer taking over. It would make a direct contribution to maintaining the viability of the family farm.

On these two issues—access to capital and intergenerational land transfer—I agree with most of what the Report says. It simply does not say enough.

The Family Farm of the Future

I have attempted to make a two-part case: first, that any analysis of the Canadian agriculture sector must be sensitive to the continuity of its family-farm base on both economic and social grounds; and, second, that the continuity of the family farm and its rural community base will require much stronger government participation and presence than the Report calls for.

This participation and presence is crucial, whether one looks at maintaining and improving the resource base, developing the needed research and development capability, increasing export opportunities, making marketing

agencies more effective (with or without supply management), providing more and better income stabilization programs, or dealing with other cyclical problems which create periodic crises in agriculture.

Given the needed public policy responses, the family farm of the future can make an even greater contribution to higher productivity in agriculture and to rural social and economic development than it has in the past.

In the process, the family farm will assuredly change, and the transition will not always be easy or simple. But those changes will include:

- greater emphasis on the management of the farm enterprise, including widespread adoption of management technology
- higher capitalization (although not necessarily in land)
- a more intensified use of the land base
- greater diversification (although not necessarily on individual farm units).

There will be no single model for the family farm in the future, any more than there has been in the past. The nature of the land resource, changing demand, marketing opportunities and other factors will continue to shape individual enterprises. Increasingly, however, entrepreneurship will determine who prospers and who does not. Management skills, informed risk-taking, the adoption of new technology, and adaptation to changing conditions will be key factors.

As more intense cropping practices are adopted (for example, continuous cropping), and as a greater variety of product options becomes feasible through research and market development, the push toward ever greater land accumulation will diminish in many farming areas. Already a number of farmers in the grain belt have concluded that their present land base is sufficient. This trend will become stronger. New techniques and more intensified land use will, however, increase capital requirements, and the availability of debt capital on terms appropriate to the nature of the farm enterprise will continue to be a central need.

Diversification will become much more sophisticated than the traditional mixed-farm model. It is likely to involve greater variety in crops on the one hand, and greater diversity among specialized enterprises on the other. Livestock production in the form of the traditional cow-calf enterprise is likely to give way to more specialized activities geared closely to markets.

There will be fewer farm units, but the pace of consolidation will slow. Rural communities will continue to change, but many will survive and some will grow. And the basic rural social system will continue to serve the farmers and their families in an evolving fashion.

This vision, and all it implies, can be reality if policy-makers in Canada frame their agricultural policies, not on a narrow economic analysis and a commitment to "free market" solution, but on a holistic analysis of social and economic benefits and costs. If they do, the agricultural sector will continue to lead the others in productivity. If they do, the Canadian economy will perform better. If they do, Canada will be a better place for all of us.

Laurent Picard

Acknowledgements

Readers will note that I have borrowed heavily from Bruce Scott's chapter in *U.S. Competitiveness in the World Economy*, edited by Bruce Scott and George C. Lodge. The same is true of *The Japanese Industrial System* by Charles I. Macmillan, by far the best and most comprehensive treatment of the Japanese industrial system that I have read. Victor C. Clarke, former Vice-President, Corporate Planning and Development, Canadian General Electric, and Professor Morty Yalovsky of McGill's Faculty of Management will recognize their substantial contribution. I was also very impressed by the paper written for this Commission by Professor Richard Harris of Queen's University, Department of Economics. The errors and misrepresentations are obviously mine.

* * *

Mr. Tomès. Sir, we have reasoned upon your daughter's distemper; and my opinion, as for my part, is that it proceeds from a great heat of blood: so I'd have you bleed her as soon as you can.

Mr. Des Fonandrès. And I say that her distemper is a putrefaction of humours, occasioned by too great a repletion, therefore I'd have you give her an emetic.

Mr. Tomès. I maintain that an emetic will kill her.

Mr. Des Fonandrès. And I, that bleeding will be the death of her.

Mr. Tomès. It belongs to you indeed to set up for a skilful man!

Mr. Des Fonandrès. Yes it does belong to me; and I'll cope with you in all kinds of learning.

Mr. Tomès. Do you remember the man you killed a few days ago?

Mr. Des Fonandrès. Do you remember the lady you sent into the other world three days since.

Mr. Tomès. (To Sganarelle) I have told you my opinion.

Mr. Des Fonandrès. (To Sganarelle) I have told you my thoughts.

Mr. Tomès. If you don't bleed* your daughter out of hand, she is a dead woman.

Mr. Des Fonandrès. If you do bleed her, she'll not be alive a quarter of an hour hence.

Excerpts from *Love's the Best Doctor*, a comedy by Molière. Act II, Scene IV. *Molière's Comedies*, vol. 2 (J.M. Dent & Sons Ltd., London, 1929) pp.63-64.

* * *

*Read: Cut the deficit.

This is not a minority report, but a supplementary note. With the give and take usually common in trying to develop a consensual position, I totally

support the recommendations of this Report. But given the very broad mandate of this Commission, it was impossible in the main text to express or review some processes of analysis that were too specific. I have decided to write these brief notes on the process of strategy formulation because I was somewhat disturbed by the way the problem of an industrial policy is generally stated and debated publicly.

I believe that the way the debate on that question has developed in the past four years is often futile and dysfunctional. It is too often stated in terms of extreme positions, one being taken by the non-interventionists and the other one by the "picking winners and losers" theorist. This debate, which started in the U.S. a few years ago, has really created an almost irrelevant and misleading forum. I think this has some implications for the interpretation of the recommendations of this Commission concerning an industrial policy for Canada, recommendations which I have already said that I support wholeheartedly. Hence, I should like to comment on the process of that public debate and to initiate what appears to me a necessary review of the structure of the debate itself.

I have divided my notes into four main parts: first, a review of the polarization of the debate on industrial strategy and its misleading consequences; secondly, an overview of the concept of strategy, particularly related to some misconceptions concerning what a strategy is all about; thirdly, a review of the Japanese, the NIC and the near-NIC national strategies; and finally what all this means for Canada.

It all started with a feeling of *déjà vu*. At the very beginning of the public audience-symposium-colloquium process of this Commission and right through to the end, the problem of the Canadian industrial policy has been described in an extremely polarized fashion. One side, which could be described as a Keynesian perspective of what the role of the state should be, was opposed to the Adam Smith view. One can look at it in terms of intervention versus non-intervention or in different terms: that is, in terms of the market as a regulating mechanism as opposed to the government as a regulating mechanism. These positions have been described as if they were opposed, conflictual, contradictory and totally polarized.

The crunch really came for me when, at a symposium in a Canadian university, an economist described his view that the redistribution of income was an inefficient way of managing an economy, and that basically, for every dollar raised through taxation and redistributed, the efficiency was somewhere between 65 per cent and maybe 35 per cent. (I don't remember the exact figure.) This means that of every dollar raised and redistributed, only 35 cents to 65 cents were really efficient; the rest was lost in the cost of distribution.

If that was the case, and given the fact that Western industrialized countries, and specifically Canada, have long since made the decision for redistribution of income so as to attain some degree of equity and fairness, then, I thought, the question became not a question of distribution or no distribution, but more specifically, of studying the process and the mechanics of redistribution of income so as to improve their efficiency.

If the real cost of redistribution is 45 cents or 55 cents or 65 cents per dollar, I thought, maybe there is a way of improving that by 10 per cent, 15 per cent, or 40 per cent. And, I naïvely asked the economist who made the point: "Could you elaborate on that and explain to me how you measure the efficiency of redistribution, and on what basis you come up with figures of that level?" The answer came very fast: "Adam Smith has said all of that 200 years ago." Surely the question was naïve, but the answer was obviously brutally simplistic and ideological.

Despite my obvious lack of training in economics, or maybe thanks to it, it struck me very early in the process of the debate that these were not useful ways of analysing and developing a national strategy. It appeared to me that no more than you can critically evaluate the validity of Euclid, Lobachevsky or Riemann geometries, by staying inside the structure of any of these geometries, you cannot resolve the problem of developing a strategy by staying inside an interventionist or non-interventionist, Keynesian or Smithian theory. These might be useful abstractions to help clarify decision, but one would need something like a metaeconomics science to critically evaluate their usefulness in a given context in the same way that we have to work at the level of a metageometry to review critically and use each geometry in a useful fashion. The debate about the validity of the different geometries raged fifty or sixty years ago, and one philosophy professor told me very simply and very candidly that his unassailable position was that the Euclidian geometry was more perfect than the others because geometry deals with the continuum, and the Euclidian continuum is more homogenous than the Riemann or the Lobachevsky continuum. If Einstein had agreed with that philosopher's view, the theory of relativity would be a museum piece, or maybe it would not exist at all.

All through that debate, as I said, I had that feeling of *déjà vu*. I was wondering "Why? What is the origin of that feeling?" when I suddenly remembered a time long ago, when I was very much interested in the history of Europe and France at the end of the nineteenth century. After the Napoleonic wars, the students and military academics in France debated for thirty years the different merits of the offensive and defensive approach in war, based on the Napoleonic campaigns, and the debate raged with one school of thought claiming that the defensive was the best approach, and another school of thought replying that the offensive was the best defensive.

During that time, the Prussian generals were also laboriously studying the Napoleonic campaigns and were developing a strategy similar to the 1805 strategy of Ulm in the Austerlitz campaign, when Napoleon, scarcely firing a gun, defeated the Austrian army of General Mack. The Prussians developed the Moltke strategy, which they used to encircle and defeat the French army at Sedan in 1870, giving the *coup de grâce* to the Second Empire, without a major battle. I understand that some people still consider this particular debate in the French military academies to be of an extremely high and stimulating intellectual quality. *But what is the bottom line?*

That was the feeling of *déjà vu* that I had when I was hearing the ideological debate raging about the role of the market or the role of the state

in developing national strategies. Let me say that ideology or theory are bad advisors in a strategic situation.

There was a parallel debate on the question of whether economics was dependent on political science, as a superseding doctrine, or sociology, or the other way around, but I have always found these discussions fruitless and futile. To develop a national strategy, one has to keep in mind the economic, social, technological, and political dimensions, not one of them superseding the other, but all throwing different lights at different angles on a unique object.

The game, then, is competitiveness, and so let me say a few words about strategy. First of all—and it should be so well known that I wonder why it should be repeated, but it obviously has not been integrated into the thinking of many people who talked to us about strategy—a strategy has a global purpose; *in any implementation of a strategy there are bound to be tactical mistakes.*¹ I have heard it said about the Japanese that they have made a number of mistakes. Their investment in steel twenty years ago is considered a mistake, and that mistake “obviously” disqualified any attempt to develop a national strategy. Even if that was the case, and I pretend that it is not, this would not in any way weaken the role of a strategy in the economic development of Japan.²

As I have said, the strategy of Japan, what we could call the “targeting strategy” of Japan, has been an incredible success. To say that some part of it has been a “flop” is not an indication that the strategy itself is not good. One has to look only at the result of the development of the Japanese economy in the last twenty years to see that surely something was done right.

What was the strategy of Japan, broadly defined?

First of all, after the war, Japan became involved in soft industry sectors like textiles and in a lot of cheap imitations. As this approach succeeded, in a second phase the Japanese moved into the heavy-industry sector, investing in shipbuilding, steel, aluminum, cars, etc. As this strategy became very successful also, they moved to a third sector which is the high-technology, high-income/sensitive, high-value/added sector viewed in a global context of international trade. Up to now, therefore, there have been three phases in that strategy.³

I need not give details on the results: it is obvious to anybody who reads the newspapers or the economic magazines that this strategy was an incredible success and even one threatening to the Western world. In the development of its strategy, as Japan moved from one phase to the other, it tended to decentralize to other countries, by subcontracting and by making external investments, some elements of the previous phase of its strategy. For instance, as the Japanese were moving into the heavy-industry sector, they started to decentralize towards the NICs part of their light-manufacturing industry. Now, as they move towards high technology, they have been investing in and supporting shipbuilding in Korea, Hong Kong, Singapore, and other areas. Moreover, as these nations are moving into heavy industry, they have started the process of investment and decentralization towards the near-NICs to export the first phase of their industrial development.

This strategy of targeting has been highly successful for Japan, and though it is too early to say, it seems that it is showing substantial success for the Group of Four. Why? Let me use a metaphor to explain. A corporation organized along a divisional structure can have and manage an integrated strategy across its organization, despite the heavy competition among divisions that usually exists in a successful corporation.⁴ On the contrary, in a conglomerate, the basic strategy needs to be developed by each of its parts. The divisions or the parts of the conglomerate are so different and so autonomous that each one needs to develop its own strategy, and the strategy of the whole is, in part, derived from the strategies of the parts. To apply that metaphor, Japan is like a divisional organization. It has a homogeneous population, a highly homogeneous and cohesive system of values, an authoritarian political structure, and on top of these, a language and an insular mentality which protects it from the Western world's marketing invasions. It has also developed a deep dedication to the export markets, based on the fear generated by its lack of natural resources, and it enjoys a very large domestic market; these are also elements in its success. This gives the Japanese the chance, despite, or thanks to, the very tough competition existing among industries and among companies, to develop an integrated strategy, managed through a complex structure of consensus development, and to use targeting most successfully.

To define the last phase of their strategy, that is the high-technology, high-income sensitive development that they started 15 years ago, the Japanese did exactly what any firm does: they carried out global market research to find what the growth areas were.⁵ The Japanese did this in terms of the global system, that is, in terms of the interdependence and the internationalization of markets; and they chose as a domain to target the income-sensitive product or, in other words, the product for which demand increases strongly with the increase in the global standard of living. That has been their strategy and in that they have been very successful. It is also the strategy that most successful firms follow if the environment permits.

What does this mean for Canada and its industrial policy?

I have indicated why it was possible to develop a very coherent strategy of targeting in Japan. That is not possible in the same way in the United States and Canada because of the social, political and legal contexts. The different institutions and the different governments are too autonomous to hope to use a divisional model for developing a strategy. The metaphor applying to Canada and the United States is much more that of the "conglomerate". And a strategy which is possible for Japan or somewhat similar nations like Korea, Singapore or Hong Kong is not a strategy available *in the same way* to Canadians or Americans. Moreover, Canada lacks a very large market to start with.

Consequently, the strategy of choosing "winners" or "losers" or, to express it more accurately, the strategy of targeting, which is available as a strategy for Japan, is not available in the same way for a Canadian or an American political system. We have to find something else.

Because the strategies available to countries like Japan are not applicable *in the same way* in a Canadian or North American context, the temptation

has been for many to deny that one of the reasons for Japanese success is their implementation of explicit strategies. That is, again, a futile and possibly a destructive approach. The Americans denied for a long time the possibility of success of guerilla warfare in Vietnam because they were confident in their resource-driven strategy and were not in a position to develop a guerilla strategy. The result is history.

With each increase in international trade—it increased by about 10 per cent last year—the stakes in the export market get higher, the number of players increases, and the competition becomes even fiercer. But most important, Japan and some Asian countries, by questioning the validity of the conventional interpretation of the Ricardian theory of comparative advantage, have shaped a new form of competition and have somewhat reshaped the nature of international trade.

The many recommendations of this Report on free trade, education, the incentive system, macro-economic policy, resource management, and the social support system describe the essentials and form the basis of a strong national strategy for Canada.

Conclusions

Many years ago, Canadian General Electric started a process to study the possibility of moving from a broad product-line base confined to the Canadian market, to a world mandate and a rationalization strategy. I understand that from the time Canadian General Electric decided to look at the possible new strategies and the time they were in a position to start to implement them in the corporation, it took four years. It should not be expected, then, that this Royal Commission could, in a year and a half to two years, define a complete strategy for the country.

Targeting is not an available strategy for Canada today. Too much has still to be understood before we can properly evaluate that option. As indicated in this Report, we should have a tilt towards high technology and export, but stop there for the moment. However, we should remain attentive to any recommendations which could help to reinforce our industrial base. We should constantly remind ourselves that the “targeting” debate is far from being closed at this time, and that strategy formulation and implementation are fundamentally search processes which are in perpetual evolution.

Notes

1. I always remind my students during my course on strategy that to win the Stanley Cup in the National Hockey League, a team has to win four games out of seven, not four out of four. If one were to follow the way that strategy is often evaluated and decide that a strategy is not good because something was lost, because one of the products involved (e.g. the IBM PC Junior computer) has not been a success, it would be tantamount to saying that to really win the championship of the Hockey League, you should not lose one game during the whole season. The IBM PC Junior might have been a bad tactical mistake or might have been mismanaged or might have been a very good decision involving risk, hence the possibility of losing, which is what business and good strategy are all about. It is much too early to say.

2. The English have a very good way of describing that when they talk about someone “who won all the battles but lost the war”. Surely if someone “won all the battles but lost the war”, the guy on the other side “lost all the battles but won the war”.
3. Let me say clearly here that I am not suggesting that the Japanese defined at the start a three-phase strategy. Their strategy did evolve—as does any strategy—as their successes and defeats indicated, and as the world environment changed. Developing a strategy and implementing it are continuous “search processes”. Despite the fact that some Japanese policy makers or policy analysts deny that they have looked for high-value/added but concentrated on high-income/sensitive, high-technology products, it is clear that in the long term these products will also be the high-value/added products.
4. See Waterman and Peters *In Search of Excellence*. A highly successful company usually enjoys a fierce internal competition, which is one reason for its success. Again, the debate to try to resolve the conflict between consensus and competition in the Japanese decision-making process is a futile exercise. Consensus and competition are not conflicting, but complementary, elements in a successful system.
5. Again, let me say that I am not pretending that the Japanese “hired a management consultant” and asked for world marketing research. I am really talking about a very large process, not necessarily co-ordinated, involving thousands of people and organizations, which developed into a relatively explicit and precise set of strategies. (see Henry Mintzberg and Alexander McHugh: “Strategy Formation in an Adhocracy”, in *Administrative Science Quarterly*, June 1985. Another reference would be Bourgeois III and Brodwin: “Strategic Implementation: Five Approaches to an Elusive Phenomenon”, *Strategic Management Journal*, Vol. 5, 1984, pp. 241–264.)

Jean Casselman-Wadds

It seems to be unanimous that reform of the Senate is desirable. I agree entirely. However, I do not agree that the solution is election of Senators. On the contrary, I fear that this recommendation has only the advantage of being dramatic. Although election of Senators has supporters, in my opinion, not enough thought has been given to their responsibilities after election.

Very little concern has been expressed for the vast increase in election costs. These are already horrendous and, I believe, part of the cause of public disillusionment with governments generally. This disillusionment would increase if election costs doubled and another layer of promises and possible contradictions were presented to voters. If senatorial electioneering were not aggressive and purposeful, it would be disappointing and voters could well be confused as to the purpose.

If elections occurred—either by choice of the Prime Minister or lack of confidence in the government—in close succession, as has happened in the past, senatorial electioneering would either be repetitive or extremely partisan. A Senate overwhelmingly supportive of the party in power would very likely be the result, the very situation which has existed. Political patronage might well increase, leading to still further discontent with government.

Unless the responsibilities were increased and clarified, the behaviour of the Senate might remain the same, unless the desire for re-election created a demand for more responsibility and power. In this case, governments would be involved in time-consuming reforms of the Constitution. This would distract from concentration on governing and attention to the immediate economic and social problems. Again, this is the very situation we wish to correct.

Election of the Senate would require such planning and negotiating that even its most enthusiastic supporters admit that it is a solution for the distant future. We have examples from other countries that going through the election process in itself does not guarantee high calibre of participation.

I would prefer laying this recommendation aside and concentrating on what would seem to me to have more immediate prospects of results. Since better co-ordination in the workings of provincial and federal governments seems to be another unanimous goal, I would prefer a broader-based system of appointments to the Senate which would include recommendations from a variety of sources, including provincial governments. Coupled with this, I would recommend mandatory attendance, with replacement automatic after a stated period. In the past, Senate Committees have done very worthwhile work, not always fully recognized and appreciated. These should be given more responsibility and more prominence.

I believe our system of appointment still has merit, and itself could be reformed quickly! I believe the Prime Minister should be supported by a Senate Appointment Advisory Council. The Council would draw up lists of meritorious candidates by province and pay particular attention to a variety of socio-economic considerations to ensure a broadly representative set of candidates. Appointments based on recommendations from a broader process

would likely be of more local origin and could overcome some of the isolation felt by certain regions and socio-economic interests. The Prime Minister would appoint the Council, in consultation with the Official Leader of the Opposition, at the outset of the government's mandate. The Prime Minister would not be restricted to the nominations list but would be guided by it.

It is quite clear that the Senate should be reformed. I believe that the incremental steps I am proposing are in the right direction and have the benefit of being practical. Other reforms would likely evolve once a real determination is shown to recognize the Senate's potential contribution to Canadian society. If it is important, let us do it now.

APPENDICES



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**Orders in Council
and Exchange of
Letters with the
Prime Minister**



PRIVY COUNCIL

Certified to be a true copy of a Minute of a Meeting of the Committee of the
Privy Council, approved by Her Excellency the Governor General
on the 5 November, 1982

The Committee of the Privy Council have before them a report from the Prime Minister, the Right Honourable Pierre Elliott Trudeau, submitting:

That Canada is a country of tremendous opportunity, committed to the sustained economic and social progress of its people, to the reduction of economic and fiscal disparities between regions, and to a fair distribution of the advantages and burdens of national development;

That significant changes are occurring in the world economy, particularly in the sphere of industrial activity, the utilization of natural resources and movement of capital within and among countries, changes which will have important consequences for Canada;

That existing economic relationships among countries and among individuals and groups within countries are characterized on the one hand by increasing interdependence and at the same time by intensified competition;

That to respond to the challenges of rapid national and international change in order to realize Canada's potential and to secure sustained economic and social progress, it will be of importance to achieve greater understanding of the aspirations of the regions of Canada, greater co-ordination between actions of governments in Canada and greater support for the Canadian economic union.

Therefore, the Committee of the Privy Council, on the recommendation of the Prime Minister, advise that the Honourable Donald Stovel Macdonald together with such other persons as may be named from time to time be appointed Commissioners under Part I of the Inquiries

Act to inquire into and report upon the long-term economic potential, prospects and challenges facing the Canadian federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and governmental institutions and for the management of Canada's economic affairs.

The Committee further advise that the study include an examination of and a report on:

- (a) the appropriate national goals and policies for economic development, including consideration of the following:
- trends in labour market requirements and conditions;
 - developments in the supply of raw materials, including energy sources;
 - capital requirements and the cost structure in a highly competitive, technologically-sophisticated and interdependent world environment;
 - trends in productivity, standards of living and social progress;
 - industrial adjustment and growth;
 - regional economic development opportunities and constraints in a national economic framework;
 - the integrity of the Canadian economic union as it relates to the unity of Canada and the ability of all Canadians to participate in increased economic prosperity;
- (b) the appropriate institutional and constitutional arrangements to promote the liberty and well-being of individual Canadians and the maintenance of a strong and competitive economy including consideration of the following:
- means for improving relations between governments, business, labour and other groups in Canadians society;

...3

- 3 -

- the appropriate allocation of fiscal and economic powers, instruments and resources as between the different levels of governments and administrations;
- changes in the institutions of national government so as to take better account of the views and needs of all Canadians and regions, and to encourage the further development of the Canadian economic union.

The Committee also advise that in pursuing such inquiry and preparing the report, the Commissioners proceed by reference to the following principles:

- (a) the Canadian economy is founded on the enterprise and productivity of individual Canadians supported by a unique mixture of public and private sector activity that reflects the traditional values of Canadian society;
- (b) Canadian economic policy must be assessed in the context of its relationships to Canadian political and economic independence and to the broader aspirations of Canadians as must be reflected in the responsibilities of governments;
- (c) the Government of Canada has the primary responsibility for managing the national economy, for encouraging reasonably balanced economic growth among the various regions of the country and for ensuring that fiscal disparities among provinces are reduced, while at the same time the provincial governments also have important responsibilities in the development and carrying out of economic and social policy;
- (d) the report should take account of, and respect, the spirit of the Constitution of Canada and assume a continuing Canadian federal structure not significantly different from its present form.

The Committee also advise that the Commissioners:

...4

1. be directed, within the ambit of their work, to seek the views of all provincial and territorial governments as well as interested Canadians from all walks of life and all regions of the country;
2. be authorized to establish such advisory bodies of prominent Canadians as they deem desirable to assist them in the examination of any aspect of their terms of reference;
3. be authorized to adopt such procedure and methods as they deem appropriate for the proper conduct of the inquiry;
4. be assisted by the officers and employees of the departments and agencies of the Government of Canada as may be required for the conduct of the inquiry, particularly in having access to written material;
5. be authorized to sit at such times and in such places in Canada as may be required;
6. be authorized to exercise all of the powers conferred upon them by section 11 of the Inquiries Act;
7. be authorized to engage the services of such staff and technical advisers, including counsel, as they consider necessary or advisable to aid them in the conduct of the inquiry at rates of remuneration and reimbursement as may be approved by Treasury Board;
8. be authorized to rent office space and facilities for public hearings in co-operation with the federal Department of Public Works as they may deem necessary at such rental rates as are consistent with the policies of the Department of Public Works;
9. be authorized to publish special studies as may be appropriate from time to time;
10. be directed to submit their report to the Governor in Council with all reasonable dispatch but no more than three years from now;

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11. be directed to file with the Dominion Archivist the records of the inquiry as soon as reasonably may be after the conclusion of the inquiry.

The Committee further advise that the Honourable Donald Stovel Macdonald be the Chairman of the Commission.

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PRIVY COUNCIL

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Privy Council, approved by Her Excellency the Governor General
on the 25 November, 1982

The Committee of the Privy Council, on the recommendation of the Prime Minister, advise that the following persons be appointed Commissioners under Part I of the Inquiries Act, of the Royal Commission on the Economic Union and Development Prospects for Canada, established by Order in Council P.C. 1982-3438 of 5th November, 1982:

The Honourable William M. Hamilton
Vancouver, British Columbia

Mr. Daryl Kenneth Seaman
Calgary, Alberta

Mrs. Mary Angela Cantwell Peters
St. John's, Newfoundland

Mr. E. Gérard Docquier
Toronto, Ontario

Mr. Clarence Lyle Barber
Winnipeg, Manitoba

Her Excellency Mrs. Jean Casselman-Wadds

Mr. Michel Robert
Montreal, Quebec

Mr. Albert A. Breton
Toronto, Ontario

Dr. Catherine T. Wallace
Fredericton, New Brunswick

The Committee further advise that Mr. Gerald Godsoe of Halifax, in the Province of Nova Scotia, be appointed Executive Director of the Commission.

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A handwritten signature in cursive script, appearing to read 'P. J. P. P. P.'.

CLERK OF THE PRIVY COUNCIL - LE GREFFIER DU CONSEIL PRIVÉ

P.C. 1983-158



PRIVY COUNCIL

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Privy Council, approved by Her Excellency the Governor General
on the 25 January, 1983

The Committee of the Privy Council, on the recommendation of the Prime Minister, advise that the following persons be appointed Commissioners under Part I of the Inquiries Act, of the Royal Commission on the Economic Union and Development Prospects for Canada, established by Order in Council P.C. 1982-3438 of 5th November, 1982:

The Honourable John R. Messer
Tisdale, Saskatchewan

Mr. Laurent A. Picard
Outremont, Quebec

Mr. Thomas K. Shoyama
Ottawa, Ontario

CERTIFIED TO BE A TRUE COPY - COPIE CERTIFIÉE CONFORME

A handwritten signature in black ink, appearing to read 'Gordon B. Chalkley'.

CLERK OF THE PRIVY COUNCIL - LE GREFFIER DU CONSEIL PRIVÉ

Release

Date: November 5, 1982

For release: Immediate

The Prime Minister announced today that the government has appointed The Honourable Donald S. Macdonald chairman of a Royal Commission on the Economic Union and Development Prospects for Canada.

The terms of reference are "perhaps the most important and far-reaching that have ever been assigned to any Commission in our history," he said.

The Prime Minister said that while short-term action is necessary to counter the adverse effects of the recession and lay the groundwork for the return to prosperity, "we must look further ahead to see in what ways the country and its institutions might change to take full advantage of future opportunities for development.

"We now live in a much more competitive, technologically-sophisticated and interdependent world environment," the Prime Minister said. "It is time we stood back to look at all these changes and, in the light of what has happened, to look ahead at what the next generation of development can bring -- if we do things right."

Moreover, the Prime Minister emphasized the need for Canadian institutions to keep up with a rapidly changing environment.

.../2

Canada

"If we are to prosper," he said, "we must find ways to lessen the clamour of federal-provincial argument, and to reach consensus with far less pain. But if this is to be achieved, we must ensure that national policies are designed so that all parts of Canada can benefit from them, and that national institutions are truly reflective of regional needs."

The Royal Commission is being asked to:

- assess Canada's economic potential over the longer-term;
- recommend national economic goals, and national policies for the attainment of those goals;
- recommend ways in which the institutions of the national government -- particularly those institutions which are vital to economic development -- can better reflect the views of all Canadians and regions;
- recommend institutional arrangements to handle more effectively relations between governments, business and labour, and the fiscal and economic aspects of federal-provincial relations.

The Prime Minister stressed the wide scope of the work assigned to the Royal Commission, the broadly representative and diverse nature of its membership, and the likelihood that its recommendations will contribute significantly to a brighter economic future for Canada. He expressed the hope that support for its establishment and cooperation with its work as it proceeds, will come from the House of Commons, all government and legislative organizations in Canada and from Canadians everywhere.

Royal Commission on the
Economic Union and
Development Prospects
for Canada



Commission royale sur
l'union économique et les
perspectives de développement
du Canada

September 7, 1984

Dear Mr. Mulroney:

My first words are those of congratulations on an historic electoral success. I know that in taking on these heavy responsibilities of forming a new government you will be reviewing a number of ongoing activities and assessing options and I felt that it would be appropriate to offer to you and to the Clerk of the Privy Council a current report on the work of the Royal Commission.

My fellow Commissioners and I are at the stage where we are drawing together almost two years of preparatory work involving the largest consultative and research effort in Canadian history. While our mandate requires us to report by November 5, 1985, I have prepared a course which would complete a final report well before that date.

The Commission budget is \$21.7 million. We have completed the bulk of our work at a cost of \$16.3 million in actual and committed funds. I would hope that we can conclude our task at a total cost of under \$20 million overall.

I have provided the Clerk of the Privy Council with a status report on our activities which I have enclosed. Should you or your officials wish further information or to meet with Commissioners or senior staff we would be very pleased to do so.

Yours sincerely,

A handwritten signature in cursive script that reads 'Donald S. Macdonald'.

Hon. Donald S. Macdonald
Chairman

The Honourable Brian Mulroney
Prime Minister Elect
Room 627, Wellington Building
House of Commons
Ottawa, Ontario
K1A 0A6

P.O. Box/CP 1268
Ottawa, Canada
K1P 5R3

The word 'Canada' in a stylized, bold, sans-serif font with a small crown over the 'a'.



PRIME MINISTER • PREMIER MINISTRE

Ottawa, K1A 0A2
November 2, 1984

Dear Mr. Macdonald:

I was pleased to learn that you and the Minister of Finance, the Honourable Michael Wilson, have had the opportunity of reviewing together the work of the Royal Commission on the Economic Union and Development Prospects for Canada.

Pursuant to that meeting, I wish to confirm the Government's views on how the Commission should complete its mandate.

You are no doubt aware that the effective resolution of the economic problems currently besetting Canada constitutes the priority for the Government: how to reduce deficits while remaining sensitive to the needs of Canadians, how to stimulate the entrepreneurial capabilities of Canadians, how to expand our markets abroad, how to attain optimum levels of employment in all regions of the country, and how to ensure that the talents of young Canadians are put to effective and productive use. The Government, therefore, will be particularly interested in the Commission's proposals respecting these matters.

The Honourable Donald S. Macdonald,
Chairman,
Royal Commission on the Economic Union
and Development Prospects for Canada,
151 Sparks Street,
Ottawa, Ontario.
K1P 5R3

I understand that it is the Commission's intention to present its final report in June of 1985 or soon thereafter, and it is the Government's hope that this goal will be met. The Government likewise hopes the Commission will complete the publication of pertinent research papers no later than November 5, 1985. I was also informed that you plan to hold the Commission's total expenditures at about \$20,000,000 and wish to convey the Government's hope that you will be able to achieve this target, and thus stay well within the three-year budget of \$21,790,000 initially proposed.

It is my intention to make this letter public so that Canadians may be informed of the Government's views on the work of the Commission.

Please accept my best wishes as you endeavour to complete your work in a timely fashion, within budget and with a focus on Canada's pressing economic problems.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Brian Mulroney". The signature is written in a cursive, slightly slanted style.



Schedule of Written Submissions

Aalborg, Anders O.
Abbott, Donald P.
Abbott, Mark
Acadian Federation of Nova Scotia
Action travail des femmes du Québec inc.
Activités-Jeunesse
Adair, D. Brent
Adair, John E.
Adams, William G.
Agricultural Institute of Canada
Agrinove, Coopérative agro-alimentaire
Aird, Paul L.
Ajax-Pickering Board of Trade
Alberta College, Institute Faculties Association
Alberta Committee of Consumer Groups of Disabled Persons
Alberta Historical Resources Foundation
Alberta New Democratic Party
Alberta Oil Sands Technology and Research Authority
Alberta Teachers' Association
Alberta Wheat Pool
Alberta Wilderness Association
Alcan Aluminium Limited
Alert (Charlottetown Branch)
Alexander, Donald A.
Allan, Robyn
Alliance of Canadian Cinema, Television and Radio Artists
Alston, John M.
Amoco Canada Petroleum Company Limited
Amonson, David L.
Andrade, M.L.R.
Anderson, D.M.
Andrew, Caroline and Jean-Pierre Gaboury
Angus, Iain
Aquin, Creighton
Aram International



Archer, S.S.
 Armstrong, John L.
 Armstrong, Pat and Hugh
 Arundel-Evans, Rick
 Ashton, Ernie
 Ashton, Steve, MLA
 Asia Pacific Foundation of Canada
 Assembly of B.C. Arts Councils and The Community Arts Council of Vancouver
 Assembly of First Nations
 Association canadienne-française de l'Alberta
 Association coopérative d'économie familiale de Québec
 Association des femmes collaboratrices
 Association des mines de métaux du Québec inc.
 Association des propriétaires de Québec inc.
 Association féminine d'éducation et d'action sociale
 Association for the Protection of Fur-Bearing Animals
 Association of British Columbia Professional Foresters
 Association of Canadian Advertisers Inc.
 Association of Canadian Community Colleges
 Association of Canadian Distillers
 Association of Canadian Financial Corporations
 Association of Consulting Engineers of Canada
 Association of Deans of Pharmacy of Canada
 Association of Professional Engineers of British Columbia
 Association of Professional Engineers of Saskatchewan
 Association of Universities and Colleges of Canada
 Association of University of New Brunswick Teachers
 Association of Women Electors of Metropolitan Toronto
 Association of Yukon Communities
 Association québécoise de la qualité
 Associés R.C.P. Associates Inc.
 Atkinson, Roy
 Atlantic Conference on Learning Disabilities
 Atlantic Provinces Chamber of Commerce
 Atlantic Provinces Economic Council
 Atlantic Provinces Transportation Commission
 Atomic Energy of Canada Limited
 Attawapiskat Band
 Audain, Tunya
 Audley, Paul
 Auf der Maur, Frank
 Austin, The Honourable Senator Jack
 Axworthy, The Honourable Lloyd
 Baffin Tourism Association
 Baird, D.C.
 BAKAVI, Design for Living Inc.
 Bank of Montreal
 Barber, Alan
 Barnett, Enid
 Barron, M.I.
 Barron, R.E.
 Beck, Gerry K.J.
 Beckton, Clare
 Beer, R.J.
 Bégin, The Honourable Monique
 Bell, A.J.
 Bell Canada
 Bell Canada Enterprises Inc.

Benesh, John B.
 Benson, C.A.
 Benton, S.B.
 Bertrand, Guy
 Beutel, Austin C.
 Beynon, Peter K.
 Biddell, John L.
 Biggin-Pound, W.J.
 Biggs, William M.
 Bishop, J.W.
 Blakeney, The Honourable Allan, Leader of the Opposition, Saskatchewan
 Board of Trade of Metropolitan Toronto
 Boddy, Dale
 Boigon, Irving D.
 Boily, Robert
 Bombardier Inc.
 Bonyun, Denis
 Boros, Stephen D.
 Boyd, John B.
 Boyd, Michael
 BP Selco Inc.
 Brace, Bruce R.
 Bradley, William
 Bradshaw, Nancy
 Breiland, Haakon Johan
 Brett, Peter
 Brewis, T.N.
 Brian Hull and Associates
BRITEX
 British Columbia and Yukon Territory Building and Construction Trades Council
 British Columbia Association of Social Workers
 British Columbia Central Credit Union
 British Columbia Federation of Women
 British Columbia Health Association
 British Columbia Institute of Technology
 British Columbia Law Union
 British Columbia Resources Investment Corporation
 British Columbia Wildlife Federation
 British Columbians for Mentally Handicapped People
 Britten, Patrick
 Brown, Denis
 Brown, George
 Brown, Rupert D.
 Brown, Walter F.M.
 Bruneau, Angus
 Brunelle, Dorval
 Bruton, Len T.
 Buckley, F.W.
 Bujold, Bernard
 Bulpin, Donald
 Burke, Roger J.
 Burns Foods Limited
 Burns Fry Limited
 Business Council on National Issues
 Busque, Paul-André
 Byrne, Gerald
 Cadeddu, Salvatore
 Cadillac Fairview Corporation Limited

Cairns, W.L.
 Calgary Association of Voluntary Agencies
 Calgary Chamber of Commerce
 Calgary Council for Advanced Technology
 Calgary Research and Development Authority
 Camco
 Cameron, Douglas
 Cameron, Sandy, Leader of the Opposition, Nova Scotia
 Cameron, W.J.
 Campbell, A.J.
 Campbell, Duncan D.
 Campbell, J.G.
 Campeau Corporation
 Canada Jaycees
 Canada Oil and Gas Lands Administration (Nova Scotia Office)
 Canada West Foundation
 Canadian Advisory Council on the Status of Women
 Canadian Agricultural Chemicals Association
 Canadian Air Line Employees' Association
 Canadian Air Line Pilots Association
 Canadian Art Museums Directors' Organization
 Canadian Artists' Representation
 Canadian Association for Adult Education
 Canadian Association for the Club of Rome
 Canadian Association of Housing and Renewal Officials
 Canadian Association of School Administrators
 Canadian Association of Social Workers
 Canadian Association of University Teachers
 Canadian Association of Women Executives
 Canadian Association on Gerontology
 Canadian Bankers' Association
 Canadian Bankers' Association/Investment Dealers Association of Canada
 Canadian Bar Association
 Canadian Business and Industry International Advisory Council
 Canadian Business Equipment Manufacturers Association
 Canadian Cattlemen's Association
 Canadian Centre for a Changing Society
 Canadian Centre for Philanthropy
 Canadian Chamber of Commerce (Montreal)
 Canadian Chamber of Commerce (Ottawa)
 Canadian Chemical Producers' Association
 Canadian Co-operative Wheat Producers Limited
 Canadian Conference of Catholic Bishops
 Canadian Conference of the Arts
 Canadian Congress for Learning Opportunities for Women
 Canadian Construction Association
 Canadian Council for International Co-operation
 Canadian Council of Furniture Manufacturers
 Canadian Council of Professional Engineers
 Canadian Council on Social Development
 Canadian Crafts Council
 Canadian Day Care Advocacy Association
 Canadian Direct Marketing Association
 Canadian Electrical Association
 Canadian Electrical Distributors Association
 Canadian Environmental Advisory Council
 Canadian Environmental Law Research Foundation
 Canadian Export Association

Canadian Federation of Agriculture
Canadian Federation of Communications Workers
Canadian Federation of Deans of Management and Administrative Studies
Canadian Federation of Humane Societies
Canadian Federation of Independent Business
Canadian Federation of Independent Petroleum Marketers
Canadian Federation of Labour
Canadian Federation of Professional Foresters' Associations
Canadian Federation of Students
Canadian Food Processors Association
C.F.B. Chatham Steering Committee
Canadian Forestry Association
Canadian Forestry Service
Canadian Foundation for Economic Education
Canadian Friends of Schizophrenics
Canadian Gas Association
Canadian General Electric Company Limited
Canadian Hardware and Housewares Manufacturers Association
Canadian Health Coalition
Canadian Hospital Association
Canadian Importers Association Inc.
Canadian Industrial Renewal Board
Canadian Institute for Advanced Research
Canadian Institute for Economic Policy
Canadian Institute of Chartered Accountants
Canadian Institute of Forestry
Canadian Institute of Mining and Metallurgy
Canadian Institute of Planners
Canadian Labour Congress
Canadian Life and Health Insurance Association Inc.
Canadian Machine Builders' Association
Canadian Manufacturers' Association
Canadian Manufacturers' Association (PEI Branch)
Canadian Meat Council
Canadian Medical and Biological Engineering Society Inc.
Canadian Mental Health Association
Canadian Museums Association
Canadian National Railways
Canadian Nurses' Association
Canadian Organic Producers Marketing Cooperative Limited
Canadian Pacific
Canadian Pension Conference
Canadian Pensioners Concerned Inc.
Canadian Petroleum Association
Canadian Pulp and Paper Association
Canadian Real Estate Association
Canadian Red Cross Society
Canadian Rehabilitation Council for the Disabled
Canadian Research Institute for the Advancement of Women
Canadian School Trustees' Association
Canadian Shipbuilding and Ship Repairing Association
Canadian Society for Chemical Engineering
Canadian Society for Professional Engineers
Canadian Society for the Study of Higher Education
Canadian Soft Drink Association
Canadian Teachers' Federation
Canadian Textiles Institute
Canadian Trucking Association

Canadian Union of Public Employees
Canadian Urban Transit Association
Canadian-Arab Cultural Centre
Canola Crushers of Western Canada
Canterra Engineering Limited
Cape Breton Co-operative Council
Cape Breton Development Corporation
Cape Breton Joint Expenditure Board
Capeling, Ralph R.
Capital Families
Capital Region Development Commission Inc.
Cappell, Joel
Carlson, Gary
Caro, Denis H.J.
Carpenters and Joiners Union, Local 494
Carrefour québécois des travailleurs de la famille
Carrier-Sekani Tribal Council
Carrothers, A.W.R.
Carson, John W.
Carter, Larry Ernest
Cartier Circle
Carver, Horace B., MLA
Cassidy, Michael, MPP
Cassivi, Yvon
Catholic Family Services of Saskatoon
Catholic Social Services
Catholic Women's League of Canada
Cauchon, Dona
Cawkell, David M.
Caya, Martin
Celanese Canada Inc.
Central Interior Tribal Councils
Centrale de l'enseignement du Québec
Centrale des syndicats démocratiques (Montréal)
Centrale des syndicats démocratiques (ville de Québec)
Centre-femmes de Beauce
Chalifoux, John
Chamber of Commerce Northwest Inc.
Chambre de commerce de Chicoutimi
Chambre de commerce de la province de Québec
Chambre de commerce et d'industrie du Québec métropolitain
Charron, Edgar B.
Chartrand, Harry
Chase, Lloma Jane
Checkland, Edward and Russell Pendergast
Chemical Institute of Canada
Chilliwack Community Arts Council
Chorney, Paul
Chouinard, Faustin
Christian Farmers Federation of Ontario
Christian Labour Association of Canada
Chumir, Sheldon M.
Church, R.B.
Churches of Edmonton
Ciera Technology Limited
C.I.L. Inc.
Citizens for Public Justice
City of Calgary

City of Charlottetown
 City of Chicoutimi
 City of Edmonton
 City of Fredericton
 City of Halifax
 City of Hull
 City of Lethbridge
 City of Moncton
 City of Ottawa
 City of Vancouver
 City of Windsor
 City of Windsor, Mayor's Committee on Services for the Unemployed
 City of Winnipeg, Department of Environmental Planning
 City of Yellowknife
 A.R. Clarke & Co. Limited
 Clément, Michèle
 Clements, Bryan
 Cliche, Nicolas
 Cloutier, L.
 CNCP Telecommunications
 Co-op Union of Canada and the Canadian Co-op Credit Society
 Co-operative Housing Foundation of Canada
 Co-operative Trust Company of Canada
 Coalition for National Voluntary Organizations
 Coalition for the Protection of Human Life
 Coalition of Social Organizations in Cape Breton
 Coffin, Garth
 Coldwell, Susan
 College of New Caledonia
 Collenette, The Honourable David M.
 Comact Inc.
 Cominco Limited
 Common Ownership Development Association
 Communauté urbaine de Montréal
 Communications Workers of Canada
 Communist Party of Canada
 Communist Party of Canada (British Columbia)
 Community Council of Greater Victoria
 Community Forum on Shared Responsibility
 Community Nursing Registry of Windsor Inc.
 Community Services Council (Newfoundland and Labrador)
 Community-Based Health Services Coalition
 Compu-Guard
 Confédération de l'Union des producteurs agricoles
 Confédération des caisses populaires et d'économie Desjardins du Québec
 Confédération des syndicats nationaux (Chicoutimi)
 Confédération des syndicats nationaux (Montréal)
 Confédération des syndicats nationaux (Saint-Georges-de-Beauce)
 Confédération des syndicats nationaux (ville de Québec)
 Confederation of Alberta Faculty Associations
 Confederation of Regions Party of Alberta
 Conférence des associations de créateurs et créatrices du Québec
 Conseil canadien de la coopération
 Conseil de la coopération du Québec
 Conseil de la sculpture du Québec
 Conseil du patronat du Québec
 Conseil économique d'Alma et de Lac-St-Jean inc.
 Conseil économique de Beauce

Conseil économique du Nouveau-Brunswick inc.
 Conseil exécutif national du Parti québécois
 Conseil jeunesse provincial inc.
 Conseil régional de développement de la région administrative de Québec
 Conseil régional de développement Saguenay-Lac-Saint-Jean-Chibougamau
 Conseil régional de la Pastorale La Chaudière
 Conservation Council of New Brunswick
 Conservator Action Research and Education Inc.
 Consolidated-Bathurst Inc.
 Construction Industry Development Council
 Consulting Engineers of Alberta
 Consumer and Corporate Affairs (Combines Investigation Act)
 Consumers' Association of Canada
 Consumers' Association of Canada (Manitoba)
 Consumers' Association of Canada (Ontario)
 Consumers' Association of Canada (Yukon)
 Control Data Canada Limited
 Conzelmann, B.
 Cooper, Lawrence O.
 Corner Brook Chamber of Commerce
 Corporation des artisans de Québec
 Corporation of the Borough of East York
 Couchman, Robert
 Council of Forest Industries of British Columbia
 Council of National Ethnocultural Organizations of Canada
 Council of Nova Scotia Association of Social Workers
 Council of the City of Winnipeg
 Counterpoint Waterfront Community Development Corporation
 Courtright, J.M.
 Cowan, D.G.
 Cowan, Keith
 Cowie, Wilbur Elliott
 Cox, Daniel Jack
 Cran, Emily Elizabeth
 Crédit Suisse
 Credit Union Central
 Creelman Hill, Cynthia
 Crispo, John
 Croft, John G.
 Crossroads Resource Group
 Crysler, John
 Cunningham, Ruth
 Curtis, B.E.
 Dakota Ojibway Tribal Council
 Dalrymple, D.G.
 Daly, Donald J.
 Daly Gordon Securities
 Dansereau, Pierre
 Darcel, Colin
 Dartmouth Chamber of Commerce
 Davidson, Jim
 Davis, Edgar H.
 Davis, The Honourable Jack, MLA
 Daybreak Non-Profit Shelter Corporation
 De Boer, John
 de Fayer, T.L.
 de Lasala, Jennifer
 Decima Research Limited

Decore, Laurence, Mayor of Edmonton
 Demers, Télesphore
 Dennison, W.J.
 DeYoe, Donald A.
 Dhensaw, Robert
 Diament Knitting Mills Limited
 DiCatri, Daphne
 Dicks, Dennis J.
 Didier, René
 Diplômés de l'Université de Montréal
 District of Chilliwack
 District of Lynn Lake
 District of Mackenzie
 Dixon, Gordon F.
 Dixon, Robert J.
 Dobell, A.R.
 Doerr, John A.
 Dolling, G.
 Dome Petroleum Limited
 Dominion Marine Association and the Canadian Shipowners Association
 Dominion Textile Inc.
 Doré, Charles
 Dow Chemical Canada Inc.
 Doyle, J. Donald
 Dragon, Jean-Jacques
 Du Pont Canada Inc.
 Dubé, Francine
 Dwornik, Andrew S.
 Dyer, John
 Dysart, Shirley, MLA
 Dyson, William
 Ecology Action Centre
 Economic Council of Canada
 Economic Development Advocacy Committee, County of Strathcona No. 20
 Economic Development Commission of the Cariboo Regional District
 Elce, Ivan
 Electrical and Electronic Manufacturers Association of Canada
 Elliott, Jim
 Emberley, Kenneth
 Empey, William F.
 Employers' Council of British Columbia
 Engineer, Homi M.
 Enright, John A.
 Environment Canada
 Equipment Lessors Association of Canada
 Erola, The Honourable Judy
 Faculty Association of St. Thomas University
 Fair, John E.
 Fairweather, Gordon
 Falconbridge Limited
 Family Farm Foundation of Canada
 Family Service Association of Metropolitan Toronto
 Family Service Bureau of Regina
 Federal Superannuates National Association
 Federated Anti-Poverty Groups of British Columbia
 Federated Co-operatives Limited
 Federated Women's Institutes of Canada
 Fédération de l'Union des producteurs agricoles de la Beauce

Fédération de l'Union des producteurs agricoles du Saguenay-Lac-Saint-Jean
 Fédération des associations de professeurs des universités du Québec
 Fédération des caisses populaires Desjardins du Saguenay-Lac-Saint-Jean
 Fédération des femmes canadiennes-françaises
 Fédération des femmes du Québec
 Fédération des franco-colombiens
 Fédération des francophones hors Québec inc.
 Fédération des syndicats du secteur aluminium inc.
 Federation of Canadian Municipalities
 Federation of Community Development Corporations of Canada
 Federation of New Brunswick Faculty Associations
 Federation of Nova Scotian Heritage
 Federation of Saskatchewan Indian Nations
 Federation of Sikh Societies of Canada
 Fédération québécoise anti-pauvreté inc.
 Fedorick, Joy
 Fell, R. Bruce
 Fenech, V.
 Fernie Womens' Resource Centre
 Fetherstonhaugh, John
 Film Factory Limited
 Fiorino, Albert F.
 First United Church
 Firth, C.B.
 Fisheries Council of Canada
 Fishermen's Survival Coalition
 Fleck Bros. Limited
 Fleming, Blake C.
 Flewwelling, Herb
 Ford, J. W.
 Formula Growth Limited
 Fors, P.B.
 Fortune, John
 Foster, W.E.
 Fox, The Honourable Francis
 Frank, Andre Gunder
 Franklin, John N.
 Fraser Institute
 Fredericton Chamber of Commerce
 Friends of the Earth
 Frobisher Inn
 Gagnon, Jean
 Gallagher, Jack P.
 Galley, Ann
 Garde-Hansen, H.
 Garneau, Raymond
 Garner, Peter H.
 Gatenby, R.
 Gayfer, E.R.
 Gaz Inter-Cité Québec inc.
 General Synod of the Anglican Church of Canada
 Genstar Corporation
 Gibson, Gordon and Peter McCormick
 Gillen, Ralph L.
 Girard, Georgette
 Goering, J.W.L.
 Goldberg, Michael A.
 Goldie, D.M.M.

Goldsack, Douglas
Gomero, Orlando
Gomes, Mary Jane and Emil Kolompar
Gonick, Cy
Gorling, G.
Gorman, Ryan M. and Peter R.
Government of Alberta
Government of New Brunswick
Government of Newfoundland and Labrador
Government of Nova Scotia
Government of Ontario
Government of Prince Edward Island
Government of Saskatchewan
Government of the Northwest Territories
Government of Yukon
Grace, Norman
Grand Council of the Crees (of Quebec)
Gray McKinlay Associates
Gray, James K.
Great Lakes Forest Products Limited
Great Lakes Waterways Development Association
Greater Charlottetown Area Chamber of Commerce
Greater Summerside Chamber of Commerce
Greater Victoria Chamber of Commerce
Green Party of Ontario
Grocery Products Manufacturers of Canada
Grolle, E. Hendrik
Groupe d'action pour l'avenir technologique et industriel de la région de Québec
Gue, Frank S.
Gulf Canada Limited
Habitation populaire de Québec inc.
Haji, G.
Halifax Board of Trade
Halifax County Municipality
Halina, J.W.
Hall, The Honourable Emmett M.
Halo, Julius
H.N. Halvorson Consultants Limited
Hamill, Louis
Hamilton and District Labour Council
Hancock, Alma
Hancox, Kenrick G.
Harper, Paul
Hattersley, J. Martin
Hawker Siddeley Canada Inc.
Hay Associates Canada Limited
Haydu, Stephen C.
Hayos, Vera M.
H.C.A. Development Consultants
Heading, Roddy
Health Coalition of Nova Scotia
Heap, Dan, MP
Hearn, Edward M.
Help the Aged
Hemming, Timothy C.S.
Henderson, Ian
Henry, Lawrence D.
Heritage Canada Foundation

Heritage Ottawa
Heritage Winnipeg
Herzstein, Robert
Higgins, Brian
Hildebrand, John L.
Hill, Stuart B.
Hills, Keith
Hitchins, D.H.
Hoinkes, Robert H.
Holman, Lucy
Honeywell Limited
Hope-Simpson, Peggy
Hopkins, Leonard D., MP
Hopperton, Hugh E.
Housing and Urban Development Association of Canada
Houston, Charles W.
C.D. Howe Institute
Hudson, Elizabeth R.
Hughes, C.D.
Hum, Derek
Human Resources Development Association
Hunaus, F.
Hunsley, Terrance M.
Hutcheon, A.D.
Ilett, James
Immigrant and Multicultural Services Society
Imperial Oil Limited
INCO Limited (Sudbury)
INCO Limited (Thompson)
Income Maintenance for the Handicapped Coordinating Group
Indian and Northern Affairs Canada
Industrial Cape Breton Board of Trade
Infonorth Computing Inc.
Inniss, Scott
Innuit Group
Institute for Environmental Studies
Institute of Association Executives
Institute of Donations and Public Affairs Research
International Association of Machinists and Aerospace Workers
International Business Council of Canada
International Union of Operating Engineers, Local 115
International Union, United Automobile, Aerospace and Agricultural Implement
Workers of America
International Woodworkers of America
Interprovincial Steel and Pipe Corp. Limited
Inuit Circumpolar Conference
Inuit Tapirisat of Canada
Jacob, Joseph W.
James Bay Crees
James Bay Tribal Council of the Nishnawbe-Aski Nation
Janssen, W.P.
Jean, Michèle
Jewett, G.A.
Johnson, Brian A.
Johnson, Eunadie
Johnson, Martine, Mayor of Frobisher Bay
Johnston, The Honourable Donald
Jorgenson, Dianne E.

Julian, Henry
Jull, Peter B.
Jurdant, Michel and Barbara Tessier
Kagawa, Dean
Kaiser, K.
Kantor, Mark G.
Kastner, Arnold
Katimavik (Group #24)
Katimavik (Group #152)
Katimavik (Group #4448)
Kavana, James
Keewatin Inuit Association
Keewatin Regional Council
Kekuli Audio Visual Society
Kendal, Peter
Kennedy, Terrence
Kent, William
Khachatourians, George G.
Kierans, Thomas W.
Kingfisher Management Limited
Kirkman, Fred
Kitchener Chamber of Commerce
Klasen, Olaf
Korey, George
Kristjanson, Leo F.
Kurland Development Corporation
L'Université du troisième âge
Labour Council of Metropolitan Toronto
Ladell, B.W.
Lakehead Social Planning Council
Lalonde, Claude
Lambton County Board of Education
Lamontagne, Lorne and Alex Murchie
Langelier, Denis
Larson, L.A.
Laubach Literacy of Canada
Laubach Literacy of Canada (Ontario)
Laurentian Group
Lavoie, Jean-Claude, Mayor of Shipshaw
Le Beau, Pierre
LeBlanc, Ronald C.
Le Groupe Desgagnés inc.
Lehner, Joseph V.
LeMay, M. Martial
Lemire, Jean-Marc
Lemprière, J.V.
Lethbridge Chamber of Commerce
Lethbridge Interagency Committee
Lethbridge Research Station
Lewis, L.A.
Liberal Party of Manitoba
Life Underwriters Association of Canada
Lindseth, Roy O.
Lingman, Bob
Lister, Rota Herzberg
Little, Thomas B.
Local Exchange Trading System
Lockett, Wilfred G.

London Life Insurance Company
London Status of Women Action Group
Lone Rock Resources Limited
Long, Gus
Loomis, Reg. D.
Jim Lotz Associates
Low, Ken
Lowry, Peter J.
Lubbock, Michael R.
Luttervelt, Douglas H.
Maass, G.
Macaree, David
MacBain, Al, MP
MacDonald, R.A.
Machinery and Equipment Manufacturers' Association of Canada
Macintosh, Norman B. and John Coleman
MacIsaac, Ronald F.
Mackie, James F.
MacKinnon, Frank
MacLaren, G.W.
Maclean Hunter Limited
MacLean, Vincent J., MLA
MacMillan, Bruce
MacMillan, George S.
Maine, Frank
Mainland Dairymen's Association
Maire, André
Makivik Corporation
Malcolmson, Kim
Management Council for Responsible Employee Relations
Mangalam, Mr. and Mrs.
Manitoba Action Committee on the Status of Women
Manitoba Advisory Council on the Status of Women
Manitoba Anti-Poverty Organization Inc.
Manitoba Association for Children and Adults with Learning Disabilities
Manitoba Association of Urban Municipalities
Manitoba Federation of Labour
Manitoba Keewatinowi Okimakanak Inc.
Mardon, J. and G.N. Ionides
Marine Workers' Federation
Maritime Co. Limited
Maritime Electric Company Limited
Maritime Lumber Bureau
Maritime Telegraph and Telephone Company Limited
Marquis, Benoit
Masters, Wayne
Matejko, Alexander J.
Mathes, A.F.
Maund, Jacqueline K.
Maynard, Murray R.
McAllister, Ian
McAllister, Kenneth
McClusky, John B.
McDonald, Neil
McElcheran, William
McGill University
McLoughlin, Peter F.M.
McMaster University

McRuer, John D.
 McWilliam, Shirlie
 Meincke, Peter
 Memorial University of Newfoundland, Faculty of Business Administration
 Mennonite Central Committee Canada
 Mensah, Spero
 Mental Health Association in Saskatchewan
 Métallurgie Frontenac Limitée
 Métivier, Gilles
 Meyer, Jack L.
 Michael Doyle and Associates Limited
 Michael Jarvis Consultants Limited
 Michael, Cliff, MLA
 MIDAS Reform Organization of Alberta
 Miller, Bernard F.
 Miller, J.L.
 Mining Association of British Columbia
 Mining Association of Canada
 Minto Family Life Education Centre Inc.
 Miramichi Region Development Corporation Inc.
 Mitchell, Ian H.
 Mobilisation contre la misère
 Moncton Volunteer Centre
 Monenco Limited
 Montgomery, James L.M.
 Montreal Economic Promotion Committee
 Moore, Samuel A.
 Morison, George
 Morley, Joseph A.
 Moss, Lawson Co. Limited
 Motor Vehicle Manufacturers' Association
 Mount Saint Vincent University
 Mowers, Cleo W.
 Municipality of Metropolitan Toronto
 Municipality of the District of Lunenburg
 Munro, The Honourable John C.
 Murgaski, Victor
 Murphy, Rod, MP
 Murray, G. Betty
 Murray, R.V.
 Nance, Phillip and Krista
 Narbey, Greg
 Nashwaak Consulting
 Nasogaluak, William and Doug Billingsley
 National Action Committee on the Status of Women
 National Council of Welfare
 National Council of Women of Canada
 National Council of YMCAs of Canada
 National Farmers Union
 National Farmers Union (PEI)
 National Pensioners and Senior Citizens Federation
 National Research Council of Canada
 National Spiritual Assembly of the Baha'is of Canada
 National Union of Provincial Government Employees
 Native Canadian Petroleum Association and Canada Geothermal Oil Limited
 Native Communications Inc.
 Natural Sciences and Engineering Research Council of Canada
 Nazaire, Lionel

Neary, Stephen A., MLA
 Neufeld, John W.
 Nevison, Myrne
 New Brunswick Advisory Council on the Status of Women
 New Brunswick Association of Métis and Non-Status Indians
 New Brunswick Federation of Labour
 New Brunswick Liberal Party
 New Brunswick New Democratic Party
 New Brunswick Premier's Council on the Status of Disabled Persons
 New Brunswick Public Employees Association
 New Brunswick Telephone Company Limited
 New Brunswick Young Liberal Association
 New Dawn Enterprises Limited
 Newfoundland and Labrador Arts Council
 Newfoundland and Labrador Federation of Labour
 Newfoundland and Labrador Federation of Municipalities
 Newfoundland and Labrador Human Rights Association
 Newfoundland and Labrador Youth Advisory Council
 Newfoundland Association of Social Workers
 Newfoundland Light and Power Co. Limited
 Nicholls, A.L.
 Nicholson, G. Paul
 Nicolaou, Anthony D.
 Niemi, Fo
 Nishnawbe-Aski Nation
 Non-Organized Workers of Thunder Bay
 Nordair
 Nordicity Group Limited
 Norman Regional Development Inc.
 Norrie, G.C.
 North Shore Citizens Committee for Responsible Forest Management
 North-South Institute
 Northeastern Ontario Energy Conservation Association
 Northern Canada Power Commission
 Northern Development Council of British Columbia
 Northern Flood Committee
 Northern Ontario District Council of Lumber and Sawmill Workers Union
 Northern Telecom Limited
 Northwest Territories Association of Municipalities
 Northwest Territories Chamber of Mines
 Northwest Territories Public Service Association
 Northwest Territories Registered Nurses Association
 Northwestern Ontario Municipal Association
 Northwestern Ontario Women's Centre
 Nova Scotia Advisory Council on the Status of Women
 Nova Scotia Farmers' Union
 Nova Scotia Federation of Labour
 Nova Scotia New Democratic Party
 Nova Scotia Nurses' Union
 Nova Scotia Teachers' Union
 NOVATRON
 Nunavut Constitutional Forum
 Nuu-Chah-Nulth Tribal Council
 Oberlander, H. Peter
 Oberle, Frank, MP
 Oberti, Oberto
 O'Brien, Chris
 O'Brien, Terry

Ocean Harvesters Limited
Office de la pastorale sociale du diocèse de Québec
Ogden, Michael
Oliver, J.W.
Olshanoski, Stan
Ontario Association of Family Service Agencies
Ontario Business Improvement Area Association
Ontario Committee on the Status of Women
Ontario Confederation of University Faculty Associations
Ontario Federation of Agriculture
Ontario Federation of Students
Ontario Institute of Agrologists
Ontario Public Service Employees Union
Ontario Secondary School Teachers' Federation
Ontario Teachers' Federation
Operation Solidarity
Ophek, Eli
Ordre des comptables agréés du Québec
Ordre des ingénieurs du Québec
Osborne, John E.
Ottawa Symphony Orchestra
Ottawa-Carleton Board of Trade
Otto, Carl H.
Ouellet, The Honourable André
Overs, John E.
Oxley, F.O.
Pacific Group for Policy Alternatives
Palliser Wheat Growers Association
Palmer, James S.
Panarctic Oils Limited
Paradigm Health
Parliament, H.E.
Parti libéral du Québec
Partington, R.J.
Paterson, Ross H.
Paul, Ross H.
Paus-Jenssen, A.
Payne, Fern G.
Payne, G.
Peeters, Martin
Peitchinis, Stephen G.
People United for a Non-Exploitive Society
People, Words and Change
Percival, Alan Hardy
Perel, Motty
Perley, Daniel R.
Perrault, Charles
Peters, Abe
Peters, H.
Petro-Canada
Pétromont Inc.
Pettick, Joseph
Pfeifer, Conrad
Pictou County Research and Development Commission
Piper, T.C.
Pitfield, The Honourable Senator P. Michael
Placer Development Limited
Planetary Initiative for the World We Choose

Podhy, Pauline
Policy Analysis and Research Management
Pollution Probe
Polysar Limited
Polyvalente "Le Boisé", Atelier de culture
Pomerleau, Hervé
Ponderosa Park Development Company Limited
Porter, Stephen
Pousette, John
Prairie Implement Manufacturers Association
Pratt & Whitney Canada Inc.
Precision Engraving Co. Limited
Presber, T.C.
Prince Edward Island Advisory Council on the Status of Women
Prince Edward Island Egg Commodity Marketing Board
Prince Edward Island Federation of Agriculture
Prince Edward Island Potato Marketing Board
Prince George and District Labour Council
Prince George and District Senior Citizens Activity Centre
Prince George and District United Way
Prince George Chamber of Commerce
Prince George Community Arts Council
Prince George Region Development Corporation
Procycle Inc.
Professional Institute of the Public Service of Canada
Prospectors and Developers Association
Pross, A. Paul
Provincial Advisory Council on the Status of Women (Newfoundland and Labrador)
Public Interest Advocacy Centre
Pugsley, William H.
Pulsifer Sr., Orville B.
Puziak, M.D.
Quebec Federation of Senior Citizens
Quittner, J.K.
Rawson Academy of Aquatic Science
Ray, A.K.
Raycroft, J.G.
Raynauld, André
Récupération Bois-Francis Inc.
Reese, Peter J.
Regional Municipality of Sudbury
Regional Municipality of York
Registered Nurses' Association of British Columbia
Reid, James F.
Rémillard, Gil
Rental Housing Council of British Columbia
Réseau d'action et d'information pour les femmes
Retail Council of Canada
Retail Council of Canada (Winnipeg)
Richard, J.G.
Ricks, James, and Frances A.
Riddell, C.H.
Roberts, Richard
Roberts, Stan C.
Robertson, Alec
Robertson, Gordon
Robson, C.A.
Roussel, Claude

Rowan, William O.
 Roy, Fabien
 Roy, Réal
 Royal Bank of Canada
 Rudnycky, J.B.
 Rumball, Donald A.
 Rupert, Gary B.
 Rural Learning Association
 Russell, D.P.
 Ryan, R. Lloyd
 St. Clair College
 St. Francis Xavier University
 Saint John Board of Trade
 St. John's Board of Trade
 St. Patrick's Social Justice Committee
 Salenius, P.O.
 Saltsman, Max
 Sarasin, André C.
 Sarnia/Lambton Economic Development Commission
 Saskatchewan Action Committee on the Status of Women
 Saskatchewan Chamber of Commerce
 Saskatchewan Co-ordinating Council on Social Planning
 Saskatchewan Council for International Co-operation
 Saskatchewan Environmental Society
 Saskatchewan Federation of Agriculture
 Saskatchewan Federation of Labour
 Saskatchewan Mining Association Inc.
 Saskatchewan Teachers' Federation
 Saskatchewan Urban Municipalities Association
 Saskatchewan Working Women
 Saskatoon Board of Trade
 Saskatoon Union of Unemployed Workers
 Schey, John A.
 School of Economic Science
 Science Council of Canada
 Scott, Anthony
 Scott, Christopher
 Scott, Donald P.
 Scott, James A.
 Scott, Paul
 Scott, Stephen
 Seaboard Lumber Sales Company Limited
 Seafarers' International Union of Canada
 Sebella, Carol John
 Seeley, Larry E.
 Semotiuk, Andriy J.
 Settle, Winston
 Sévigny, Roseline and Noëlla Porter
 Shargool, Peter D.
 Shashka, Gus
 Shaw, N.
 Shelford, Cyril M.
 Shell Canada Limited
 Shepard, Merrill W.
 Sheps, Lillian
 Shields, R. and W. Sheridan
 Shields, William S.
 Shiell, Maisie

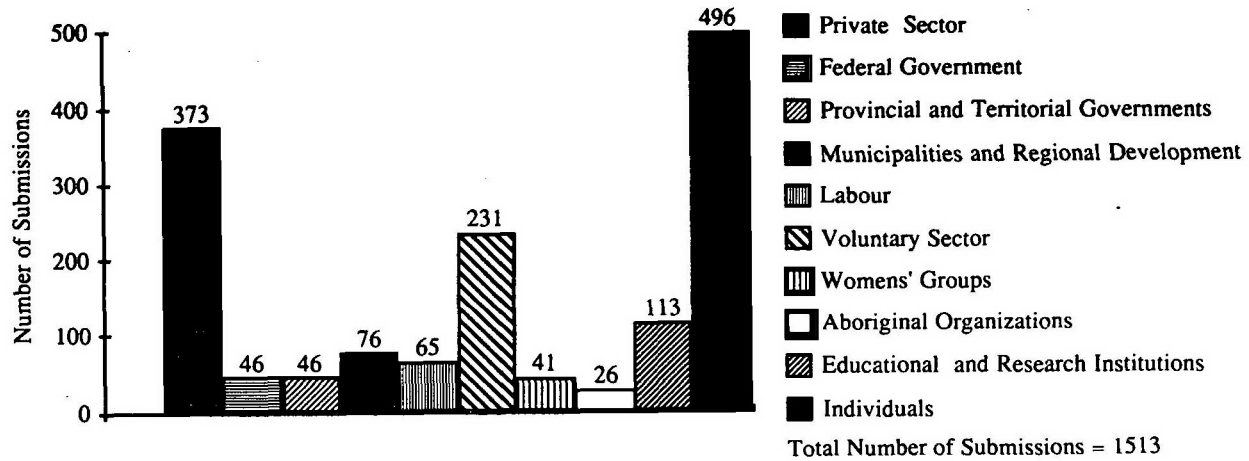
Shoe Manufacturers' Association of Canada
 Shumuk, Ivan
 Sierra Club of Western Canada
 Simek, Stefan
 Simmons, Helen
 Simpson, C.H.
 Singh, Hira
 Singhal, Raj K.
 SLACAN
 Sloan, A.
 Smith International Canada Limited
 Smith, Donald S.
 Smits, Nel
 Smyth, Steven
 SNC Group
 Snow, Kathleen M.
 Snyder, Harold L.
 Sobolewski, André
 Social Action Commission, Roman Catholic Diocese of Charlottetown
 Social Planning and Research Council of Hamilton and District
 Social Planning and Review Council of British Columbia
 Social Planning Council of Metropolitan Toronto
 Social Planning Council of Ottawa-Carleton
 Social Planning Council of Winnipeg
 Société de développement de Jonquière inc.
 Société inter-port de Québec
 Société Saint-Thomas d'Aquin
 Society of Atomic Energy of Canada Limited Professional Employees (Pinawa)
 Society of Atomic Energy of Canada Limited Professional Employees, Executive
 (Chalk River)
 Society of Management Accountants of Canada
 Software Industry Development Association
 Sommet Québécois de la jeunesse
 Sorensen, Lynda, MLA
 Sorrenti, Adam M.
 South Grenville District High School, Students of Grade 13 Geography
 Southern Kings and Queens Community Advisory Board
 Spangehl, Ed
 J.H. Stacey Professional Research and Information Services
 Standards Council of Canada
 Staples, Richard
 Startin, Don
 Status of Women Action Group (Victoria)
 Status of Women Council (Yukon)
 Steering Committee for Implementing the Ecosystem Approach
 Stein, Carol
 Stewart, Ross and Evaleen Jaager
 Steyaert, Octaaf
 STOP Inc.
 Storefront for Voluntary Agencies
 Students' Union of Nova Scotia
 Sub Committee on Youth Unemployment
 Sudbury 2001
 Sudbury Federal New Democratic Party
 Sun Life Assurance Co. of Canada
 Sutherland, R.E.
 Swanson, M.L.
 Sydney Steel Corporation

Syed, Javed
 Symes, Beth and Marilou McPhedran
 Syms, J.C.
 Syndicat des producteurs de bois de la Beauce
 Syndicat des travailleurs de la société asbestos limitée inc.
 Tallman, F.R.J.
 Task Force on Micro-Electronics and Employment
 Taylor, A.
 Taylor, D. Angus
 Technical University of Nova Scotia
 Teconomics Limited
 Telephone Pioneers of America (Canada - Region 1)
 Thakur, Hari K.
 Therriault, Clément Guy
 3rd Dimensions and Associates Limited
 Thomas, F.R.
 Thomas, Morley
 Thomas, Roy
 Thompson Chamber of Commerce
 Thompson Industrial Commission
 Thompson, Brian
 Thompson, Dixon
 Thompson, Fred G.
 Thompson, Kirk
 Thunder Bay and District Council of Clergy
 Thunder Bay and District Labour Council
 Thunder Bay Economic Development Corporation
 Thunder Bay Indian Youth Friendship Society
 Thunder Bay Multicultural Association
 Toolsie, Rampersand
 Toppin, Don
 Toronto Board of Education
 Toronto Jewish Congress
 Tourism Industry Association of Canada (Montreal)
 Tourism Industry Association of Canada (Ottawa)
 Town of Oromocto
 Town of Prescott
 Town of Swan River
 Transalta Utilities Corporation
 Travel Industry Association of the Northwest Territories
 Trent University
 B.A. Tripp and Associates Limited
 Trust Companies Association of Canada
 Trzeczieski, Mike A.
 TVOntario
 Twigg, John
 Ubriaco, Rita
 Ultramar Canada Inc.
 Unemployment Committee of Regina
 Union des municipalités du Québec
 Union of Ontario Indians
 United Church of Canada, Working Unit on Social Issues and Justice
 United Grain Growers Limited
 United Mine Workers of America, District 18
 United Mine Workers of America, District 26
 United Native Nations
 United Steelworkers of America
 United Steelworkers of America, Hamilton Steelworkers Area Council

United Steelworkers of America, Local 6500
United Steelworkers of America, Local 6166
United Steelworkers of America, Local 1064
United Steelworkers of America (Whitehorse)
United Way Canada
United Way of Central Quebec
United Way of Fredericton
United Way of Greater Toronto
United Way of Montreal
United Way of Ottawa-Carleton
United Way of Quebec
United Way of the Lower Mainland
United Way of Thompson
United Way of Winnipeg
University College of Cape Breton
University of Alberta Association of Academic Staff
University of British Columbia, Centre for Continuing Education
University of Calgary Faculty Association
University of Calgary Students' Union
University of Lethbridge
University of Manitoba, Faculty of Agriculture
University of Regina
University of Regina Faculty Association
University of Saskatchewan, MBA Students, College of Graduate Studies
University of Toronto, Students Administrative Council
University of Waterloo
University of Windsor
University of Windsor, International Business Studies Research Unit
University of Winnipeg Working Group
Urban Development Institute Canada
Urban Transportation Development Corporation Limited
Ursel, Norman H.
Valcin, Yvon
Van Leeuwen, Bert
Van Roggen, The Honourable Senator George
Vancouver Board of Trade
Vancouver Island Building and Construction Trades Council
Vancouver Unemployed Action Centre
Vancouver Women in Trades Association
Vanier Institute of the Family
Via Rail Canada Inc.
Victoria Labour Council
Vincent, Kimbell R.
Vogler, Kersten H.O.
Voluntary Planning Board
Volunteer Centre of Calgary
Vosper, Velma
Wahn, J.D.
Wallace, James
Wallace, Scott A.
Walsh, E.D.
Ward, Neil
Wardair International Limited
Warner, G.B.
Warner, I.D.
Watson, John R.
Wayman, Morris
Weaver, Bill W.

Webb, Geoff
 Webb, J. Tom
 Weeren, Donald J.
 Wepler, Reuben
 Weser, Ernest J.
 Western Constitutional Forum
 Western Energy Investments Limited
 Western Stock Growers' Association
 Western Transportation Advisory Council
 George Weston Limited
 Whelan, The Honourable Eugene F.
 White, Walter E.
 Whitehorse Chamber of Commerce
 Whitney, Joanne
 Whyte, John Donaldson
 Wiggett, Edward G.
 Wilkinson, Ken
 Willey, Gerald A.
 Williams, Merlyn M.
 Williamson, Ian B.
 Wills, Charles E.
 Willson, Bruce F.
 Willson, W.H.
 Wilson, L.R.
 Windsor and District Labour Council
 Windsor Chamber of Commerce
 Windsor Coalition for Development
 Windsor Women's Incentive Centre
 Windsor-Essex County Development Commission
 Winnipeg Chamber of Commerce
 Winnipeg Co-ordinating Committee for Disarmament
 Winnipeg Commodity Exchange
 Winnipeg Labour Council
 Wise, Dorothy
 Women Against the Budget
 Women and Economic Development Committee of the Northwestern Ontario
 Women's Decade Council
 Women United for a Non-Exploitive New Age
 Women Unlimited
 Women's Information and Referral Centre
 Women's Involvement Committee of Upper Trinity South
 Women's Network Inc.
 Woodbridge, Reed and Associates Limited
 Woods, Elizabeth
 World Federalists of Canada
 Wyeth Limited
 Yorston, Wilfred
 Young Women's Christian Association of Calgary
 Young Women's Christian Association of Canada
 Young Women's Christian Association of Metropolitan Toronto
 Young Women's Christian Association of Thompson
 Young, David R.
 Yukon Chamber of Mines
 Yukon Territorial Public Service Association
 Yukon Visitors Association
 Zimmermann, Hans G.

Written Submissions to the Commission





Schedule of Provincial and Territorial Government Participation

	Date of Hearing
British Columbia ³	20 June 1983 ¹
Alberta	18 June 1983 ¹ 15 November 1983 ¹
Saskatchewan	28 March 1983 ¹ 23 November 1983 ²
Manitoba ³	29 March 1983 ¹ 28 November 1983 ¹
Ontario	21 February 1983 ¹ 5 December 1983 ²
Quebec ³	28 February 1983 ¹ 27 October 1983 ¹
New Brunswick	2 June 1983 ¹ 23 September 1983 ²
Nova Scotia	18 January 1983 ¹ 13 October 1983 ¹
Prince Edward Island	3 June 1983 ¹ 9 December 1983 ¹
Newfoundland and Labrador	24 February 1983 ¹ 20 September 1983 ²
Yukon	31 March 1983 ¹ 9 September 1983 ²
Northwest Territories	30 March 1983 ¹ 12 September 1983 ² 27 November 1984 ¹

¹ private meeting

² public hearing

³ no written submission received



Schedule of Federal Government Participation

	Location and date of hearing
Atomic Energy of Canada Ltd.	Hull, December 14, 1983
Canadian Forestry Service (Environment Canada)	Not heard
Canadian Saltfish Corporation	St. John's, September 21, 1983
Economic Council of Canada	Toronto, December 8, 1983
Environment Canada	Not heard
Heritage Canada Foundation	Hull, December 12, 1983
Minister of Agriculture	Regina, November 24, 1983
Minister of Communications	Montreal, November 3, 1983
Minister of Consumer and Corporate Affairs	Not heard
Minister of Health and Welfare	Not heard
Minister of Indian Affairs and Northern Development	Not heard
Minister of Labour	Ottawa, December 16, 1983
Minister of State for Economic and Regional Development and Minister Responsible for Science and Technology	St. John's, December 21, 1983
Minister of State for Social Development	Vancouver, September 8, 1983
Minister of State for Multiculturalism	Not heard
Minister of Transport	Winnipeg, November 28, 1983
Minister Responsible for the Status of Women	Ottawa, December 15, 1983
National Research Council of Canada	Hull, December 14, 1983
Natural Sciences and Engineering Research Council of Canada	Hull, December 14, 1983
Northern Canada Power Commission	Whitehorse, September 10, 1983
Petro-Canada	Toronto, December 2, 1983
Science Council of Canada	Hull, December 14, 1983
Standards Council of Canada	Ottawa, December 16, 1983
Via Rail Canada Inc.	Ottawa, December 16, 1983



Schedule of Local and Regional Government Participation

City of Vancouver	September 6, 1983
District of Chilliwack	September 6, 1983
City of Whitehorse	September 9, 1983
City of Prince George	September 12, 1983
District of Mackenzie	September 12, 1983
Village of Pouce Coupe	September 12, 1983
Peace River-Liard Regional District	September 12, 1983
City of Yellowknife	September 13, 1983
City of Charlottetown	September 19, 1983
City of Sydney	September 22, 1983
City of Moncton	September 22, 1983
Town of Oromocto	Not Heard
City of Fredericton	September 23, 1983
Town of Frobisher Bay	September 26, 1983
Town of Inuvik	September 29, 1983
Community of Rankin Inlet	October 1, 1983
Municipality of Halifax County	October 11, 1983
Municipality of the District of Lunenburg	Not Heard
City of Halifax	October 13, 1983
City of Windsor	October 17, 1983
City of Thompson	October 19, 1983
District of Lynn Lake	October 19, 1983
Regional Municipality of Sudbury	October 19, 1983
Municipality of Shipshaw	October 27, 1983
City of St. George-de-Beauce	Not Heard
City of Chicoutimi	October 27, 1983
City of Jonquière	October 27, 1983
Town of Anjou	October 31, 1983
City of Calgary	November 7, 1983
City of Lethbridge	November 10, 1983
City of Edmonton	November 14, 1983
Town of Swan River	Not Heard
City of Winnipeg	November 28, 1983

Municipality of Metropolitan Toronto	December 1, 1983
Corporation of the	
Borough of East York	Not Heard
Regional Municipality of York	December 9, 1983
Town of Prescott	Not Heard
Town of Carlyle	December 12, 1983
City of Ottawa	December 16, 1983
City of Hull	December 16, 1983