



# Government, Limited

JOHN CALVERT

Introduction by  
Mel Watkins

The Corporate  
Takeover  
of the  
Public Sector  
in Canada

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## The Corporate Takeover of the Public Sector in Canada

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JOHN CALVERT



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# Introduction

**W**e are in the midst of a serious economic crisis here in Canada that is worsening even as I write. The symptoms abound: high and rising unemployment; inflation that stubbornly refused to go away in the face of that unemployment and is now also on the rise; interest rates in real terms (quoted rates less the rate of inflation) that are the highest we have ever experienced and are still going up; a Canadian dollar that periodically goes into a free fall relative to an American dollar being propped up by those ridiculous and usurious interest rates. An economic recovery that never was worth writing home about has apparently already aborted; to oversleep was to risk missing it.

But the American economy, someone insists on reminding me, is still in an upswing. Right-wing commentators are telling us that here is the proof that stomping on the poor and deregulation and union-busting work. In fact, aren't we giving it a try ourselves in British Columbia? Of course, what the Reaganites are actually trying to prove is that if you spend enough on arms you can spend your way to prosperity (though perhaps at the cost of forsaking posterity). But is it really prosperity? For what passes for economic growth — you can't, after all, eat an MX missile or deploy it in such a way as to make American cars competitive with Japanese — is pushing up those interest rates and that rate of inflation and should in due course do in the American economy just as it is already doing in ours.

The symptoms of economic crisis we are getting to know only too well. So, too, cures abound that are worse than the disease. We're short on diagnosis with the ring of truth. We're even shorter on prescription that has the promise of human betterment. This is the vacuum that John Calvert works to fill in this excellent book on the Canadian crisis, its causes and its cures.

I do a fair amount of speaking on the economy, inside and outside the university. I am frequently asked what I can recommend by way of further reading and have had to admit to a difficulty. A good deal has been written in a variety of places of a sensible persuasion but there has been no single accessible book. Mr. Calvert and the Canadian Centre for Policy Alternatives have now given us just that and I am delighted to discover that I can recommend it most highly. We have here a book that is forcefully written, cautiously argued and carefully documented.

Mr. Calvert ranges widely while maintaining a focus on the public sector. He is at pains to demolish the mythologies that abound in this area. The advocates of free enterprise didn't hesitate to take the credit when things were going well. Now that they're going badly, they refuse to take the responsibility but instead blame the government and

blame the workers; those who work in the public sector become twice damned. Mr. Calvert, it so happens, works for a public sector union; it must be infuriating to hear, again and again, that the beleaguered workers you represent, whom you know to be concerned like people everywhere with having a job and a decent standard of living, are actually the source of the problem. Universities, where I do what I do, are part of the public sector, but even on my worst and most useless days I am convinced that I am more productive than such toilers in the private sector as the ad writer promoting yet another brand of light beer or the engineer perfecting the guidance system for the cruise missile.

The longest chapter in this book is the final chapter titled "An Alternative Economic Strategy." I make this point because, to be on the left as Mr. Calvert and I are, is to be told, "You folks are experts at criticizing the system, but what would you put in its place?" In truth, that charge is not without some substance, the contradictions of capitalism being more easily exposed than expurgated. We are therefore all the more indebted to Mr. Calvert for the thoroughness of his prescription, a detailed ten-point program.

Mr. Calvert is calling for reflation with restructuring. Keynesian policies to stimulate, or reflate, the economy are necessary but no longer sufficient; we must restructure the economy as well. That restructuring will have to be thorough, moving us decisively down the road to comprehensive and democratic economic planning. The right-wing calls for less government which means, in practice, as Mr. Calvert congenitally demonstrates, less help for ordinary people and more hand-outs to the big companies; certainly Mr. Reagan has given us a bigger government that menaces the world. Mr. Calvert is calling for the creative use of government and for a public sector that is, not hierarchical and authoritarian, but publicly accountable and publicly controlled.

I think Mr. Calvert has it exactly right. In the face of the deep-seated and persistent economic crisis of the 1980s, our best hope lies in moving toward such economic planning. We now live in a world where corporations "plan" and governments "intervene," both in a variety of ad hoc ways. The alternative is democratic planning — planning, if you will, for people by people.

I am emboldened by Mr. Calvert to put forward a modest proposal, not original with me, as to how we might begin. Set up a planning secretariat accountable jointly to the federal and provincial governments. Its first and obvious assignment would be to eliminate competing federal and provincial policies which currently cancel themselves out or duplicate waste. One senses that the public is tired of the playing of petty games and is ready for a unified response. A further and urgent task comes to my mind. Advise on proposals for specific sectoral free trade arrangements with the United States in the context of a comprehensive industrial and resource strategy. (God knows by

what hit-and-miss method we are now proceeding in this critical area.) Mr. Calvert's multifaceted prescription suggests further tasks. Develop, in co-operation with the affected workers, detailed plans to phase out arms production in favour of the production of useful goods. Democratize public enterprises and integrate them into the planning process.

And so on. Read this book so you too can partake of the humane solving of our manifold discontents.

**Mel Watkins**  
**Toronto**  
**June 1984**

# Preface

**G**overnments are not very popular these days. They have been fingered for a wide range of economic and social problems, including inflation, poor productivity, low growth, economic stagnation, unemployment, declining investment, and falling living standards. They have been criticized for absorbing too large a share of our nation's resources and, in the process, of squeezing out productive, private industry. And they have been taken to task for mismanaging our economic affairs.

A central purpose of this book is to challenge the claim that Canada's economic crisis has been caused by the growth of the public sector. While the role of government in the economy is complex, a careful examination of Canada's economic problems reveals that they can be more realistically attributed to the deficiencies of the private market economy.

Canada's economic problems are rooted in the wider crisis of the international economic system. They reflect Canada's increasingly dependent position within an international order dominated by multinational corporations and international banks. Our economic problems are also characterized by regular boom and bust cycles, which have been key (and, some would argue, *inevitable*) features of capitalist development for several centuries. Recessions and depressions were experienced long before governments — whether in Canada or elsewhere — played any significant role in economic affairs.

The private sector has been responsible for our distorted pattern of economic development. Corporate decisions based on the export of resources, rather than the development of a broadly based industrial economy, have caused fundamental, structural weaknesses in the Canadian economy. Our vulnerability to international economic forces can be traced to the high level of foreign investment and to the priorities of multinational firms, which view Canada as little more than a branch plant economy. They are not concerned with creating jobs or fostering balanced economic development.

As the play on words in the title implies, I have argued that the central problem with government lies in its increasing subordination to the interests of the corporate sector and not, as its detractors suggest, in the inherent deficiencies of public programs.

Far from challenging the priorities of business, government policy is aimed at establishing a more favourable investment climate for private capital. Corporate taxes have been reduced, social programs have been slashed, and the rights of unions have been deliberately undermined. Deflationary economic policies advocated by the private sector have also been adopted. The result has been to push up unemployment and generate a climate of fear and insecurity among ordinary citizens. These developments have been designed to assist corpora-

tions carry out a fundamental reorganization of production, in the hope that lower labour costs and a more compliant workforce will facilitate higher profits and more investment.

The human and social costs of these policies have been, and continue to be, enormous. Vital public services have been dismantled despite the pressing needs of those dependent on these services. Educational programs have been cut back or abolished. Medicare has been eroded. The needs of tens of thousands of children for quality public day care have been ignored. The plight of the elderly, who desperately require decent nursing homes, has been pushed aside.

Despite the enormous sacrifices imposed on ordinary Canadians, the regressive policies advocated by business have failed to resolve the economic crisis. They have precipitated instead *another* crisis — one in public sector finances. Economic stagnation has resulted, simultaneously, in falling tax revenues and increasing public expenditures to assist the victims of the crisis. This has been compounded by the growing array of tax concessions and subsidies to the corporate sector, which is demanding measures to help it overcome the crisis. Not unexpectedly, government deficits have ballooned.

The solution to our economic crisis and to the deteriorating financial situation of governments lies not in cutting the public sector but in the adoption of a fundamentally different approach to economic policy. Instead of transferring more resources to the very corporations that plunged us into this economic mess in the first place, we need policies that will give ordinary Canadians more control over economic decision-making.

In the final section of the book, I offer a 10-point Alternative Economic Strategy. The aim of this strategy is to break the stranglehold that multinational firms have over our economic development. Popularly based democratic planning, when coupled with the creative use of public investment, can lay the foundation for economic recovery. The key to such involvement lies in generating a new vision of the public sector — a vision in which workers, local communities and consumers of public services are given an effective voice in organizing and administering public services.

**John Calvert**  
**Ottawa**  
**June 1984**

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A number of people have given me assistance in the writing of this book. Gilbert Levine encouraged me to write the original study. He provided useful comments and suggestions at all stages of the work. Without his support and encouragement, the book would never have been completed.

Bill MacDougall worked closely with me during the final editing and contributed many important ideas. A special word of thanks is in order to Bill. Bob Clarke of the Canadian Centre for Policy Alternatives patiently tolerated the many revisions and alterations that were made to the manuscript after it had been originally accepted.

A number of other individuals read the manuscript and provided useful comments or suggestions. These included Bill Freeman, Allan Moscovitch, Ed Finn, Fred Caloren, Larry Katz, Duncan Cameron and Mel Watkins. To all of these individuals I extend my warmest thanks.

J.C.

## CHAPTER 1

# The Crisis of the Canadian Economy in the 1980s

### The Scope and Magnitude of the Crisis

**D**uring the past few years, the Canadian economy has been slowly grinding to a halt. The prospect of continuing growth and increasing prosperity, characteristic of the 1960s and early 1970s, has been supplanted by economic stagnation, low investment, spiralling unemployment, rising prices, high interest rates and falling living standards. The mood of Canadians has changed from optimism to pessimism, and economic insecurity now confronts millions of citizens. At no time since the Second World War has the economic future of the country appeared so uncertain or so devoid of promise.

Although business and government are optimistically predicting a major upturn in economic activity in the near future, such an upturn is likely to be weak and short lived.<sup>1</sup> Over the long term, prospects for the Canadian economy continue to deteriorate.<sup>2</sup> This view may contradict the enthusiastic statements of economic forecasters who feel that increased business confidence is the major factor in promoting a recovery. A more detailed analysis of the nature of our economic problems suggests otherwise.

The economic indicators of the scope and depth of the crisis are numerous. The most serious of all is the dramatic increase in unemployment. One out of every eight Canadians is officially out of work. During 1983, the unemployment rate averaged 11.9 per cent, according to official estimates. One and a half million Canadians are actively seeking, but unable, to find work. This figure is higher than anything experienced since the Great Depression.

The following table gives the unemployment figures since the mid-1970s.

**TABLE 1**  
**Unemployment in Canada**  
**1976 – 1984**

YEAR	NUMBER OF OFFICIALLY UNEMPLOYED	UNEMPLOYMENT RATE (Per Cent)
1976	727,000	7.1
1977	850,000	8.1
1978	911,000	8.4
1979	838,000	7.5
1980	867,000	7.5
1981	898,000	7.5
1982	1,305,000	11.1
1983	1,448,000	11.9
1984 (January)	1,374,000 <b>(Seasonally adjusted)</b>	11.2

**Source:** Statistics Canada, *The Labour Force*, Cat. 71-001

The preceding figures do not represent the *real* level of unemployment in the economy. To be officially counted as unemployed, the jobless must have actively searched for work during the previous month. A January 1984 survey by Statistics Canada revealed an additional 544,000 unemployed workers who wanted jobs but had given up looking for work. These people were not counted in the official statistics of the unemployed. Another survey, released in the same month, revealed an additional 448,000 workers in part-time jobs who indicated they would prefer full-time work. Thus the real unemployment rate is considerably more than 2 million, or at least 20 per cent of the labour force.

The impact of unemployment varies considerably among Canadians. In parts of the Atlantic region and Quebec, unemployment officially exceeds 20 per cent and, in real terms, is probably in excess of 30 per cent. Young people across the country have been particularly hard hit. In the first nine months of 1983, the official rate for those under 25 averaged 20.5 per cent.<sup>3</sup> Other groups, such as the disabled, immigrants and native people, have also suffered disproportionately from rising unemployment.<sup>4</sup>

To paper over their inability to deal effectively with unemployment, federal and provincial governments have altered the definition of "full employment." During the 1960s, when unemployment was substantially lower, the official goal was to keep the unemployment rate below 3 per cent. However, as the number of jobless increased during the late 1960s and early 1970s, the definition of "full employment" was raised to 6 and even 7 per cent.<sup>5</sup> In the 1980s, this figure has been raised again. "Full employment" is now defined in terms of a 10 per cent rate of unemployment. In other words, both federal and provincial governments have simply given up the attempt to provide every Canadian with a job.<sup>6</sup>

A second indicator of the scope and depth of the present economic crisis is the slowdown of economic activity in recent years. Between 1965 and 1969, our Gross National Product (GNP) expanded by an average of 5.6 per cent per year. From 1970 to 1974, it averaged 5.3 per cent per year. However, during the period from 1975 to 1979, the growth rate fell to 3.0 per cent per year. By 1980, it came to a virtual halt, falling to 0.5 per cent. In 1981, growth tentatively resumed, reaching a rate of 3.4 per cent, but in 1982 it plunged sharply again, by -4.4 per cent.<sup>7</sup>

It was the first year of negative growth since 1954 and the steepest decline since 1933. The following table illustrates the decline in the rate of growth since the mid-1970s.

---

**TABLE 2**

**Gross National Product  
1976 – 1983**

<b>YEAR</b>	<b>GROSS NATIONAL PRODUCT (Per Cent Increase)</b>
1976	5.5
1977	2.2
1978	3.4
1979	2.7
1980	0.5
1981	3.4
1982	-4.4
1983	2.9 (est.)

**Source:** Statistics Canada, *National Income and Expenditure Accounts*, Quarterly, Cat. 13-001.

**Note:** 1983 figures based on Department of Finance estimate in Feb., 1984 budget.

---

Although the economy picked up in 1983, growth forecasts for 1984 have been revised downwards because the long-awaited recovery has proved to be far weaker than expected.<sup>8</sup> In short, the first years of the 1980s can be characterized as a period of economic stagnation or, perhaps more fashionably, *stagflation*.

A major reason for the long-term decline in economic growth has been the deepening crisis in our manufacturing sector.<sup>9</sup> Faced with fierce international competition, particularly from Western Europe and Asia, Canada's branch plant manufacturing industry has proven incapable of producing efficiently or maintaining its market share, either domestically or internationally.<sup>10</sup> Approximately one-third of our manufacturing capacity is now lying idle. Manufacturing workers across the country, and particularly in Ontario, have been faced with an unprecedented number of plant closures, layoffs and reductions in working hours.

TABLE 3  
**Capacity Utilization Rates in Manufacturing**  
 (Seasonally Adjusted)  
 1978 - 1983

	MANUFACTURING				PAPER AND ALLIED INDUSTRIES	PRIMARY METALS	METAL FABRICATING	MACHINERY	TRANSPORTATION EQUIPMENT	ELECTRICAL PRODUCTS	CHEMICAL and CHEMICAL PRODUCTS
	TOTAL	NON-DURABLE	DURABLE	DURABLE							
1978	83.4	86.8	80.0	80.0	89.1	75.7	80.7	83.6	88.6	74.0	74.4
1979	86.1	89.5	82.7	82.7	90.2	77.1	83.4	95.1	88.1	81.1	77.2
1980	81.0	86.7	75.5	75.5	89.6	77.6	79.6	95.4	66.0	79.1	72.8
1981	79.2	84.8	73.8	73.8	84.9	75.7	77.5	95.3	61.9	82.2	71.4
1982	67.4	75.1	59.9	59.9	73.3	58.8	63.0	72.6	53.1	69.5	59.7
1983 Est.	68.4	76.4	60.7	60.7	75.6	59.3	60.5	54.6	56.7	68.8	61.1

Source: Statistics Canada, Capacity Utilization Rates, Cat. 31-003

Note: The 1983 estimate is based on data from the first nine months.

In December 1980, according to Statistics Canada, there were 1.60 million workers in the manufacturing sector in Canada. By the beginning of 1983, this number had fallen to 1.35 million, a loss of a quarter of a million jobs. In 1982 alone, 9.2 per cent of all manufacturing jobs disappeared. Thousands of additional manufacturing jobs are in jeopardy in textiles, agricultural equipment, domestic appliances, automobiles, electrical goods and many other sectors. Chrysler, Massey Ferguson, Admiral, Maislin Trucking and dozens of other well-known firms have recently faced the spectre of receivership. A number of major established firms have fallen and taken thousands of jobs with them.

Perhaps more significantly, manufacturing investment *remains* depressed, despite the massive subsidies and generous tax write-offs given by federal and provincial governments in recent years.<sup>11</sup> According to Statistics Canada, investment in plant and machinery fell by 16.4 per cent in 1982. Estimates for 1983 indicate a further fall of 15 per cent. Without adequate investment, the future prospects of our manufacturing sector become even more dismal.<sup>12</sup>

Perhaps the most widely discussed aspect of Canada's deteriorating economic performance has been the almost intractable problem of inflation. Since the early 1970s, price increases have been a major concern. The following table documents the inflation rate in recent years.

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**TABLE 4**  
**Inflation in Canada**  
**1976 – 1984**

YEAR	INCREASE OVER PREVIOUS YEAR (Per Cent)
1976	7.5
1977	8.0
1978	8.9
1979	9.1
1980	10.2
1981	12.5
1982	10.8
1983	5.8
1984 (Jan.)	5.3

**Source:** Statistics Canada, *The Consumer Price Index*. Cat. 62-002 (monthly).

---

Government policies designed to arrest the growth of price increases (such as wage controls, high interest rates, tight money and cuts in government spending) have only succeeded in slowing inflation by throttling the economy. There is every reason to believe that if the economy continues to expand, inflation will again heat up. Real

growth, without rapidly rising prices, appears to be virtually unattainable in Canada's present economic context.<sup>13</sup>

Another indication of the seriousness of the present crisis is the rise in real interest rates. In 1981, the Bank of Canada prime rate jumped briefly to over 20 per cent, a level unprecedented in recent Canadian history. Interest rates for home buyers rose even higher, while those for cars, consumer goods and credit cards reached 25 to 30 per cent. Following the fashionable monetarist theory that controlling the money supply would curb inflation, and fearful of an exodus of capital, the Bank of Canada maintained Canadian rates significantly above those in the U.S. and moved them up in lock step each time the U.S. raised its rates.

The following table gives the rise in interest rates between 1950 and 1984.

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**TABLE 5**

**Bank of Canada Prime Interest Rates  
1950 – 1984**

<b>YEAR (January)</b>	<b>PRIME INTEREST RATE (Per Cent)</b>
1950	1.5
1955	2.0
1960	4.9
1965	4.3
1970	8.0
1975	8.3
1980	14.0
1981	17.0
1982	14.7
1983	9.8
1984	10.0

**Source:** *Bank of Canada Review*

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While nominal interest rates in the U.S. (and therefore in Canada) fell in 1983, *real* interest rates (that is, the rate adjusted for inflation) remained extremely high by historic standards. Many analysts are predicting they will rise again, particularly in light of the U.S. Federal Reserve Board's continuing commitment to tight money policies. The tax cuts given to the wealthy by Ronald Reagan, combined with sharply accelerated defence expenditures, mean that the U.S. government will require massive borrowing to fund its growing deficit.<sup>14</sup> If Gerald Bouey's policy of maintaining our interest rates in lock step with those of the U.S. remains unchanged, we shall continue to have excessive interest rates.

High real interest rates are now a major factor choking investment and stifling economic recovery. Indeed, the policy of maintaining high interest rates has already depressed investment, curtailed economic growth, and pushed up unemployment. In the six years from 1977 to 1983, business bankruptcies increased by 121.8 per cent.<sup>15</sup> High real interest rates are keeping many other companies on the brink of collapse as liquidity evaporates and interest charges gobble up needed investment funds.

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**TABLE 6**

**Number of Bankruptcies in Canada  
(Business and Consumer)  
1977 – 1983**

<b>YEAR</b>	<b>NUMBER OF BANKRUPTCIES</b>
1977	16,931
1978	21,718
1979	23,882
1980	28,023
1981	31,483
1982	41,843
1983	<u>37,552</u>
<b>Per Cent Increase / 1977-1983</b>	<b>121.8 per cent</b>

**Source:** *Annual Report of the Superintendent of Bankruptcies*, Department of Consumer and Corporate Affairs.

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## **The Decline in Wages and Living Standards**

Another important indicator of the depth of Canada's economic crisis is the decline of real wages and living standards during the past five years. This has been both a consequence of government-imposed wage controls and a result of the establishment of a bargaining climate that has effectively undermined the negotiating strength of unions. The fall in real wages is unprecedented in Canada's post-war history. The following table, compiled by the Department of Finance, documents the decline in real wages since 1978.

TABLE 7

### Loss in Real Wages 1978 – 1982

YEAR	INCREASE IN AVERAGE WEEKLY WAGES AND SALARIES INDUSTRIAL COMPOSITE (Per Cent)	INCREASE IN CONSUMER PRICES (Per Cent)	GAIN OR LOSS IN REAL WAGES (Per Cent)
1978	6.2	8.9	-2.7
1979	8.7	9.1	-0.4
1980	10.1	10.2	-0.1
1981	11.8	12.5	-0.7
1982	10.1	10.8	-0.7
<b>Cummulative loss 1978 to 1982 (per cent)</b>			<b>-6.9</b>

Sources: Statistics Canada, *The Consumer Price Index*, Cat. 62-001;  
Statistics Canada, *Employment, Earnings and Hours*, Cat. 72-002.

This table, of course, does not take into account the fall in real income suffered by the growing numbers of unemployed and welfare recipients. Many families have seen their real standard of living plummet as a result of job losses. The spectre of real poverty is confronting many Canadians for the first time in their lives.

Coupled with the fall in real wages has been a decline in the social wage, as government cutbacks have reduced the scope and quality of a wide range of social, educational and medical services. User fees have risen and accessibility to public services has been restricted. These cutbacks have resulted in a further deterioration of the living standards of working people across the country.<sup>16</sup>

This decline in public and social services is perhaps the most easily ignored indicator of the present economic crisis. Yet it is clearly one of the most important, especially considering the much greater need for services during a period of high unemployment and economic stagnation. Access to high-quality public and social services is a basic right of citizenship. The deterioration of these services creates considerable suffering among those who are in immediate need. It also generates fear and insecurity among many other segments of the populace, such as the aged, the disabled, single parents, working women, the unemployed and the poor. For many Canadians, the absence of these services determines whether they will be able to lead their lives with dignity or whether they will be forced to endure hardship and need.

The preceding factors – unemployment, economic stagnation, the decline of manufacturing industry, low investment, inflation, high interest rates, falling real wages and deteriorating public services – all

point to the depth and scope of Canada's present economic problems. Despite widespread agreement on the seriousness of the crisis, there is heated debate on why we are now experiencing such economic difficulties. In the next chapter we shall examine alternate explanations for our present plight.

## CHAPTER 2

# Who is Responsible for the Crisis? Some Popular Myths

### The Business Explanation

**T**he most widely discussed view of the causes of Canada's current economic mess is that government policies, and particularly government spending, are to blame. According to this view (whose leading proponent is the conservative American economist Milton Friedman), government has become a millstone on the economy, crushing its ability to operate efficiently.<sup>1</sup> The state sector has absorbed too large a share of gross national expenditure. It has choked off business investment and displaced productive private manufacturing from key areas of the economy.

Supporters of this view assert that government taxation has diverted vital investment capital into non-productive service activities. This, in turn, has denied industry the finances required to modernize in an increasingly competitive international environment.

Government has also been fingered for generating inflation by allowing the money supply to expand too quickly. This is because it has failed to trim spending programs to bring them into line with tax revenues. Instead, it has simply printed more money and increased its borrowing. As a result the money supply has grown excessively, while government debt has skyrocketed. These policies have, in turn, fuelled inflation.

Proponents of the business explanation for our current economic ills also assert that government has established a whole range of "non-productive" social services which we can no longer afford. They argue that these services absorb too much of the nation's resources — both human and material — and place an excessive tax burden on the

“productive” private sector. According to this view, the private sector is the engine of economic development and, ultimately, pays for all public services. Thus, if the private sector is squeezed too much, it cannot produce enough to support social services, while still generating the investment capital it requires to survive and grow.

The corporate sector has criticized government for allowing the wages and fringe benefits of public employees to rise too quickly, making the costs of government services excessive. It asserts that wages in the public sector have established an inflationary precedent for private sector workers. As a result, so called “wage-push” inflation has been on the increase, fuelled by the “unrealistic” demands of overpaid public sector workers.

Government has also been attacked for imposing too many regulations on the private sector. Business interests claim that by so doing it has deterred private firms from making new investments. Government regulations, according to this view, have added enormously to the costs of production and greatly weakened the ability of Canadian firms to compete successfully with their overseas rivals. Regulatory agencies such as the Foreign Investment Review Agency (FIRA) have deterred foreign investors from establishing or expanding in Canada, thus denying us needed economic growth and jobs. And, because they push up the costs of production, government regulations have also forced many Canadian firms to close down or to locate new factories in other countries.

These and various other attacks on government are heard constantly in the media. They have been given an additional boost by the elections of Margaret Thatcher in Great Britain and Ronald Reagan in the U.S., both on platforms attacking big government. In Canada, organizations such as the Fraser Institute and the C.D. Howe Institute have churned out a constant stream of books and articles maligning the public sector and calling for a return to the principles of a free market system.<sup>2</sup>

The view that government is responsible for inflation, unemployment, lack of investment, poor economic growth, high interest rates and falling real wages has been widely accepted. And its acceptance has enabled business interests to persuade government to implement their kind of solution to our economic crisis – a solution reflected in the increasingly reactionary character of federal and provincial budgets since 1975.

## **The Business Remedy**

Since the mid-1970s, there have been increasingly strident demands by business organizations (such as the Canadian Chamber of Commerce and the Business Council on National Issues) that the public deficit be reduced, that spending on social programs be curtailed, and that the size of the public sector be dramatically cut.<sup>3</sup> There

has been a call to privatize many services currently provided by government employees. There has been growing pressure to provide more financial assistance to corporations through tax expenditures and subsidies. And there has been vigorous lobbying to repeal many of the regulations that were imposed during the last two decades to protect consumers, workers and the environment from the excesses of business.

The corporate sector has also been pushing hard to turn the clock back on the way government manages the economy. It has argued that the only way to improve Canada's economic performance is to give the market scope to operate more freely. It has lobbied to have Keynesian policies replaced by monetarism, in which government shuns direct intervention and instead uses indirect means, such as restricting the growth of the money supply and allowing unemployment to climb. The corporate sector has demanded an end to the social welfare aspects of Keynesian economic policies, and has pressed vigorously for more government support for business.

The business community has also lobbied for wage controls, especially in the public sector, as a way of cutting labour costs. It has demanded that unions be weakened by taking away their right to strike, and that even more limits and restrictions be placed on collective bargaining.

In short, the corporate solution to our economic malaise is to lower the standard of living of all working Canadians. Workers are blamed for living beyond the country's means and for demanding an unrealistically high level of public services. Accordingly, they are being admonished to tighten their belts and "bite the bullet." Lower living standards and fewer public services are portrayed as "necessary" and "inevitable" sacrifices which must be made in the nation's interest if we are to return to prosperity. All these measures will ultimately result in a more "favourable investment climate," which will allow corporations to make higher profits. Higher profits, in turn, are viewed as the key to lasting economic recovery.

## **Implementation of the Business Remedy**

The plan favoured by the corporate sector has been adopted at the federal level by both the Liberals and Conservatives and by the overwhelming majority of provincial governments. As early as 1975, the federal Liberals had discarded Keynesian policies, which they had followed with varying degrees of commitment during the 1960s and early 1970s. The expansion of social programs was halted. Instead, the goal of economic policy became one of restraining government spending and containing inflation. National income was to be redistributed from wages to corporate profits to provide business with the investment capital it required to rebuild the economy.

In 1975, three major policy changes occurred at the federal level. First, Finance Minister John Turner introduced a strongly pro-business budget on June 23. It included major new corporate tax breaks and commitment to hold the future growth of government to a rate below the overall growth rate of the economy. More than \$1 billion in planned public expenditures were slashed as the initial part of this commitment.

Second, the federal Liberals were converted to the monetarist approach advocated by Gerald Bouey and the Bank of Canada. Accordingly, they began to place more and more reliance on controlling the money supply and maintaining interest rates at or above those in the U.S.

Third, the federal government launched a major attack against workers by introducing the Anti-Inflation Board (AIB) on October 13. The AIB restricted wage increases over a three-year period to 8, 6 and 4 per cent. According to a Conference Board study, the AIB succeeded in reducing wage settlements by 7.7 per cent in the 1975-1978 period. This represented an average loss in income for ordinary workers of \$20.61 per week and resulted in a major shift in national income from wages to profits in the 1977 to 1980 period.

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**TABLE 8**

**Shares of National Income  
1977 – 1980**

YEAR	LABOUR SHARE (Per Cent)	PROFIT SHARE (Per Cent)	INTEREST & MISCELLANEOUS INVESTMENT INCOME (Per Cent)	TOTAL PROFITS INTEREST & MISCELLANEOUS INVESTMENT INCOME (Per Cent)
1977	74.9	13.1	8.1	21.2
1978	73.7	14.2	8.7	22.9
1979	71.4	16.8	9.2	26.0
1980	71.4	16.4	9.7	26.1

**Source:** Statistics Canada, *National Income and Expenditure Accounts*, Cat. 13-001.

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In the period following the AIB, the shift towards more right-wing policies accelerated. New spending restrictions and public sector wage guidelines at provincial and federal levels were established. Collective bargaining in the federal public sector was attacked through the in-

roduction of new bargaining constraints such as Average Comparability of Total Compensation (ACTC). Back-to-work legislation was resorted to more and more frequently to undermine the effectiveness of public sector strikes and force down public sector wage settlements. Between October 1981 and October 1983, there were 17 separate pieces of legislation attacking public sector workers.<sup>5</sup> More recently, federal and provincial governments have used public sector wage controls and outright rollbacks of negotiated wage increases, as in Quebec, British Columbia and Ontario.

The attack on workers' incomes and the collective bargaining process was only one aspect of the adoption of restraint policies. Another was the reduction of funding for social and educational programs. In 1977, the federal Liberals re-negotiated their cost-sharing programs with the provincial governments to limit their financial obligations to fund medicare, post-secondary education and social services. This decision was a major step towards dismantling the welfare state.<sup>6</sup>

In terms of wider economic policy, the federal Liberals allowed unemployment to rise as a way of dampening consumer demand, in the hope that this would slow the rate of growth of price increases. Simultaneously, the Bank of Canada was allowed to tighten the money supply and raise interest rates.

The short-lived Conservative government of Joe Clark (1979-80) was even more committed to implementing major cutbacks in public and social spending.<sup>7</sup> One of the party's main campaign platforms was "privatization." The proposal of Finance Minister John Crosbie to sell off Petrocan, when combined with the huge price increases granted to the oil companies in the first budget, proved to be the undoing of the Clark government. The corporations had tried to grab too much, too quickly, for the Canadian public to accept.

The return of the Liberals in 1980 did not spell an end of the campaign to dismantle public and social services. While they had been elected on a platform that opposed Clark's policies, they quickly reverted to the restraint policies adopted in the mid-1970s. After the election it became increasingly clear that they still accepted the corporate view that the government's role in the economy should diminish over time. This was explicitly stated in Finance Minister Allan MacEachen's 1980 budget, in which the role of social spending was earmarked for future substantial cuts. In MacEachen's words:

As evidenced by its dominant share of total spending, Social Affairs represents a priority of the Government. However, the rate of growth in this area will be held below the rate of growth in total outlays. As indicated in the Budget, savings in this area will in part be realized in programs of federal contributions to areas under provincial jurisdiction and these savings will help finance new initiatives in other areas.<sup>8</sup>

The federal government's intention to shift resources away from social and public services and towards greater support for corporate interests was restated in the November 1981 budget.<sup>9</sup> Social affairs spending over the next five years was to be kept significantly below the

rate of growth of government expenditures.<sup>10</sup> And these expenditures, in turn, were to be kept below the growth of the economy as a whole.

The 1981 budget also lowered the tax rates paid by the highest income groups from 62 per cent to 50 per cent, expanded the funding available to private corporations under the guise of "economic development," and imposed new taxes on such employee benefits as extended health care plans and dental plans. (The latter were eventually dropped.)<sup>11</sup>

The June 1982 budget went even further in its attempt to placate corporate demands. Bill C-124 effectively abolished collective bargaining in the public sector for two years, while limiting wage increases to 6 per cent in the first year of the program and 5 per cent in the second.<sup>12</sup> Indexation of old-age pensions (OAP) was limited to the same 6 and 5 per cent guidelines. Personal income tax was de-indexed according to the same formula. Even family allowances were cut back. The end result was that the level of income tax paid by wage and salary earners increased at precisely the same time that the social services they used were decreased.

In contrast, the same budget gave investors a major tax break in the form of proposals to index, fully, interest income (through a new term deposit scheme), and capital gains (through a Registered Shareholder Investment Plan).<sup>13</sup> At the time it was estimated by the Department of Finance that these two tax breaks would shift \$875 million from government to investors in 1983, and over \$2.8 billion in 1984.

The April 1983 budget, introduced by newly appointed federal Finance Minister Marc Lalonde, carried the process a step further. A four-year, \$4.6 billion "special recovery program" was introduced. It provided new tax incentives, subsidies and public capital spending projects "to improve the financial position, growth prospects and job creation capacity of the private sector."<sup>14</sup> Business was given \$905 million in tax cuts in 1983-84 and \$955 million in 1984-85. It also received a \$270 million boost for private sector research and development over a four-year period.<sup>15</sup> And \$2.2 billion in public investment was approved specifically to shore up the economic infrastructure needed by business to operate profitably in the future.

At the same time, new (and more regressive) taxes were imposed on working Canadians. The \$100 standard medical and charitable income tax deduction was abolished, and the regressive federal sales tax was increased by 1 per cent, starting in 1984. Virtually nothing was done to create jobs for the 1.5 million officially unemployed. And further cuts in social programs and transfers to the provinces were earmarked in the long-term budget forecast.

At the provincial level in 1983, the same pattern of economic policies was also seen. Taxation became more regressive, and social programs were cut back.<sup>16</sup> Wage controls, and in some provinces wage rollbacks, were imposed.<sup>17</sup> Incentives for business were increased, while corporate taxation was reduced or eliminated. In short, the federal and provincial governments have been implementing the business "solution" to our economic malaise for almost a decade. Yet the economic crisis shows no signs of abating.

Prime Minister Pierre Trudeau, in his June 28, 1983 address to the nation, optimistically claimed that the long-awaited recovery was already under way. The reality is something different. The underlying structural weaknesses of the economy remain. With real unemployment at over 2 million, investment dramatically down and our manufacturing industry collapsing, it seems hardly appropriate to claim that our economic problems are rapidly disappearing.

Thus the question remains: why is Canada's economy still in a mess? What are the real sources of our economic malaise? The answers to these questions are essential if we are to understand how we got into the present mess and what we must do to get out of it.

## **Is the Corporate Diagnosis of Our Economic Malaise Sound?**

As we have seen, business interests, with the support of a small army of right-wing economists, have been able to persuade a substantial portion of the public that government is to blame for our economic ills. More importantly, since 1975, federal and provincial governments have been following policies which largely correspond to right-wing objectives. Yet it is highly questionable whether the reasons for our present economic woes are to be found in the government sector. A more critical analysis suggests that the crisis flows from the contradictions inherent in the free enterprise, or capitalist, system itself.

This view gains support when we look at what is happening internationally, when we study the fluctuations in the business cycle over the past hundred years, and when we examine, in greater detail, the actual policies followed by the Canadian government during the last two decades.

At the international level, it is clear that all the major industrialized countries are experiencing the same kinds of economic problems. The list includes Japan, West Germany, Great Britain, France, Italy, Sweden, Belgium, Holland, Denmark and the United States. Inflation, poor economic growth, rising unemployment, high interest rates, low levels of investment, and falling or stagnant living standards are to be found throughout the Western World. Canada's problems are integrally connected with those of the other major industrialized countries.

None of the governments concerned, whether social democratic (as in Sweden and France), or conservative (as in Britain and the U.S.), has found a ready-made solution to these serious economic difficulties.<sup>18</sup> This suggests that the problem is not simply caused by the growth of the public sector in Canada, but is related to the wider international economic system. The protracted international crisis clearly has had a profound impact on the Canadian economy.

It might be argued that Canada's problems are particularly serious because government in Canada absorbs a higher share of GNP than its counterparts elsewhere. Indeed, as suggested earlier, business interests do assert that the relatively large role played by the government in the economy is responsible for Canada's economic crisis.

Yet the size of the public sector in Canada is smaller than that of most other western industrialized countries.

The following table gives the share of government spending in the major Organization for Economic Cooperation and Development (OECD) countries during 1981.

**TABLE 9**  
**Total Government Spending As a**  
**Percentage of Total Gross**  
**Domestic Product – Selected O.E.C.D. Countries**  
**(1981)**

COUNTRY	1981 (per cent)
United States	35.4
Japan	34.0
Germany	49.3
France	48.9
United Kingdom	47.3
Italy	50.8
Canada	41.4
Austria	50.0
Belgium	56.1
Denmark	59.0
Finland	39.2
Greece	36.0
Netherlands	61.5
Norway	48.1
Spain	32.6 (1980)
Sweden	65.3
Switzerland	28.1
Australia	34.4
<b>Average of All</b>	
<b>OECD Countries (unweighted)</b>	<b>45.4</b>

Source: OECD *Economic Outlook*, No. 33, Paris: July, 1983, p. 165.

The table reveals that the size of the government sector in Canada in 1981, was *less* than the average of the 13 OECD countries. Only Australia, Japan and the U.S. had smaller government sectors. Austria, Denmark, France, Germany, Italy, the Netherlands, Norway, Sweden and the United Kingdom all had larger public sectors. In fact, the government share in the Swedish economy was 65.3 per cent, or almost half again as large as that in Canada. So there is nothing unique or peculiar about the role played by government in the Canadian economy, at least in comparison with other industrial countries.

The present world recession has not singled out those countries with a high share of government involvement in their economies for particularly harsh treatment. It is enlightening to compare the U.S., which has the third lowest government sector, with Sweden, which has the highest. The U.S. recession has been as severe as Sweden's, inflation has not been significantly lower, and unemployment is far worse. The U.S. has had official unemployment rates of between 6 per cent and 10 per cent over the 1976-81 period. The rate was about 10 per cent in 1982 and 9 per cent in 1983. It is expected to hold at 9 per cent in 1984. In contrast, unemployment in Sweden has fluctuated around 2 to 3 1/2 per cent. And real wages in Sweden remain far higher than in the U.S., despite social services that are far more extensive. It is a sobering fact that according to the U.S. Bureau of Labour Statistics, the average real wage for workers in the U.S. is now *lower* than it was in 1962. Low government spending is no guarantee of high living standards.

International comparisons can, of course, be misleading. Countries differ in many ways that are not easily reduced to numbers. They have different histories, different social traditions, different resources and different trade patterns. However, it is useful to recognize that there is no clear-cut international evidence which demonstrates that the size of the government sector, *per se*, is necessarily the cause of the economic crisis that Canada now faces.

## **The Size of the Public Sector in the Canadian Economy**

The impact of the public sector in the economy can also be assessed by the number of workers it employs. In January 1984 there were 1,959,000 workers in government services. This figure includes federal, provincial and municipal levels of government, all Crown corporations and all public agencies funded or owned by different levels of government.

There are various ways in which the number of public sector workers can be compared to the overall labour force. For example, we can assess employment in the public sector in relation to the number of employed, paid workers in the economy. In January 1984, this total was 9,334,000. Thus the 1,959,000 public sector workers represented 21.0 per cent of the employed paid labour force.

Another approach would be to compare public sector employment to the total number of paid workers, both employed and unemployed. This figure was 10,670,000 in January 1984. Using this comparison, the public sector represented 18.4 per cent of the paid labour force.

The preceding labour force figures do not include small employers or the self-employed. When these workers are added along with those working in agriculture, Canada's labour force amounts to 10,443,000 excluding the unemployed, and 11,916,000 including all workers. Public sector employment represented 18.8 per cent of the former figure and 16.4 per cent of the latter. The following table summarizes these calculations.

TABLE 10

**Public Sector  
Employment as a Proportion  
of the Labour Force  
(January, 1984)**

LABOUR FORCE CATEGORY	NUMBER (thousands)	PUBLIC SECTOR (thousands)	PUBLIC SECTOR AS A PERCENT OF LABOUR FORCE CATEGORY
Paid Workers (employed only)	9,334	1,959	21.0
Paid Workers (total)	10,670	1,959	18.4
All Workers (excluding unemployed)	10,443	1,959	18.8
All Workers	11,916	1,959	16.4

**Source:** Statistics Canada, *The Labour Force*. Cat. 71-001.

The preceding figures do little to substantiate the claim that the public sector has gobbled up the economy and squeezed out the private sector. By the broadest definition of who should be included in the public sector and the narrowest definition of the labour force, employment in government services represented barely one fifth of total employment. And, using other wider definitions of the labour force, the percentage of workers in the public sector is substantially smaller.

It should also be remembered that most government services are highly labour intensive. The amount of capital invested per worker is smaller than in manufacturing, mining, resources and other areas of the economy. For this reason, it is to be expected that the number of

workers would be greater than in other sectors of the economy in relation to the level of investment and amount of resources consumed. Thus the real impact of government on the economy is even less than the preceding figures suggest.

This leads us to another way to assess the size of government in the economy. That is the amount of capital investment which it absorbs. In 1982, total investment in the Canadian economy according to Statistics Canada was \$111.9 billion. Of this, \$10.6 billion was accounted for by government departments. This represented 9.5 per cent of overall capital investment.

Moreover, government capital investment has fallen as a proportion of total investment in the economy over the past two decades, as table 11 (following page) illustrates.

The preceding figures on the share of employment and share of investment by the public sector in the Canadian economy underline the fact that the role of government is far more modest than widely assumed. Nor is there any indication that this role has changed significantly in the past decade despite assertions by the business community that the public sector is taking over the economy.

## **The Role of the Public Sector in a Mixed Economy**

Attacks on government spending that focus solely on the size of the public sector reveal little understanding of the many ways in which the private sector is assisted by public spending.

First, government establishes the economic infrastructure required to allow business firms to operate profitably. Second, it provides a large market for the products and services of the private sector. Third, it provides needed research for the private sector. Fourth, government absorbs the costs of educating and training the labour force. Fifth, it provides a wide range of services to assist the corporate sector, such as export loan guarantees. Sixth, government subsidizes many corporations directly through literally hundreds of different assistance programs. Seventh, government frequently provides risk or venture capital for private firms, thereby absorbing the risks associated with new products or industries. At the same time, government allows the private sector to make profits if the products succeed. Eighth, government absorbs the costs of many employee benefits and related services, such as health care, that employers would otherwise have to pay. Ninth, government provides a wide range of police, fire and other security services that protect the assets of the private sector. Tenth, government provides a framework of legislation which regulates industrial relations and assists employers in managing their workforces.

Several of the preceding points merit further elaboration. Government support for the economic infrastructure, for instance, is one of the key methods of fostering private sector development. State spending on roads, electrical utilities, pipelines, water and sewage systems,

**TABLE 11**  
**Public and Private Investment in Canada**  
**(1960 – 1982)**

YEAR	CAPITAL EXPENDITURE OF GOVERNMENT DEPARTMENTS (thousands of dollars)	TOTAL PUBLIC AND PRIVATE CAPITAL EXPENDITURE	GOV'T CAPITAL EXPENDITURE AS A PER CENT OF TOTAL CAPITAL EXPENDITURE
1960	1,657	11,354	15.0
1961	1,627	11,313	14.4
1962	1,646	11,930	13.8
1963	1,675	12,754	13.1
1964	1,862	14,612	12.7
1965	2,110	16,862	12.5
1966	2,450	19,455	12.6
1967	2,519	20,048	12.6
1968	2,513	20,473	12.3
1969	2,696	22,190	12.1
1970	2,793	23,465	11.9
1971	3,334	26,244	12.7
1972	3,663	28,792	12.7
1973	4,080	34,226	11.9
1974	5,121	42,072	12.2
1975	5,917	48,371	12.2
1976	6,007	55,411	10.8
1977	6,598	59,767	11.0
1978	6,990	65,055	10.7
1979	7,387	75,328	9.8
1980	8,210	85,911	9.6
1981	9,417	100,456	9.3
1982	10,606	111,930	9.5

**Source:** Statistics Canada and Department of Industry, Trade and Commerce, *Private and Public Investment in Canada*, occasional, cat. 61-504; Statistics Canada and Department of Industry, Trade and Commerce, *Private and Public Investment in Canada*, annual, cat. 61-206.3

land servicing, airports and a wide range of other facilities is necessary for private corporations to produce and market their goods efficiently. A significant reduction in spending on these services would have the long-term effect of lowering the overall level of efficiency and profitability in the economy. If roads, railways, and port facilities deteriorate, transport costs rise dramatically. This in turn pushes up the selling price of goods. Firms dependent on inefficient transport are less able to compete.

Similarly, if adequate government funds were not allocated to airport construction and to the development of sophisticated air traffic control systems, the growth – and profitability – of private sector aviation would be restricted. Over 70 per cent of all airline travel relates to business. Government subsidies to aviation are actually subsidies to virtually all business firms.

To give another illustration, electric utilities in Canada are almost entirely under public ownership, thereby adding to the size of the public sector as a whole.<sup>19</sup> Yet these utilities supply the power needed by private industry, and provide it at rates that are generally lower than private sector utilities south of the border. The availability of cheap electrical power has been used by a number of provinces as a major selling point in their attempts to attract private investment.

Public ownership of electric utilities has not been a burden on business.<sup>20</sup> Rather, the public has provided the enormous amounts of risk capital needed for these investments while the corporate sector has benefitted substantially from being able to purchase cheap power.

Another example of public support for private firms can be found in the resource sector. Federal and provincial governments normally provide the infrastructure of new roads, power supplies, port facilities, railways and many other services needed to open up new mines or forest resources. The B.C. government is currently spending hundreds of millions of dollars to provide public facilities for the northeast B.C. coal development project. Up to \$1 billion in public money may be spent on this infrastructure to assist the mining companies. Indeed, virtually every resource development project undertaken by private companies involves substantial amounts of new public investment – investment which directly contributes to the profitability of the corporations concerned. Yet such investment also raises government spending and increases the share of government in the overall economy.

The same arguments apply to a wide range of other services. While the corporate sector vigorously attacks government spending, it takes for granted the public sector infrastructure which facilitates its profit-making activities.

Critics of the size of government also ignore the direct and indirect effects of public expenditure in providing a market for private sector goods and services. The volume of private sector products purchased by all levels of government is enormous. In many industries, such as defence, government is the only purchaser.

Nor do critics take into account the impact of government spending in raising the overall level of demand within the economy. Such spending stimulates economic growth. The dramatic expansion of all the major economies of the West can be attributed, in large part, to the impact of public demand for a wide range of goods and services.

Even spending on social, educational and health services has considerable benefit for the private sector. A well-educated and technically trained labour force facilitates efficient production and ensures that the skills required by business are available. An educated labour force is a valuable asset to business, especially in a rapidly changing technological environment. And it is government that pays the costs of this training.

By providing basic medical and hospital services, governments ensure that absenteeism caused by sickness is reduced. And a healthy labour force is more productive. Moreover, by providing public health care, governments reduce the direct costs to corporations of private health insurance schemes. Health-related benefit costs are far less for Canadian employers than for their U.S. counterparts. Indeed, the Canadian health care system is considerably more efficient and uses significantly less of the nation's total resources than its U.S. counterpart, even though the latter is largely private. (See Chapter 6.)

There are other reasons why the size of the public sector is not a very useful guide to a country's economic efficiency. Aggregate figures conceal the specific activities the public sector is engaged in. They do not tell us how well (or badly) public sector services and industries are being run. And they do not tell us how much of the surplus generated by public sector enterprises is being used to subsidize the private sector through lower prices for services used by business.

In short, government expenditures assist the private sector, both directly and indirectly, in numerous ways. Far from being a non-productive burden on the private sector "engine" of production, public enterprises and services absorb many of the expenses which otherwise would have to be paid by private corporations as part of their cost of production.

The preceding considerations suggest that there is no obvious correlation between the size of government and the stifling of private industry, despite the latter's cries to the contrary. Indeed, it could just as logically be argued that a larger government sector, depending on how its funds were allocated, would enhance, rather than hamper, the development of the private sector.

This is not to suggest that the corporations are acting irrationally or against their economic interest when they attack government spending and demand cuts in certain government programs. From the perspective of the corporations, governments are providing too many services to ordinary Canadians and not enough to business. Underlying the attack on "big government" is a desire to *re-direct* the activities of government. That the causes of our current economic crisis are being wrongly attributed to government does not alter the fact that the corporations are benefitting enormously from the policies now being implemented.

## Government Intervention and the Business Cycle

Business interests have long claimed that government economic mismanagement has precipitated the current crisis. Yet if we look briefly at the history of capitalism from the eighteenth century to the present, we find that recessions and depressions have occurred regularly. Following a definite historical pattern, referred to as the business cycle, the system has lurched from crises of over-production to crises of massive unemployment and bankruptcies. Then it starts all over again.<sup>21</sup>

The current crisis must therefore be seen in its historical context. It is not a new phenomenon of the free enterprise system, but a recurrence of the pattern of boom and bust that has existed for several centuries. Moreover, this pattern was apparent long before government began regulating the economy in any significant way. To blame government indiscriminately for our present economic problems, while ignoring the fact that such problems are an integral part of the cycle of capitalist development, is to mistake cause for effect.

One of the basic reasons for government economic regulation in the post-war period was to control the excesses of the business cycle that had led to the Great Depression. To put it more bluntly, government intervention, through both fiscal and monetary policy, was necessary to save the capitalist system from its own excesses. The business interests and conservative economists who are now pushing for less government regulation have a conveniently short memory. Government did not cause the stock market crash of 1929; nor was it responsible for the ensuing depression. Furthermore, it was not the market that ended the Great Depression, but the fiscal policies of Roosevelt and (more importantly), the stimulative effect of government spending as the Second World War began.

History shows that the absence of government intervention is no guarantee that the economy will function smoothly. Quite the contrary: the period since the Second World War has been unprecedented in terms of the length of time during which economic growth advanced without a major depression. This was partly due to the use of Keynesian economic policies and the high level of U.S. government spending on defence. Perhaps most significantly, the period reflected the ability of one government, the U.S., to control and stabilize the international economic system.

This is not to suggest that we can deal with our present crisis simply by returning to the policies of the 1950s and 1960s. But a return to the policies of the 1920s is no answer either. While it is true that the Keynesian solution is exhausted, the reason is not the excessive growth of government, but rather the way in which the capitalist system has developed in recent years. Its basic contradictions have given rise to new pressures, both national and international, which are beyond the ability of national governments to control with conventional fiscal and monetary policies.

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To put this another way, the problem is not that government has become excessively large. Rather, the cyclical tendencies of the capitalist system have again become unmanageable. Increasingly, the private decisions of multinational corporations are beyond the ability of any government to control. Fiscal measures that could influence the behaviour of business in the past are now ineffective. Today, the corporations have the power to evade such measures or inflict significant retribution against governments attempting to impose them.

Basic decisions concerning the level and direction of investment are increasingly controlled by multinational corporations in conjunction with the banking and international financial systems. These companies view the *world* as their sphere of operations. Consequently, both federal and provincial governments in Canada, at the expense of national economic planning, are being pressured to adopt policies favourable to the multinationals.

If governments fail to provide tax concessions, grants, subsidies and other assistance demanded by business, the corporations can—and do—turn off the investment tap. With the growing internationalization of the system, it has become much easier for corporations to transfer capital and production to other countries, especially in the Third World, if they do not get their way.<sup>22</sup> Increasingly, federal and provincial governments find themselves in competition with each other, and with foreign governments, in their attempts to attract capital. Under such conditions, it becomes extremely difficult for them to impose the kinds of controls on corporate behaviour that are necessary to regulate the economic system effectively and deal with economic problems faced by the country as a whole.

For example, if governments attempt to control inflation by placing curbs on monopoly pricing practices, they face retaliation from the corporations whose profits are threatened. An investment strike, with all its implications for unemployment and growth, is a very effective method to bring governments to heel.

Moreover, where federal or provincial governments have attempted to take even minor steps to stop the corrosive effect of foreign control on domestic industry and Canadian jobs, they have quickly discovered that the multinational corporations are able to inflict devastating hardship on the economy in their determination to force governments to retreat. A vivid example was the aggressive lobby by the oil companies and other large corporations that prompted the federal government to soften the “Canadianization” and FIRA programs.

The reality of our present economic system, then, is not that government has too much control over the economy, but that it lacks the ability to direct economic development. This inability stems not from its incompetence or its inherent inefficiencies, but from its growing vulnerability to pressure from corporate interests.

Federal and provincial governments are now faced with two conflicting pressures. First, there are the increasing demands from business to establish a more favourable investment climate for private capital. Second, there are the continuing demands from ordinary

Canadians to maintain the many public services that were established during the 1960s and early 1970s. How can governments provide the cash and other assistance (which business is so anxious to obtain), and still be able to continue paying for these services?

Since the mid-1970s, the answer has been clear: social spending is to be sacrificed in favour of policies that will assist the corporate sector. Yet the decision to scuttle major social programs could not be sold to the working people of Canada on the basis of simply assisting business. Rather, a wider justification was required. This was found in the fight against inflation.

## **Abandoning Keynes: The War Against Inflation**

In the 1950s and 1960s, both federal and provincial governments were able to boost spending during recessions without being overly concerned with the impact on price increases. However, by the early 1970s, the system had spawned a number of serious inflationary tendencies. Monopoly pricing practices, rising energy costs, increasing world commodity prices, the devaluation of the U.S. dollar (and therefore the Canadian dollar), and increasing interest rates all worked together to accelerate the rate of price increases in Canada. Inflation became a major problem.

The additional inflationary costs of stimulating the economy began to pose a serious threat to the future of business in Canada. Government policies used in the 1950s and 1960s to deal with unemployment, slow growth and lack of investment, were now seen as policies which would fuel the inflationary pressures already at work and perhaps undermine the financial system itself.<sup>23</sup>

The federal government thus changed its economic priorities. "Social justice" was dropped from the political vocabulary. Terms such as "belt-tightening," "sacrifice" and "restraint" became fashionable.

Both federal and provincial governments repeatedly voiced their commitment to reducing inflation. But they deliberately refused to adopt measures necessary to get at the root of the inflationary pressures in the economy. Such measures would challenge the vested corporate interests that were primarily responsible for raising prices in the first place. The control of prices and profits was ruled out because it would have undermined the "favourable investment climate" for private capital, which governments were determined to achieve. (In fact, price controls would have had the effect of redistributing national income from investors and shareholders to workers and consumers. It was rejected for precisely this reason.)<sup>24</sup>

The federal government's answer to its dilemma was predictable. It adopted policies designed to cut price increases indirectly – by raising interest rates, tightening the money supply, cutting public spending, allowing unemployment to rise, and imposing wage controls. In short, the government chose to fight inflation by deflating the economy.

Gerald Bouey, the Governor of the Bank of Canada, was encouraged to push up interest rates to levels unheard of in the post-war period. High interest rates may have had some effect in lowering price increases in the short term. But they did so by throttling the economy. They reduced the demand for goods and services, lowered investment, cut economic growth and increased unemployment. And they greatly aggravated the crisis in Canada's manufacturing industry.

A second policy tool used to control inflation, reducing government spending, has also contributed to our economic problems. By lowering public spending, governments have lowered demand in the economy. This has led to lower sales and, inevitably, less production. In turn, this has resulted in more layoffs, both of public sector workers directly hit by spending cuts and private sector workers whose products are no longer in demand.

Cuts in public spending also have the long-term effect of reducing the overall level of efficiency in the entire economy. For example, if our transportation network of roads, railways and airports is allowed to deteriorate, the costs of moving goods will increase sharply. Similarly, if training programs are cut, skilled labour shortages will create bottlenecks and impede efficient production.

A third technique used to combat inflation has been to allow the unemployment rate to rise. This reduces demand directly. The unemployed are no longer able to buy goods and services. Widespread fear and insecurity allow private sector employers to lower wages and reorganize production. High unemployment undermines the power of unions and enhances the authority of management.

Wage controls have been a fourth policy advocated by business, and implemented by government, to control prices. Wage controls operate indirectly by reducing the costs of production. Theoretically, these reduced costs would be passed on to the consumers in the form of lower prices. In practice, much of the cost-saving was simply transferred to higher profits, especially in areas of the economy where monopoly pricing practices existed or in areas where prices were set in the international market.

From the viewpoint of governments and business, wage controls were a "success." Workers' real incomes have fallen by approximately 7 per cent during the past five years, and are likely to fall much further in the next two years. Although the rate of increase of the Consumer Price Index (CPI) has gone down, wage increases have gone down even faster. The CPI has remained above the level of wage increases because wage increases are a response to the inflationary tendencies inherent in the system, rather than a cause of these tendencies.

Ironically, inflation only became a major problem during the 1970s, when real wage increases were slowing down or actually falling. Inflation began decreasing in early 1983, largely because of rampant unemployment, the declining U.S. inflation rate, the fall in international prices, and the slump in food prices. The Liberal government tried to credit its "6 and 5" wage controls program for the decline in prices, but the evidence suggests otherwise.

The factors causing inflation are not wage increases, as the corporate sector alleges. Rather, inflation stems from the basic characteristics of the economic system. It is built into the way our economy now operates, both domestically and internationally. This fact was acknowledged in a secret Department of Finance document leaked to the NDP in the spring of 1981. The document made it clear that wage demands resulted from rising prices and were an effort by workers to keep up with such increases. The Department of Finance recognized that such factors as energy, commodity and food prices, along with the exchange rate, were at the root of inflation. Yet the only action the federal government implemented was the control of incomes.

This is not to suggest that wage increases do not respond to other inflationary pressures. Workers naturally wish to see their incomes keep up with rising prices, and they formulate wage demands that are designed to protect their real standard of living. Yet this is quite different from being the cause of inflation.<sup>25</sup>

## **International Wage Comparisons and Canada's Competitive Position**

The corporate sector has also argued that another reason for our economic mess is that Canadian workers have been pricing themselves out of world markets through excessive wage increases. However, the figures do not bear this out. In 1970, Canadian workers had the second highest wage rates in the world, according to the U.S. Bureau of Labour Statistics. Since that time, the gap between our wage rates and those of our major competitors has fallen dramatically. In 1981, we were behind manufacturing wage rates in the U.S., Belgium, West Germany, Japan and Sweden. In 1982, due to the sharp increase in the U.S. dollar, and the Canadian government's policy of not allowing our dollar to fall below 80 per cent of the value of the U.S. dollar, Canadian wage rates increased in comparison to other developed countries. However, even taking into account an over-valued U.S. dollar, our wage rates remain competitive with those of our major trading partners. Moreover, when we examine the percentage increase from 1970 to 1982, we find that Canadian wage rates rose at the second lowest rate of any of the major industrialized countries.

The claim that Canadian workers have priced themselves out of world markets is simply not true in relation to our major western competitors. Consequently, policies designed to lower real incomes even further in Canada do not confront the true sources of our international economic difficulties. As we shall see in a further chapter, the reasons for the decline in our international industrial competitive-

**TABLE 12**  
**Hourly Compensation for**  
**Manufacturing Workers (in U.S. dollars)**

	1970	1975	1981	1982	Growth 1970-82 (Per Cent)
United States	4.18	6.35	11.06	11.79	182.1
Canada	3.46	6.11	9.86	10.77	211.3
Japan	0.99	3.05	6.23	5.82	487.9
Belgium	2.07	6.60	11.13	9.31	349.8
France	1.74	4.63	8.28	8.15	368.4
West Germany	9.35	6.24	10.47	10.43	343.8
Italy	1.76	4.65	7.59	7.39	319.9
Netherlands	2.14	6.60	10.25	9.93	364.0
Sweden	2.93	7.18	11.18	10.33	252.6
Britain	1.48	3.27	7.43	6.67	350.7

**Source:** U.S. Bureau of Labour, *Bureau of Labour Statistics*, Office of Productivity and Technology.

ness, along with our huge balance of payments deficit, are very different from those advanced by the business community.

Although it can be demonstrated that rising Canadian labour costs are not a major cause of our economic difficulties, this has not prevented corporations and governments from using the high labour cost argument to press for policies designed to lower real wages. As with the arguments associated with inflation, the underlying purpose is to transfer income from workers to investors and assist business in restructuring its operations.

There has also been a constant barrage of publicity suggesting that public sector wages are higher than those in the private sector. This, too, is not the case. The secret Department of Finance document dealing with wage controls (referred to earlier in this chapter) revealed that 68 per cent of workers in the federal public sector were earning *less* than workers in the private sector performing the same jobs. And it pointed out that 43 per cent of them would require a catch-up wage increase of more than 10 per cent just to break even.<sup>26</sup>

With the exception of 1982, wage increases in the public sector have been lower, on average, than those in the private sector every year since 1977. This is borne out by statistics from Labour Canada on wage settlements without COLA clauses (the only reasonable basis of comparison, since COLA clauses in the private sector are very different from those in the public sector). The following table shows this quite clearly.

TABLE 13

**Average Annual Percentage Increases in Base Rates for  
New Settlements, *Without a COLA clause\****

YEAR	PRIVATE SECTOR	PUBLIC SECTOR	DIFFERENTIAL
1977	8.0	7.8	-0.2
1978	7.7	6.7	-1.0
1979	9.5	8.2	-1.3
1980	11.5	10.9	-0.6
1981	13.9	13.1	-0.8
1982	9.6	10.2	0.6
1983 (1st quarter)	6.0	6.5	0.5
(2nd quarter)	6.1	5.9	-0.2
(3rd quarter)	6.1	5.6	-0.5

**Source:** Labour Canada, as cited in Statistics Canada, *Current Economic Analysis*  
Cat: 13-004 E.

\*Covering all Collective Bargaining Units of 500 or More Employees

The preceding figures show that wage increases in the public sector have not been excessive when compared with those in the private sector. They also show how government wage control policies have discriminated against public sector workers in recent years.

## The Corporate Logic Behind Controls

Governments have realized that by keeping wage increases below the rate of inflation, and thereby lowering workers' real living standards, they can depress consumption. As demand falls, this can have some influence on prices. In other words, although the root causes of inflation lay elsewhere, governments can use wage controls (and unemployment) to influence price levels to some degree. Rather than adopting policies which would force the corporate sector to curb its inflationary practices, governments have chosen to shift the costs of fighting inflation entirely to workers.

Another reason the fight against inflation has been given such prominence is that it provides justification for a wide range of other

regressive policies. In defining inflation as a key problem, both the corporate sector and the government have managed to defer other social and economic concerns. The fight against inflation has provided a justification for ignoring other economic problems such as unemployment, poverty, falling living standards, inequality, low pay, and sex discrimination at the workplace.

Business has created a new, and perverse, way of looking at economic progress. Increases in the real standard of living of Canadians are now considered bad. Reductions are considered good. Improvements in services are viewed as bad, while cutting the social wage is good. The success of government policies is now being defined by how effectively they keep the wages of workers down, not by how well they promote improved living standards. Orwellian double-think has become the basic premise of government economic policy.

The attractiveness of current anti-inflation policies is clear for business interests, which do not pay the costs of anti-inflation measures, yet receive significant benefits from them. The corporate sector recognizes that the basic questions are: who pays and who benefits from anti-inflation policies? It has long known the answer: workers pay and corporations profit.

It should be noted that the logic of the corporate strategy is to follow what has occurred historically during depressions. Previous depressions have performed a necessary function from the viewpoint of the cycle of capitalist development. By creating mass unemployment, depressions dramatically lower real wages. By lessening demand and forcing markets to contract, depressions facilitate a basic reorganization of production, squeezing out the marginal firms and allowing the bigger, stronger corporations to consolidate their control over markets. This, in turn, lays the foundation for future profitability.

Governments are being pressured to assist the corporate sector in using the economic recession to restructure and retrench. This means that many small companies will go to the wall. It also means, in the short term, that there will be reductions in the profits of many other companies. However, corporate interests believe that the costs they are now bearing as part of the recession are worthwhile because they will result in major changes in the organization of the economy – changes which, in the long run, are highly beneficial to the larger corporations. Union organization will be undermined, labour costs will drop dramatically, business taxes will be significantly reduced, and the fear of unemployment will make employees accept harsher work discipline and regressive changes in working conditions.

On the surface, it may seem paradoxical that business interests have advocated policies which have tended to push the country closer to a depression. However, there is an underlying logic to their position. The regressive policies now being pushed by business are designed to ensure that the larger corporations are allowed to consolidate and reorganize their operations. They are to ensure that impediments to higher profitability in the future are dispatched as quickly and effectively as possible.

## The Social Costs of the Business Remedy

As the preceding suggests, there are major costs associated with the business "remedy" to our economic problems. Vital public and social services are being permanently dismantled as part of governments' attempt to bail out the private sector. Since the Second World War, as a result of pressure from working people, both provincial and federal governments have established a number of important public services. These include universal hospital insurance, medicare, social services, improved educational facilities, comprehensive municipal services, day care centres and many others. Governments have also been successfully pressured to implement a comprehensive system of transfer payments, including the Canada Pension Plan, unemployment insurance, disability payments, social assistance, welfare, and family allowances. These services and transfer payments constitute the "social wage." They have the same impact in raising the standard of living of working people as increases in take-home pay. Indeed, if these services were cut, workers would either have to replace them from their own incomes through the purchase of private plans, or do without them entirely.

What we now face is a systematic program designed to dismantle many of our basic social services. The business community wants to roll back the clock. It wants to abolish the welfare state.<sup>27</sup> This would enable it to pass on even more of the costs of the economic crisis to working people in the form of lower standards of living, poorer services and little or no public assistance for the unemployed, the elderly, single parents, the disabled, and a wide range of others who bear a disproportionate burden as a result of the crisis.<sup>28</sup>

Once certain basic public and social services (such as medicare, hospital insurance and the like) are dismantled, it will be extremely difficult to restore them because of the changed economic climate of the 1980s. We are not likely to see again the kind of expansionary economy of the 1960s, when it was assumed that we could afford, at the same time, both improved welfare services and expanding corporate profits.

The private sector has demonstrated its inability to deal effectively with our growing economic problems. The only solution it offers is to make ordinary Canadians pay more and more of the costs of the crisis. Yet, ironically, there is absolutely no guarantee that the corporate solution will work – at least from the viewpoint of the majority of ordinary Canadians. Rather, the deflationary and regressive policies the corporate sector is promoting are deepening the recession and lengthening the unemployment queues.

If we continue to follow the remedies suggested by business, we will find ourselves drawn into a downward spiral of lower demand, reduced investment, fewer jobs and falling living standards. The corporate solution of purging the system of public sector programs may result in a depression comparable to the 1930s. Business interests may indeed feel that this is the only way to squeeze inflation out of the system. But the costs to ordinary Canadians of throttling the economy are (and will continue to be) enormous.

## CHAPTER 3

# The Underlying Causes of Canada's Economic Crisis

### The Impact of the International Economic Crisis

**I**f the growth of the public sector and the wage increases of ordinary Canadians are not at the root of the present economic crisis, what are the basic causes of inflation, high interest rates, economic stagnation and rising unemployment? The answer can be found by examining the underlying structure of our economic system.

Many of the problems facing Canada are shared by other western private enterprise economies. In this sense, Canada's economic malaise is part of the wider crisis of the capitalist world. Any explanation that ignored these wider international developments would not be complete or credible.<sup>1</sup>

Since the mid-1960s, the international system based on private enterprise has began to unravel. To understand why, it is necessary to examine the history of the early post-war period. The Bretton Woods agreement of 1944, and the establishment of the International Monetary Fund at the end of the war, provided the economic stability needed for sustained long-term growth. This was further supported by the dominance of the U.S. economy and the U.S. dollar in international affairs. The existence of a capitalist country sufficiently large and influential to guide the system's development provided a key element in ensuring that the international business cycle was properly regulated.<sup>2</sup>

Technical advances made during the Second World War provided a key stimulus for the growth of productivity. The need for a major reconstruction of the European and Japanese economies provided markets for a wide range of capital goods. War savings in the victorious

countries, and especially the U.S., provided a large demand for consumer goods. Subsequently, the emergence of the Cold War provided a strong stimulus to the economies of the West through high government spending on arms. These factors combined to lay the basis for sustained growth.<sup>3</sup>

However, by the mid-1960s this system began to break down. U.S. military spending overseas led to huge balance of payments deficits, which ultimately resulted in the devaluation of the U.S. dollar and the abandonment of the price of gold at \$35 U.S. per ounce. However, before this occurred the U.S. had flooded the world with dollars. This fuelled the subsequent world-wide inflationary spiral.

The expansion of the economies of Western Europe and Japan gradually undermined the dominance of the U.S. in world production. Its share of manufacturing output fell from over 70 per cent in the late 1940s to 38.5 per cent by 1981. At the same time, multinational corporations and international financial institutions grew rapidly, thus shifting the centre of economic influence from the U.S. to a world level.

As the system became more international in scope, and less subject to the control of U.S. government decisions, it became increasingly difficult to regulate. The banks and corporations succeeded in placing themselves largely beyond the control of governments. International agencies (such as the International Monetary Fund and the World Bank) did not seriously attempt to control their activities. Consequently, they were permitted to make decisions which, in sum, began to generate more and more financial instability.<sup>4</sup>

In 1982, the financial system skated to the edge of insolvency as a result of high interest rates and the aggressive loan policies of private banks in the Third World. Although the crisis was averted (how close we came to massive bank failures no one really knows), new mechanisms for regulating the business cycle were not put in place.

Underlying this instability has been the gradual decline in profit rates in the major developed countries of the capitalist world. As a result, there has been a frenetic search for new investment opportunities by the banks and major corporations. The worldwide decline in profitability has precipitated more rapid and erratic movements of capital, increasing currency speculation and the transfer of a growing share of production to so-called "economic development" zones or "free trade" zones in Third World countries.

Yet none of these activities has succeeded in preventing a deepening worldwide crisis in the developed capitalist world. Rising interest rates, persistent inflation, economic stagnation, the flight of investment capital, and increasing unemployment face all the major industrialized countries to a greater or lesser extent. Canada is no exception. It too is caught up in this crisis.

The point is not simply that we are part of an international economic framework. It is that business interests in Canada—and the governments over which they have pervasive influence—have advocated policies which would keep us exposed and vulnerable to the fluctuating demands of the international system. Instead of attempting

to control our economy and direct its development, Canada's business interests have advocated that private capital, which increasingly means international capital, be given freer reign to determine the direction of our economic development.

The issue is not whether we can isolate ourselves from the international economic system. Formulated in this manner, the answer is clearly no. The real question is whether we can adopt measures which would enable us to defend and protect our economic interests more effectively from the adverse decisions of international banks and multinational corporations, and from the growing instability of the world economic system. The ascendancy of monetarism as the dominant policy of the federal government since 1975 has meant a reduction in attempts by government to control and direct our economic development.

The federal government these days is following a policy designed to allow the market to operate more freely. It is attempting to remove impediments to a more favourable (that is to say, *profitable*) investment climate for private capital. This strategy, however, has not produced the results promised by business and anticipated by governments. After almost a decade of fiscal restraint and monetarist economic policies, our economic position has deteriorated sharply, even in comparison with the other major western industrialized countries. In short, reliance on further integration into the international capitalist economy is a major cause of our economic crisis.

## **Concentration of Ownership and Control in the Private Sector**

While our growing integration into the international capitalist world is a major reason for the present economic crisis in Canada, there are other, more specific problems which also merit our attention.

Although we are continually being told that Canada has a "free market" economy which embodies widespread competition among firms, the reality is somewhat different. While competition does exist in certain sectors, the dominant pattern in the economy is towards oligopoly or monopoly, either by national firms or, increasingly, by multinational firms that control world production and marketing.<sup>5</sup>

The concentration of ownership in Canada, particularly in the resource and banking sector, has been increasing. This process has accelerated in recent years. In the three-year period between 1978 and the beginning of 1981, there were 69 major takeovers, involving more than \$6 billion in payments to shareholders.<sup>6</sup>

TABLE 14

### Change in Control of Major Canadian Corporations 1976-1980

CORPORATION SOLD	BUYER	YEAR
London Life	Brascan Ltd	1976
Imperial Life	La Laurentienne	1977
M. Loeb & Co	Provigo	1977
Unity Bank	Banque Provinciale	1977
Laurentide Financial Corp	Banque Provinciale	1978
Block Bros	Olympia & York	1978
Zellers	Hudson Bay	1978
Trans Canada Pipelines	Dome Petroleum	1978/79
Home Oil	Consumers' Gas	1979
Hudson Bay	The Woodridge Co	1979
Simpsons	Hudson Bay	1979
Commerce Capital Corp. B. Provinciale, Banque Canadienne Nationale	Eaton-Bay Financial Services	1979
Brascan	Banque Nationale du Canada	1979
Québecair	Edper Equities	1979
Crown Trust	M. Alfred Hamel et al	1979
Norcen Energy Resources	Canwest Capital Corp	1979
McLaren Power & Paper	Argus Corp	1980
Consumers' Home	Noranda Mines	1980
Hugh Russell	Hiram Walker	1980
Crown Life Insurance	York Steel Construction	1980
Allarco Developments	Extendicare	1980
Massey Ferguson	Carma Developers	1980
Calgary Power	Fonds de pension des employés	1980
McMillan Bloedell	Nu-West Development	1980
Domtar	B.C. Resource Investment	1980
Gaz Métropolitain	Caisse de dépôt, Québec	1980
Trust Général	Caisse de dépôt, Québec	1980
Les Prévoyants	Les Prévoyants	1980
Banque d'Épargne	La Laurentienne	1980
Hollinger Mines	La Laurentienne	1980
F.P. Publications	Argus Corp	1978/80
	Thomson Newspapers	1980

Source: *Financial Post*, weekly

*Financial Post Survey of Industrials, 1976/1980*, as compiled by Jorge Niosi, *The Economy of Canada: Who controls it?*, Montreal, Black Rose Books, 1982 (orig. pub. 1978), p. 2.

While the depth of 1982 recession and the liquidity problems of many private firms have slowed this process, the underlying thrust towards increasing concentration remains clear.

Monopolies or oligopolies are now dominant in many sectors of the Canadian economy. Monopolies generate inflation. Through their control of the market, monopolistic companies are able to increase prices without the threat of being undercut by competitors. And because many of these monopolies are foreign-controlled, profits created by Canadian workers leave the country, resulting in a critical loss of domestic investment funds.

**TABLE 15**  
**Corporate Concentration in Industrial Production**

INDUSTRY	SHIPMENTS FROM 4 BIGGEST ENTERPRISES 1980 (Per Cent)
Tobacco products	99.6
Breweries	99.0
Motor Vehicles	93.7
Aluminium rolling, casting	88.1
Iron Mines	86.7
Railway rolling stock	85.3
Thread mills	84.8
Cement	84.4
Fabric gloves	82.7
Lubricating oils & greases	82.2
Silver-lead-zinc mines	81.6
Electric wire & cable	80.2
Biscuits	79.9
Copper & Copper alloy rolling	79.3
Abrasives	79.1
Leather tanneries	78.6
Iron & steel mills	77.9
Steel pipe and tube mills	77.1
Coal mines	77.0
Major appliances	77.0
Aircraft & parts	75.0
Gold quartz mines	75.0

Source: *The Financial Post* 500, June, 1983, p. 34.

The *Financial Post* reported that, in 1979, the 200 largest companies in Canada controlled 69 per cent of total assets, received 72 per cent of total sales revenues, and absorbed 81 per cent of total profits.

In 1965, the 25 largest non-financial enterprises controlled 23.8 per cent of private sector assets and 10.4 per cent of sales. By 1978, the top 25 companies controlled 31.1 per cent of assets and 21.6 per cent of sales.<sup>7</sup> The flurry of mergers and takeovers in the 1978-81 period suggests that the preceding figures now substantially understate the real degree of corporate concentration in the Canadian economy.

The table on page 37 shows the percentage of total Canadian production by the four largest companies in various sectors of industry.

Perhaps the clearest example of the concentration of corporate power is found in the banking sector. In 1983, the five largest banks held 91 per cent of the total assets of all banks. This concentration of financial power is supported by the *Bank Act*, which has effectively limited competition in the banking field. The growth of the assets of the five major banks in recent years has been remarkable, as the following table illustrates.

TABLE 16

**Growth of Bank Assets  
1970 – 1983**

BANK	TOTAL ASSETS 1970 (Oct. 30) (\$ billions)	TOTAL ASSETS 1983 (Oct. 30) (\$ billions)	PER CENT CHANGE (1970 – 1983)
Royal	11.7	84.7	623.9
Commerce	10.7	68.1	536.5
Montreal	9.2	63.2	586.9
Nova Scotia	6.4	54.8	756.2
Toronto Dominion	5.7	42.5	645.6

**Source:** Bank of Canada; Parliamentary Standing Committee on Finance, Trade and Economic Affairs, *Bank Profits*; Tuesday, July 30th, 1982, p. 28; *Globe and Mail*, Toronto, December 14, 1983, p. B.8.

Bank assets now are approaching \$400 billion. They grew at the astonishing rate of 20.9 per cent per year over the decade from 1971 to 1981, according to the federal government's recent committee on bank profits. In 1982, asset growth stagnated temporarily as a result of the recession. However, the figures for 1983 indicate that assets are again increasing rapidly.

This concentration of financial power has enabled the banks to raise charges to customers and profit from high interest rates at the expense of workers and consumers. Between 1971 and 1983, the after-

tax profits of the Schedule "A" banks rose from \$278.3 million to \$1894.7 million, an increase of 580.8 per cent.

The following table gives the pre and post-tax profit increases of the major banks from 1971 to 1983.

**TABLE 17**  
**Profits and Tax Rates of**  
**Canadian Chartered Banks**  
**1971 – 1983**

YEARS ENDED OCTOBER 31	PRE TAX PROFITS	TAXES (\$ million)	AFTER TAX PROFITS	EFFECTIVE TAX RATE (Per Cent)
1971	556.0	277.7	278.3	49.9
1972	668.8	313.4	355.4	46.9
1973	778.5	376.5	402.0	48.4
1974	874.6	433.6	440.9	49.6
1975	1,234.3	591.0	663.3	44.7
1976	1,199.6	536.3	663.3	44.7
1977	1,243.0	512.4	730.6	41.2
1978	1,495.4	518.4	977.0	34.7
1979	1,346.5	227.2	1,119.2	16.9
1980	1,452.1	209.6	1,242.5	14.4
1981	2,178.8	458.5	1,720.0	21.1
1982	1,630.2	104.8	1,525.4	6.4
1983	2,721.0	826.3	1,894.7	30.4

**Source:** *Bank Profits*, report by the Parliamentary Standing Committee on Finance, Trade and Economic Affairs, *Bank Profits*, July 30, 1982, p. 112; Bank of Canada

While bank profits have skyrocketed, the percentage of profits paid in taxes has fallen in recent years. In 1971, the pre-tax profits of all the Canadian banks amounted to \$556.0 million. That same year, the banks paid \$277.0 million in taxes. This constituted an effective tax rate of 49.9 per cent. In 1982, pre-tax bank profits were \$1630.2 million, while taxes were 104.8 million. This constituted an effective tax rate of 6.4 per cent, which is considerably less than that paid by the average family in Canada. In 1983, the effective tax rate rose to 30.4 per cent, largely as a result of the dramatic increase in pre-tax profits that year. However, this tax rate is still significantly less than a decade earlier and is likely to decline again if the long-term trend continues. The following table shows the profit rates of the major banks in 1983.

**TABLE 18**  
**Pre and Post Tax Profits of**  
**Canada's Schedule "A" Banks**  
**1983 (October 30)**

BANK	PRE-TAX PROFIT ( & millions)	AFTER TAX PROFIT (\$ millions)	TAXES (\$ millions)	EFFECTIVE RATE OF TAX (per cent)
Royal	672.1	480.0	192.1	13.7
Commerce	481.8	314.9	166.9	34.6
Montreal	382.8	282.5	100.3	26.2
Nova Scotia	527.6	347.7	179.9	34.1
Toronto Dominion	482.2	325.5	157.0	32.5
<b>Total "Big Five"</b>	<b>2546.5</b>	<b>1750.3</b>	<b>796.2</b>	<b>31.3</b>
<b>Total All Schedule "A" Banks</b>	<b>2721.0</b>	<b>1894.7</b>	<b>826.3</b>	<b>30.4</b>

Source: Bank of Canada.

The real concern is not the excessive level of profits made by the shareholders of the major banks, objectionable as this may be to homeowners, whose mortgage payments have doubled in cost, or to consumers who have been forced to pay 20 to 25 per cent on personal loans. More significant is the growing control exercised by the banks over virtually all areas of the economy. A network of interlocking directorships and financial ties spreads out from each of the five main banks, giving them direct influence in transportation, mining, oil and gas, resources, retailing, manufacturing and a wide range of other economic activities.<sup>8</sup>

The banks have the power to channel investment into areas of the economy they favour, while restricting investment in other areas. In a very real sense, they have the ability to shape the direction of economic development. The adoption of monetarist policies in recent years has greatly enhanced their influence.

How has their power been used in recent years? The policies of the banks have been based entirely on the short-term self-interest of the shareholders. They provided funds for the many mergers and takeovers that occurred in the 1978-1982 period, despite the fact that these activities did not significantly increase the productive capacity of the country and, in many cases, only served to reduce competition and increase corporate concentration.

The banks have also invested the money of Canadians overseas, removing capital needed for investment here in Canada. They have funded speculative investments in oil and gas, real estate and capital-intensive resource extraction developments, all at the expense of building a solid manufacturing base in the Canadian economy. The banks have loaned money with no concern for the impact on jobs or social development, and they have been in the forefront of speculation

against the Canadian dollar by encouraging their corporate clients to expand foreign currency holdings. This is because they profit every time they change money into, or out of, Canadian currency.<sup>9</sup>

The banks are even encouraging working Canadians to speculate against the dollar by opening up U.S. and other foreign currency accounts. Foreign currency assets owned by Canadians and deposited in Canadian Banks increased from 8.9 per cent of all currency deposits in 1971 to 18.7 per cent a decade later.

In short, concentration of ownership and control in the banking sector has given a few dozen corporate executives enormous power over the entire economic system of Canada. This power has not been wielded in the broader interest of ordinary citizens, but in the narrow interest of a small group of wealthy investors.<sup>10</sup>

The banks have also played a key role in fuelling inflation. At exactly the same time that the governor of the Bank of Canada was energetically pushing up interest rates to control the money supply (as defined by *M1*, which means currency outside the chartered banks and demand deposits), the banks were allowed to create enormous volumes of credit through new loans and expanded credit card borrowing. The effect was to expand the money supply, when it is defined more broadly (i.e. *M3*).

Between September 1980 and September 1981 (when interest rates were at their peak), general bank loans increased by 29 per cent from \$87.6 billion to \$113.6 billion. During the same period, *M1* fell from \$24.68 billion to \$24.59 billion as a result of Gerald Bouey's tight money policies. In other words, the banks created \$26 billion in inflationary new credit at exactly the same time that interest rates were pushed to new highs, ostensibly to tighten up the money supply and lower inflation.<sup>11</sup>

By encouraging the use of credit cards, the banks have also increased retail prices. Merchants are required to pay between 2 1/2 per cent and 5 3/4 per cent of their sales revenue for the privilege of honouring VISA and MasterCard. Obviously, they must raise their prices to compensate for this extra cost. Even people who do not use credit cards end up subsidizing the profits of the banks through the higher prices retailers are forced to charge.

In addition, the sharp increase in consumer debt, resulting from the expanded use of credit cards encouraged by the banks, has further fuelled inflation. The banks have been receiving between 18 and 24 per cent interest on credit card debt in addition to their regular payments from the retailers. And four of the five major banks have introduced a credit card "user fee" as well.

The political influence of the banks, as articulated by the governor of the Bank of Canada, has been a major factor in persuading the government to adopt the disastrous policy of monetarism, which has given us the worst unemployment since the 1930s' depression. Monetarism has choked off investment, stifled economic growth, and caused a dramatic fall in real incomes. In short, the policies followed by the banks in their own operations, and advocated by the banks in the sphere of public policy, have been disastrous for the Canadian economy.

It can be argued that the Canadian government has the power to regulate the banks through legislation and through its own Crown corporation, the Bank of Canada. But the reality is very different. Rather than representing and protecting the public interest (as it should), the Bank of Canada is little more than a representative for the interests of the chartered banks. It has consistently allowed policies that have enhanced the private power exercised by the banks. The Bank of Canada has also strongly resisted attempts by governments to interfere in the internal affairs of the chartered banks.

Banking is not the only sector of the economy where monopolies and concentration of ownership and control have contributed to our economic difficulties. The entire oil and gas industry in Canada is characterized by monopoly practices. A recent report by the federal government's Combines Investigation Branch (headed by Robert Bertrand), revealed how the four major petroleum companies in Canada have exercised oligopoly control over refining, distribution and imports of oil.<sup>12</sup> Absence of competition has allowed the companies to keep prices artificially high and gouge Canadian consumers. This lack of competition is summarized in the report in the following way.

The petroleum industry in Canada has been even less competitive than its counterparts elsewhere. This was partially the result of its domination by a single company, Imperial Oil Limited. Although Gulf Oil Canada Limited, Shell Canada Limited, and Texaco Canada Limited have all risen to some prominence in the post-war period, industry participants concede that Imperial has been the dominant petroleum company in Canada. In addition, the extent of the combined market share of the four major firms in the refining and distribution of petroleum products in Canada has been large when compared with the level of concentration in the U.S. During the 1970s, Imperial, Shell, Gulf and Texaco held 35 per cent of the Canadian crude production sector, compared with a 27 per cent share held by the four largest producers in the U.S. These four companies controlled 64 per cent of Canadian refining capacity in 1979, and 56 per cent of the retail outlets in 1980, compared with a four largest firm share of only 31 per cent of refining capacity and 30 per cent of the retail market in the United States in 1979 and 1975 respectively.<sup>13</sup>

The Bertrand Report documents how Imperial, Gulf, Shell and Texaco used their control of the retail gasoline market to keep price levels artificially high. After establishing the price levels they wanted, these firms forced the small, independent retailers to follow their price lead or be forced out of business. The major oil companies also charged excessive prices for the oil they imported into Canada. The profits from these inflated prices went directly to their parent holding companies. They also charged more for the transport of oil than should have been the case, and they overcharged Canadian refineries for the domestic oil they produced.<sup>14</sup>

According to the Bertrand report, Canadian consumers were overcharged more than \$12 billion between 1958-73. The same pricing practices that enabled the companies to charge excessive amounts for their oil continue to this day.

More recently, the oil companies have succeeded in obtaining government support for their campaign to raise Canadian oil prices to

world levels. The impact on inflation of their pricing policies, both domestically and internationally, has been enormous.<sup>15</sup>

In the early 1970s, when the price of oil was relatively cheap, the oil industry successfully lobbied the federal and Alberta governments to allow it to export massive volumes of oil to the U.S. (It is still doing the same with natural gas today.) The president of Imperial Oil assured Canadians in the corporation's 1972 annual report that "our present energy reserves, using present technology, are sufficient for our requirements for several hundred years."<sup>16</sup> Imperial claimed that exporting the oil would not prejudice the fuel requirements of Canada for the foreseeable future. On the basis of such assurances, we proceeded to export over 3 billion barrels of oil to the U.S. at bargain basement prices.<sup>17</sup>

Shortly after the 1973 energy crisis, the very same oil companies reported that our oil reserves were rapidly depleting and would be virtually exhausted within a decade. Accordingly, they demanded major domestic price increases, huge tax incentives and a dramatic increase in subsidies to achieve the ever-more-elusive goal of self-sufficiency.

Since the mid-1970s, the price of oil has skyrocketed, both domestically and internationally. So, for that matter, have the profits of the oil companies. The energy component of the CPI has risen at a rate almost twice as fast as the overall index since 1975. The following table shows how energy prices have risen since 1971.

**TABLE 19**

**Comparison of the Increase in the All Items  
C.P.I. With The  
Energy Component  
1971 - 1984**

<b>YEAR</b>	<b>C.P.I. (All Items)</b>	<b>ENERGY COMPONENT</b>	<b>DIFFERENCE</b>
1971	100	100	0
1972	104.8	102.8	-2.0
1973	112.7	112.1	-.6
1974	125.0	129.2	4.2
1975	138.5	146.6	8.1
1976	148.9	169.2	20.3
1977	160.8	189.8	29.0
1978	175.2	207.4	32.2
1979	191.2	227.8	36.6
1980	210.6	264.2	53.6
1981	236.9	343.6	106.7
1982	262.5	411.7	149.2
1983	277.6	443.6	166.0
1984 (Jan.)	284.7	468.3	183.6

**Source:** Statistics Canada, *The Consumer Price Index*, Cat. 62-001

The *Financial Post* pointed out that in the 13 months from June 1982 to July 1983, oil prices were scheduled to increase by as much as 44 per cent. This was based on a \$4.00 per barrel increase scheduled on January 1, 1983, plus various additional price hikes associated with The National Energy Program's pricing formula.<sup>18</sup>

These increases were not implemented according to plan, because world oil prices dropped significantly in 1982 and 1983. Ottawa and the Alberta government hastened to negotiate a new agreement in June 1983, one that froze wellhead prices until December 1984. At the same time, the agreement "freed" oil that was discovered between 1974 and 1980 (so-called "old" oil) so it would qualify for the world price. The agreement also allowed world prices to prevail for certain other kinds of oil.

The Ottawa-Alberta agreement, like most agreements involving oil companies, was typically (deliberately?) complex and oblique. Chartered accountants, oil company executives, appointed politicians and selected bureaucrats are apparently the only mortals who can cut through the dense fog of oil deals. Ordinary Canadians never really know what is going on, yet they are the ones who continually make the rich oil companies even richer. In any case, the Ottawa-Alberta agreement allowed the oil companies to increase their "cash flow" to the tune of about \$250 million dollars over the 18-month life of the deal.

The price increases and subsidies enjoyed by the oil companies are not based on the actual costs of producing oil from existing wells. Rather, they reflect estimated costs of findings new sources of oil in more remote areas, such as the Beaufort Sea and the East Coast offshore. They also reflect the guarantees given to those oil companies producing crude oil from the Alberta Tar Sands projects — projects which require ever more massive federal and provincial subsidies to provide at least a 20 per cent per year profit on investment, without which the oil companies say they will not operate in Canada.

The high and rising costs of energy contributed substantially to our inflation rate during the latter years of the 1970s and the beginning of the 1980s. When the July 1982 oil price increase of \$2.90 per barrel was implemented, it was estimated that this would contribute almost 2 per cent to the overall inflation rate. This is because oil is used not only to produce gasoline for our cars and fuel oil for our homes, but is a basic component of our manufacturing and transport industries. The increases in oil and natural gas prices are thus passed on in the form of higher prices for a wide variety of other goods and services.

It is, of course, true that energy prices in Canada also reflect the world energy situation. And it is also true that increases in world prices played a major role in raising Canadian energy prices. Yet there has been a tendency to attribute all the additional price increases to the world situation — and particularly to blame OPEC — when, in fact, energy policy in Canada has been greatly influenced by the objectives of the oil companies.

Moreover, the seven major world oil companies — the infamous "Seven Sisters" — have played a dominant role in shaping international oil prices. Oligopoly at the international level has thus affected the

price levels of oil produced and sold in Canada. It is as an extension of world production and marketing strategies that the activities of the oil majors in Canada can be best understood.<sup>19</sup> In a very real sense the oil industry has defined the framework under which energy policy in Canada has been formulated. And the Canadian subsidiaries have lobbied vigorously to have both federal and provincial governments implement policies which would guarantee to them the profit targets established by their parent firms.

**TABLE 20**  
**Ownership and Control**  
**of the Canadian Petroleum Industry**  
**by Country and by Sector(a)**

	OWNERSHIP	CONTROL
	1982	1982
	Per Cent	
United States	51.7	56.3
Other Foreign	14.1	17.5
<b>TOTAL FOREIGN</b>	<b>65.8</b>	<b>73.8</b>
Canadian Public Sector	8.6	9.1
Canadian Private Sector	25.6	17.1
<b>TOTAL CANADIAN</b>	<b>34.2</b>	<b>26.2</b>

**Note:** (a) Calculated on petroleum-related (upstream plus downstream) revenues using ownership data as at the end of 1982.

**Source:** Canadian Petroleum Industry Monitoring Agency, *Monitoring Survey*, 1982 p. 6-2.

Monopoly control of the oil and gas industry has not only pushed up inflation; it has also resulted in major distortions in the pattern of investment within the Canadian economy.<sup>20</sup> The volumes of capital required to fund oil and gas projects have been (and will be) enormous, amounting to one-fifth of all new investment.<sup>21</sup> The size of these investments has meant that the needs of other sectors of the economy, such as manufacturing, have been ignored or relegated to secondary importance. Government funding, which could have contributed substantially to rebuilding our manufacturing sector, has instead been channelled into supporting resource "development" projects favoured by the oil industry. The tens of billions of dollars borrowed outside the country to finance these projects have greatly increased our foreign debt.<sup>22</sup> This has, in turn, exacerbated our balance-of-payments difficulties. And the capital-intensive nature of these projects, when coupled

with the amount of foreign technology which has to be imported to carry them out, has meant we have experienced much higher levels of unemployment than if the capital had been invested elsewhere in our economy.<sup>23</sup> To give one example, the \$8 billion Alsands project was expected to produce only 3,000 jobs, while the \$9 billion Cold Lake project will create only 2,500 permanent jobs.<sup>24</sup>

TABLE 21

### International Debt Costs and Energy Exports

	NET INTEREST AND DIVIDEND PAYMENTS (\$ billions)	NET ENERGY EXPORT EARNINGS (\$ billions)
1975	-1.9	1.2
1976	-2.5	1.2
1977	-3.7	1.4
1978	-4.5	1.8
1979	-5.3	3.4
1980	-5.6	2.7

**Source:** Statistics Canada, Energy trade figures, including petroleum, coal, natural gas, electricity and uranium. As compiled by GATT-FLY, *Power to choose Canada's Energy Options*, Toronto, Between the Lines Press, 1981, p. 79.

Despite the enormous price increases, extensive subsidies and generous tax concessions granted to the oil companies, they have not delivered on their promise to make us self-sufficient in energy. With every year that passes, the date by which we will produce as much oil as we consume is pushed further into the future, while the costs of measures allegedly designed to guarantee self-sufficiency escalate. In short, monopoly practices in the oil industry have fuelled inflation, increased unemployment, retarded the development of manufacturing and weakened our balance of payments situation.<sup>25</sup>

The banks and the oil companies illustrate the effect of monopoly control in raising prices and fuelling inflation. And the same process is at work throughout the economy. While it is true that some areas of the economy, especially the manufacturing sector, face significant competition from the U.S., Western Europe, Japan and the Far East, the fact remains that in sectors such as tobacco, automobile production, newspapers, mining, forestry, insurance, retailing, food processing, property development, and many others, a handful of companies dominate the market.<sup>26</sup>

## Foreign Ownership and Control

This brings us to another major cause of our present economic difficulties: the high level of foreign investment. The Canadian economy is dominated by multinational firms. Six of Canada's top ten privately owned industrial corporations in 1982 were foreign-controlled. A seventh had 49 per cent foreign ownership and another had 25 per cent. The following is a list of these companies and their major shareholders, as compiled by the *Financial Post*.

TABLE 22

### Canada's Ten Largest Privately Owned Industrial Corporations in 1982

COMPANY	SALES (\$ billions)	ASSETS (\$ billions)	PER CENT FOREIGN OWNERSHIP
Canadian Pacific Ltd	12.3	17.3	25
General Motors of Canada Ltd.	9.6	2.8	100
Imperial Oil Ltd.	8.6	7.5	74
Bell Canada Enterprises Ltd	8.4	13.4	4
George Weston Ltd.	7.8	2.1	1
Ford Motor Company of Canada	7.3	2.1	92
Alcan Aluminium Ltd.	5.7	8.2	49
Shell Canada Ltd.	5.1	4.6	79
Texaco Ltd.	4.8	2.9	90
Gulf Canada Ltd.	4.7	4.9	75

Source: *The Financial Post* 500, June, 1983, pp. 68, 69.

Foreign companies view the Canadian economy primarily as a cheap source of raw materials or a lucrative market for their goods and services. Decisions about investment, employment, research and development, new technology, marketing, and a wide range of other matters, all of vital concern to Canadians, are not made in this country; nor are they made with the long-term interests of Canada in mind.<sup>27</sup>

The excessive concentration of capital in resource development reflects the priorities of multinational corporations, which view Canada as a source of raw materials and a captive market, rather than a base for processing and manufacturing.<sup>28</sup> For this reason, we export huge volumes of raw lumber, but little furniture or other processed wood

products. We export millions of tons of metal ores, but import manufactured goods. We export coal and iron ore to Japan and import Japanese cars. We export hydro-electric power to the U.S. and import American technology. The list goes on and on.

The following table illustrates how our economy has become increasingly dependent on exports of raw and semi-processed materials.

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**TABLE 23**

**Canada's Trade Balance  
By Commodity Group  
1978 – 1982**

COMMODITY	1978	1979	1980	1981	1982
	(Billions of Dollars)				
Food and live animals	1.5	2.1	3.5	4.2	5.3
Crude Materials, Inedible	2.9	4.6	3.4	3.0	6.1
Crude Materials and Natural Gas	0.3	0.8	-0.1	-1.0	2.5
Fabricated Materials, Inedible	10.4	12.3	10.6	16.0	16.1
End Products, Inedible	-12.4	-17.1	-17.8	-20.9	-12.6
Machinery and Equipment	-4.6	-6.2	-7.0	-7.5	-5.4
Motor Vehicles	-0.8	-3.3	-2.7	-2.9	1.5

**Source:** Statistics Canada, *Trade of Canada Exports*, Catalogue 65-004; *Trade of Canada Imports*, Catalogue 65-007.

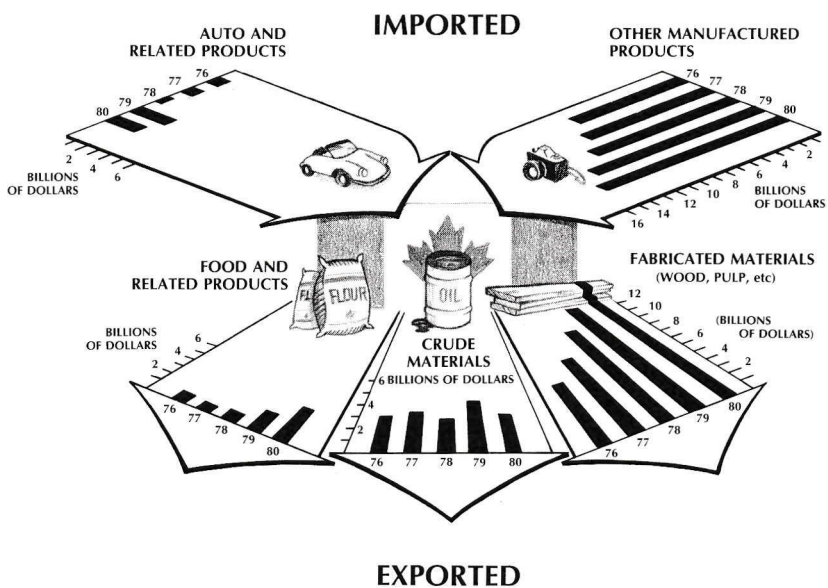
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The table reveals that the major sources of our continuing trade surplus lie in three areas: food, crude materials and fabricated materials. The latter category refers to items such as wood pulp, cut lumber, metal ingots and other semi-processed raw materials. In 1982, these three merchandise export categories produced a surplus of \$27.5 billion.

In contrast, we have had huge deficits in end products – machinery and equipment. In 1982, we imported \$17.0 billion more of such products than we exported. Moreover, 1982 was a relatively good year because many firms were so hard hit by the recession that they simply did not import as much as usual. In 1980 and 1981, we imported \$24.8 billion and \$28.4 billion, respectively, more than we exported.

While we have maintained a large trade surplus in recent years, the reasons underlying this surplus are of deep concern. For the surplus is more like that of an underdeveloped, Third World country than a modern industrial nation.

## Canada's Trade Balance By Commodity



In the vital manufacturing sector, we have what amounts to a branch plant economy. Multinational firms, primarily from the U.S., have set up small-scale operations in Canada to assemble and sell goods which are designed and manufactured outside the country. They did this to get underneath our tariff borders. However, the reduction of tariffs, as a result of recent GATT negotiations, along with the recessionary world economic climate of the 1980s, have meant that the small scale, inefficient nature of these plants is critically exposed. Branch plants carry out little research and development and hence employ few highly trained technicians and engineers. As the following table illustrates, Canada has one of the lowest ratios of research spending to Gross Domestic Product (GDP) of all the OECD countries.<sup>29</sup>

TABLE 24

### Research and Development Expenditures For Selected OECD Countries

COUNTRY	RESEARCH EXPENDITURES AS A PER CENT OF GDP (1977 or 1979)
U.S.	2.39
Switzerland	2.29
Germany	2.27
United Kingdom	2.20
Japan	2.04
Netherlands	1.99
Sweden	1.87
France	1.81
Belgium	1.37
<b>Canada</b>	<b>1.04</b>
Australia	0.99
Italy	0.89

**Source:** Statistics Canada, Annual Review of Science Statistics 1982, Cat. 13-212 (Annual) As cited from OECD, *Science and Technology Indicators I* (first draft of Part A), Paris: Oct. 5, 1981.

Branch plants produce primarily for the Canadian market; overseas orders are controlled by the parent firm. Because of their inefficiency, branch plants charge higher prices to consumers and are more vulnerable to competition from other foreign firms. During the past decade, the economic weaknesses resulting from foreign control have become increasingly evident as more manufacturing plants closed their doors across the country.

As James Laxer, in his book *Canada's Economic Strategy*, points out:

The branch plant economy was not designed to be competitive and was not designed to achieve a balanced manufacturing trade for Canada. In fact, it was designed to be precisely the reverse of these two things. . . . The branch plant system was designed to maximize the benefits of multinationals in their global operations. To get behind

the wall of the national tariff, a production operation was needed. Once behind the wall of the Canadian tariff, the multinational could readily supply machinery parts and components from the more efficient home operation in the United States. The branch plant was simply a beach-head in Canada, a means to gain access to the market. It was not designed to be efficient in world terms but simply in Canadian terms. Such entities were never intended to export. In fact, it would be ludicrous for them to do so in most cases, because it would bring them into competition with their own parent companies. And that simply did not make corporate sense.<sup>30</sup>

Because many of the U.S. parent companies of Canadian branch plants are under competitive pressure from Japan, Western Europe and the Third World, Canadian subsidiaries are being closed as these companies reorganize their operations. Even profitable operations are being axed as hard-pressed U.S. firms withdraw their capital to prop up their own domestic plants. In short, foreign control of our manufacturing sector has left it weak and vulnerable. The Canadian economy is now suffering as a result. The lack of a well-developed manufacturing sector also deprives the government of a strong, stable tax base and is a major factor contributing to the growing numbers of unemployed.

The high degree of foreign ownership has not only distorted our economic development, it has also resulted in a gradual deterioration of our international balance of payments position. This is because of the huge amounts now being repatriated to foreign investors, banks and parent corporations abroad.<sup>31</sup>

The current account balance represents the difference between the total of goods and services we imported and the total we exported. According to Statistics Canada, our current account balance for goods and services combined stood at -\$5.0 billion in 1978, -\$5.6 billion in 1979, -\$2.3 billion in 1980, -\$6.9 billion in 1981 and \$1.2 billion in 1982. The temporary improvement in 1982 can be attributed to the severity of the recession, which resulted in a sharp drop in imports.

The reason for our continuing deficits is not that we actually imported more goods than we exported. In fact, we had a *surplus* of \$4.0 billion in our merchandise trade in 1978, \$4.1 billion in 1979, \$8.5 billion in 1980, \$7.4 billion in 1981 and \$17.7 billion in 1982. The reason can instead be traced to our much larger services deficit. (The service account includes the cost of foreign travel by Canadians, interest paid to foreigners, dividends paid to non-residents and the cost of business and commercial services paid to foreign companies.)<sup>32</sup> The services deficit amounted to -\$9.0 billion in 1978, -\$9.7 billion in 1979, -\$10.8 billion in 1980, -\$14.3 billion in 1981 and -\$16.5 billion in 1982.

The travel deficit has averaged about -\$1.2 billion each year since 1978 - a sizeable amount, but by no means the largest item in our balance of payments deficit. The major component was interest payments on money borrowed abroad and dividends paid to foreign shareholders. Together, these accounted for -\$4.7 billion in 1978, -\$5.2 billion in 1979, -\$5.4 billion in 1980, -\$6.4 billion in 1981 and -\$9.3 billion in 1982. The following table documents our growing deficit on interest and dividend payments in recent years.

TABLE 25

### Deficit on Interest and Dividend Payments (1978-1982)

YEAR	INTEREST AND DIVIDENDS RECEIVED	INTEREST AND DIVIDENDS PAID (\$ Millions)	DEFICIT ON INTEREST AND DIVIDENDS
1978	1208	- 5904	-4696
1979	1271	- 6512	-5241
1980	1577	- 6961	-5384
1981	1631	- 8105	-6474
1982	1305	-10,608	-9303

**Source:** Statistics Canada, *Quarterly Estimates of the Canadian Balance of International Payments*, Cat. 67-001.

The growing severity of our balance of payments deficit on interest and dividends was commented upon in the 1980 *Annual Economic Review* of the federal finance department.

Interest payments rose after 1974 at an average annual rate of 27 per cent, reaching \$6.3 billion in 1979, an amount equivalent to 2.4 per cent of GNP. The deficit on interest payments climbed to \$5.0 billion in 1979, four times greater than in 1975. . . . Outstanding external bond indebtedness has almost tripled since 1973, increasing from \$16 billion to about \$44 billion at the end of 1979. Since about 80 per cent of the external bond debt is denominated in foreign currency terms, the depreciation of the Canadian dollar since October 1976 has directly increased the cost of servicing this debt.<sup>33</sup>

The deficit on dividend payments alone (that is, excluding interest) has steadily increased in recent years from \$500 million in 1974 to \$3.4 billion in 1981. This was despite direct Canadian investment abroad that actually exceeded the total of new foreign investment in Canada between 1974 and 1981. One reason for the growth in dividend payments was that foreign corporations operating in Canada re-invested profits earned here to expand their operations without bringing in new capital from abroad.

Interest and dividend payments to foreign investors are not the only costs of foreign investment in Canada. We also pay for a wide range of other business services to foreign firms, including management fees, royalties, patents, copyrights, advertising, registered trademarks and technological innovations. The cost of these services to our balance of payments amounted to \$3.7 billion in 1980, \$6.0 billion in 1981, and \$5.6 billion in 1982. Approximately 80 per cent of these payments were made by subsidiaries of foreign corporations to their parent companies abroad. The following table shows the cost of business service payments since 1978.

TABLE 26

**Deficit on Business Service  
Items (1978 – 1982)**

YEAR	PAYMENTS RECEIVED FOR BUSINESS SERVICES	PAYMENTS MADE FOR BUSINESS SERVICES (\$ Millions)	DEFICIT ON PAYMENTS FOR BUSINESS SERVICES
1978	3631	- 5770	-2139
1979	4279	- 7269	-2990
1980	5280	- 9040	-3760
1981	5577	-11,622	-6045
1982	6710	-12,343	-5633

**Source:** Statistics Canada, *Quarterly Estimates of the Canadian Balance of International Payments*, Cat. 67-001.

While it is true that Canadians also receive income from investments abroad, this amounts to far less than that paid to foreign investors. In 1982 Canadian investors received about \$4 billion from overseas investments. However, foreign investors received approximately \$18 billion, leaving us with a deficit of \$13.6 billion. The following table documents these transactions.

TABLE 27

**Investment Income Paid to and  
Received from Non-Residents**

YEAR	INVESTMENT INCOME RECEIVED FROM NON-RESIDENTS	INVESTMENT INCOME PAID TO NON-RESIDENTS (\$ Millions)	INTERNATIONAL DEFICIT ON INVESTMENT INCOME
1975	1,671	-4,338	-2,667
1976	1,601	-4,940	-3,339
1977	1,696	-6,248	-4,552
1978	2,239	-7,924	-5,685
1979	2,245	-9,639	-7,394
1980	2,989	-11,300	-8,311
1981	3,159	-14,943	-11,784
1982	3,957	-17,598	-13,641

**Source:** Statistics Canada, *National Income and Expenditure Accounts*. Cat. 12-001.

TABLE 28

**Comparison of Net Investment  
Income Paid to Non Residents  
and Total Government Deficits in Canada  
1975 – 1982**

YEAR	NET INVESTMENT INCOME PAID TO NON RESIDENTS	TOTAL GOVERNMENT DEFICITS (\$ Million)	DIFFERENCE
1975	2,667	4,049	-1,382
1976	3,339	3,222	117
1977	4,552	5,005	-453
1978	5,945	7,392	-1,447
1979	7,328	5,003	2,325
1980	7,958	6,175	1,783
1981	11,424	4,025	7,399
1982	13,641	18,632	-4,991
TOTAL 1975 – 1982	56,854	53,503	3,351

**Source:** Statistics Canada, *National Income and Expenditure Accounts*, catalogue 13-001; as cited in the Department of Finance, *Annual Review 1983*, reference table 10.

(Note: The Net Investment Income figure has been calculated by subtracting investment income received from non-residents from investment income paid to non-residents.)

Between 1970 and 1980, Canada's total foreign debt tripled, from \$28.4 billion to \$73.0 billion.

If we did not have to pay such large interest payments, dividends, and business service charges to foreign banks and foreign corporations, there would be considerably more capital available for domestic investment. Federal and provincial governments would also have much more freedom to develop economic policies that could help us out of the current economic crisis because we would not be so dependent on foreign money markets.

While the corporate sector continually complains about the size of government debt in Canada, it is silent about the massive export of capital resulting from foreign ownership and control of the economy.

There is another effect of foreign ownership that is difficult to quantify, but very significant nonetheless. This is the volume of imports (and loss of exports) resulting from the large amount of trade carried out between foreign companies and their Canadian subsidiaries. A substantial portion of our trade deficit in manufactured goods can be attributed to the fact that the subsidiaries of foreign companies are committed to purchasing the products of their parent firms to the exclusion of Canadian producers.

A special study by Statistics Canada examined the volume of imports by domestic and foreign-controlled enterprises. The results show that 79 per cent of imports on a list of 211 commodities were by firms with over 50 per cent foreign ownership. These figures are shown in the following table, which represents almost 90 per cent of Canada's total imports in 1978.

**TABLE 29**  
**Canadian Imports by Domestic  
and Foreign Controlled Enterprises  
in 1978**

FOREIGN CONTROL (Per Cent)	VALUE OF IMPORTS (\$ Millions)	(Per Cent) OF TOTAL IMPORTS
75 – 100	24,168	54.3
50 – 75	10,975	24.7
25 – 50	5,938	13.3
0 – 25	3,447	7.7
Total	44,527	100.0

**Source:** Statistics Canada, *Canadian Imports by Domestic and Foreign Controlled Enterprises in 1978* Cat. 67-509, 1981.

**Note:** Figures based on 211 imported commodities. Total imports in 1978 were valued at \$50,108 million.

As the table reveals, foreign-controlled firms account for a disproportionately large amount of Canada's imports. They are purchasing from their parent firm in the U.S. or abroad or from other international sources, in preference to Canadian producers. Far from practising free trade in their Canadian operations, they are deliberately excluding Canadian firms from their purchasing arrangements. The costs of these practices in lost production in Canada, lost employment opportunities, and loss of foreign exchange, are enormous.

An Economic Council of Canada study of the ratio of R & D to sales of Canadian and foreign-controlled firms revealed that Canadian firms spent up to five times more on R & D than foreign firms of a similar size and economic sector. The following table shows the results of this study.

TABLE 30

**Average R & D to Sales Ratio in Canadian and Foreign-Controlled Firms, by Size of Firm, Canada 1978**

	CANADIAN-CONTROLLED FIRMS		FOREIGN-CONTROLLED FIRMS	
	Number Surveyed	R&D to Sales Ratio (Per Cent)	Number Surveyed	R&D to Sales Ratio (Per Cent)
Number of employees				
50 or fewer	34	11.2	13	3.3
100 or fewer	45	10.1	23	4.3
200 or fewer	54	9.1	38	3.7
500 or fewer	60	8.4	54	3.4
More than 500	5	10.3	14	2.0

**Source:** D.P. DeMelto, K.E. McMullen, and R.M. Wills, "Preliminary Report: Innovation and Technological Change in Five Canadian Industries." Economic Council of Canada, *Discussion Paper 176*, Ottawa, 1980, p. 44.

The preceding costs associated with foreign ownership are compounded when foreign firms exercise monopoly control over certain sectors of the economy. Indeed, foreign ownership and monopoly conditions frequently go hand in hand. The petroleum, automotive, coal, rubber, tobacco, substantial parts of the mining industry, and many other sectors of the economy are characterized by monopoly practices exercised by a small number of foreign-controlled, multinational firms.

The high level of foreign ownership also seriously erodes the ability of governments in Canada to follow an independent economic strategy. In an economy such as ours, with its large volumes of imports and exports, the international economic system will always exercise considerable influence on domestic policies. But the current level of foreign penetration makes it considerably more difficult for Canadian governments to implement alternative economic policies.

The power of the multinational corporations to frustrate Canadian objectives is reflected in the attack launched on the National Energy Program. This initiative was designed merely to facilitate greater participation by Canadian-owned and controlled firms in future oil and gas development. Although Petrocan was expanded, the major thrust of the policy was to facilitate a modest growth of Canadian private enterprise in this field. It was definitely not intended to nationalize the oil industry or drive out the foreign firms.<sup>34</sup> Even Dome Petroleum, which has received so much federal assistance, has significant foreign ownership.

Despite these factors, the response of the oil companies to the NEP verged on hysteria. They asserted that Canada's entire economic future would be jeopardized if the NEP were carried out. A flurry of drilling rigs left the country for the U.S. amid publicity that exploration in Canada was rapidly coming to a standstill. Predictions of an impending energy crisis were widely publicized. And the oil companies lost no time in announcing major layoffs.

Subsequently, the federal government backtracked on much of the program. In the spring of 1982, Marc Lalonde (then the energy minister) announced over \$2 billion in direct assistance to the oil industry, which was still more than 60 per cent foreign-controlled. Ownership requirements were reduced. And the energy agreement signed with Alberta in June 1983 guaranteed the companies the prices they demanded despite the sharp decline in world oil prices.

What the debacle of the NEP demonstrated clearly was that foreign ownership of the oil industry effectively precluded any serious long-range planning of Canada's energy needs where such planning differed from the goals of the oil industry. In short, it confirmed that Canada's energy policy is not determined by the federal government but by the oil companies. And the policy serves the interests of foreign shareholders, not the Canadian people.

To summarize, we are now exporting large amounts of capital despite our increasing foreign debt. We are also paying billions in interest payments to foreign banks and billions more in dividends and business service charges. Our manufacturing industry is declining rapidly. We are becoming more and more dependent on the export of massive volumes of resources such as wood, minerals, natural gas, hydro-electric power and agricultural products. And we are failing to develop the new technology that will be vital in maintaining our status as an industrialized country during the 1980s. Thus we see that foreign ownership is a major factor underlying our present economic crisis.

## **The Private Sector's Distorted Investment Priorities**

This leads us to another factor that exacerbated our economic crisis: the misallocation of investment within our economy.

Between 1970 and 1982, manufacturing investment fell as a percentage of total investment in Canada from 19.8 per cent to 17.4 per cent. In contrast, investment in primary and construction industries rose from 15.6 per cent to 24.1 per cent of total investment. In 1982, capital expenditure in manufacturing totalled \$19.5 billion, which was almost \$4 billion *less* than investment in primary and construction industries. Investment in utilities was also much higher than manufacturing. The figure for 1982 was \$25.0 billion. Investment in trade, finance and commercial services rose from 8.8 per cent to 11.9 per cent of total investment between 1970 and 1982. However, government investment fell from 11.9 per cent in 1970 to 9.5 per cent in 1982. Table 3 on the following page provides further details of investment in Canada.

**TABLE 31**  
**Investment in Canada by Sector**  
**1965 - 1982**

YEAR	PRIM. & CONST.	MANU-FACTURING	UTILITIES	TRADE	INSTITUTIONS	HOUSING	GOVT.	TOTAL
1965 Actual Invest. (\$millions)	2744	3314	3290	1489	1094	2751	2110	16,792
PER CENT	16.3	19.7	19.6	8.9	6.5	16.4	12.6	100
1970 Actual Invest. (\$millions)	3664	4640	4846	2068	1445	4009	2793	23,465
PER CENT	15.6	19.8	20.7	8.8	4.9	17.1	11.9	100
1975 Actual Invest. (\$millions)	8022	7967	10,262	5807	1708	8690	5917	48,371
PER CENT	16.6	16.5	21.2	12.0	3.5	18.0	12.2	100
1980 Actual Invest. (\$millions)	18,864	14,478	17,202	10,731	2551	13,876	8,210	85,911
PER CENT	22.0	16.9	20.0	12.5	3.0	16.2	9.6	100
1982 Actual Invest. (\$millions)	23,912	19,522	25,033	13,301	3160	16,397	10,606	111,930
PER CENT	24.1	17.4	22.3	11.9	2.8	14.6	9.5	100

**Source:** Department of Finance, *Annual Economic Review*, 1982 Reference Table, 18 pp. 146, 147.

Succumbing to pressure from multinational corporations, successive Canadian governments have encouraged the resource extraction industries. At the same time, they have done little to develop an independent Canadian manufacturing industry. The number of workers engaged in manufacturing declined from 25 per cent of the labour force in the 1960s to 18.0 per cent in January 1984. We are becoming more and more dependent on the import of manufactured goods.

According to the Science Council of Canada, we ranked second in the world in 1955 in the value of manufactured goods produced per capita. By the end of 1974, we had been overtaken by Sweden, France, Japan, West Germany, Australia and Finland.<sup>35</sup> Between 1972 and 1979, Canada's share of world exports fell from 4.9 per cent to 3.4 per cent. Our share of manufacturing exports fell from 4.0 to 2.8 per cent of world exports.<sup>36</sup> During the same period, imports rose from 26 per cent to 33 per cent of the domestic market. In virtually every industry, whether electronics, farm implements or textiles, imports are gradually overtaking domestically produced products. As we noted earlier, our trade deficit in end products (i.e. finished manufactured goods), has swollen from \$2.3 billion in 1970 to \$17.8 billion in 1980, \$20.1 billion in 1981 and \$12.6 billion in 1982. One reason for this decline is the failure of companies to invest adequately in research and development. The following table shows our growing deficit in highly research-intensive industries since 1970.

TABLE 32

**Import Penetration in  
Highly Research-Intensive Industries  
(1970 – 1980)**

YEAR	EXPORTS	IMPORTS (\$millions)	TRADE BALANCE	IMPORT PENETRATION (Per Cent)
1970	2,109	4,485	-2,376	43.43
1971	2,020	4,682	-2,662	42.74
1972	2,325	5,645	-3,320	45.66
1973	2,702	7,086	-4,384	47.66
1974	3,370	9,257	-5,887	48.35
1975	3,789	10,121	-6,332	47.94
1976	4,139	10,718	-6,579	48.01
1977	4,818	11,964	-7,146	49.67
1978	6,579	15,020	-8,441	52.35
1979	8,945	19,418	-10,473	54.62
1980	10,640	22,134	-11,494	54.92

**Source:** Calculated from Department of Industry, Trade and Commerce, *Manufacturing Trade and Measures, 1966-80*, Ottawa, July 1981 as cited in Science Council of Canada, *Hard Times, Hard Choices*, Ottawa, November, 1981, p. 98.

Underlying these figures is the fact that investment in manufacturing is declining because too much capital is being allocated to energy developments, resource extraction and utilities.<sup>37</sup>

Employment in forestry provided 65,000 jobs in January 1984, according to Statistics Canada. Mines, quarries and oil wells generated 160,000 jobs. In sum, these two private industries provided about 2.2 per cent of all jobs in Canada. However, investment in these two sectors was \$23.9 billion and accounted for 21.4 per cent of all investment in the economy in 1982 (the latest available figures). Employment in electric, gas and water utilities accounted for 113,000 jobs, or approximately 1.1 per cent of all jobs, in January 1984. Yet these utilities accounted for \$25.0 billion investment in 1982. This represented 22.3 per cent of all investment in the economy.

In contrast, manufacturing employed 1,854,000 workers in January 1984. Yet investment in this sector was only \$19.5 billion or 17.4 per cent of total investment in 1982. The following table shows employment by industry in Canada in 1984.

TABLE 33

### Employment by Industry (January, 1984)

INDUSTRIAL SECTOR	EMPLOYED WORKERS (thousands)	PER CENT OF TOTAL EMPLOYMENT
<b>Agriculture</b>	427	4.1
<b>Other Primary Industries</b>	251	2.4
–Forestry	65	0.6
–Fishing and Trapping	26	0.2
–Mines, Quarries and Oil Wells	160	1.5
<b>Manufacturing</b>	1,854	18.0
<b>Construction</b>	453	4.3
<b>TOTAL GOODS-PRODUCING INDUSTRIES</b>	2,986	28.6
–Transportation, Communication and Other Utilities	831	8.0
–Transportation and Communication	719	6.9
–Electric Power, Gas, and Water Utilities	113	1.1
<b>Trade</b>	1,875	18.0
<b>Finance, Insurance and Real Estate</b>	620	5.9
<b>Community, Business and Personal   Service</b>	3,386	32.4
<b>Public Administration</b>	745	7.1
<b>TOTAL, SERVICE-PRODUCING INDUSTRIES</b>	7,457	71.4
<b>TOTAL ALL INDUSTRIES</b>	10,443	100.0

Source: Statistics Canada, *The Labour Force*. Cat. 71-001.

Note: The preceding figures refer only to employed workers. The total labour force including the unemployed, was 11,916,000 in January, 1984.

As the preceding statistics confirm, investments in capital-intensive resource extraction industries provide few permanent jobs, compared with investment in manufacturing. And they provide only a tiny fraction of the number of jobs created by similar amounts of investment in the service sector. In short, the disproportionately large investments in resources are contributing to the problem of unemployment.

Exacerbating the distorted pattern of investment is the failure of the private sector to spend adequate amounts on research and development. According to a 1978 study by the Treasury of Ontario:

Canada's RD and D efforts have been small, are declining and are grossly deficient by international standards. Overall, Canada spends only 1.1 per cent of GNP on RD and D as compared with 2.4 per cent in the U.S., 2.3 per cent in West Germany and 1.7 per cent in Japan. In addition, Canada spends a disproportionate amount on pure research which is of a long term nature and has a dubious payoff. The amount of industrial RD and D is sadly lacking – Ford, General Motors and IBM each spend more on RD and D than Canadian industry as a whole, and U.S. industrial firms undertake 70 per cent of all RD and D compared with only 30 per cent in Canada. Canadian industry would have to increase its 1977 applied research programme by \$2.5 billion and 51,000 scientists, engineers and technologists to match, in percentage terms, the performance of U.S. industry. If research associated with product design and market penetration were included, the gap would be even wider.<sup>38</sup>

Funding these projects also increases our foreign debt. It means we are mortgaging more and more of our future to outside investors. These projects compete with other sectors of the economy for investment capital, with the result that other, more labour-intensive areas of production are short-changed.

Because the private sector is concerned with maximizing profits, rather than promoting balanced economic development and full employment, it does not view the enormous imbalance in investment between the resource sector and manufacturing as a problem. Indeed, the relegation of the Canadian economy to the status of a stable and relatively cheap source of raw materials fits in well with the world production and marketing strategies of many multinational firms. But from the viewpoint of ordinary Canadians, and especially the growing lines of unemployed, the distorted pattern of investment is a major cause of our economic problems.

## **Corporations Are Exporting Jobs**

One of the most disturbing aspects of the current economic crisis is the growing rate of unemployment. Approximately two million Canadians are now without jobs. Falling demand, economic stagnation and layoffs in the public sector have all contributed to the crisis. But one of the key factors in raising unemployment is the common corporate policy of transferring production to other countries. The growing in-

ternationalization of the economic system and the opening of centres of production in the Third World have provided corporations with new options for the location of their manufacturing plants.

The ability of multinational firms to locate in the Third World was constrained in the 1950s and 1960s because many of these countries lacked an adequate economic infrastructure. But, during the last decade, South Korea, Mexico, Taiwan, Brazil, the Philippines, Indonesia and other countries have built up their infrastructures. In many cases they have established so called "free trade zones" or "export production platforms" that are designed to produce for western, rather than local, markets. These developments have made them desirable locations for new investment.<sup>39</sup>

The benefits to corporations of transferring labour-intensive manufacturing to Third World countries are obvious: low labour costs, little or no taxation, the absence of trade unions and – all too frequently – the existence of repressive governments that show little concern for workers' rights, occupational health or the wider environment.

The following table compares the wage rates of workers in the automotive industry in various developed and Third World countries.

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TABLE 34

**Hourly Compensation Production Workers, Mid-1981  
Motor Vehicle Industry  
(U.S. Dollars)**

U.S.	\$16.85	France	\$ 9.20
Belgium	\$13.50	Italy	\$ 8.62
W. Germany	\$12.70	U.K.	\$ 7.95
<b>Canada</b>	<b>\$12.52</b>	Japan	\$ 7.76
Sweden	\$11.81	Mexico	\$ 4.84
		S. Korea	\$ 1.39

**Source:** U.S. Bureau of Labour Statistics, as reproduced in *UAW Economic Notes*, Vol 17, Jan. 1982.

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As the table reveals, manufacturing wage rates in Canada are three times higher than in Mexico and nine times higher than in South Korea. While there are many other costs of production, the differential in wages between Canada and Third World countries explains why many corporations are prepared to slash jobs in Canada.

In addition to reducing jobs, the multinational corporations are attempting to pit Canadian workers in competition for jobs with workers in Third World countries. Investment decisions are made with the view to maximizing profits. Providing employment for Canadians is not a central objective. This means that companies are prepared to threaten Canadian workers with layoffs and plant closures unless they agree to concessions and rollbacks.<sup>40</sup>

The corporations are also using their growing international power to pressure the federal and provincial governments into adopting anti-union measures as a means of reducing Canada's labour costs. If workers and governments do not agree to their terms, the corporations simply transfer more and more of their production from Canada to other countries. Indeed, they are already doing so.<sup>41</sup> What they are often saying, in real terms, is that they will maintain production in Canada a little longer if they get what they want.

This problem is exacerbated by the branch plant structure of Canadian manufacturing, which has restricted Canadian production largely to the domestic market. Too often Canadian subsidiaries are not competitive internationally or are not permitted by the parent firm to export their production. Hence, they are particularly vulnerable to cheaper, more sophisticated products manufactured by the multinationals in other countries.

Increasingly, foreign-controlled multinationals are closing their Canadian plants and transferring production to their subsidiaries in Third World countries. Canadian subsidiaries are becoming little more than warehouses and marketing depots, as demonstrated by the statistics cited earlier in this chapter on the value of imports brought in by foreign-controlled companies. Frequently, it is the very companies with oligopoly or monopoly control of Canadian markets which lead the move to overseas production.<sup>42</sup>

This is not to suggest that the problem of competition from Third World countries is unique to Canada. Unemployment has been rising throughout the member countries of the OECD, especially in Western Europe. The OECD estimates that 34.2 million will be jobless in 1984.<sup>43</sup>

The specific characteristics of the Canadian economy, with its excessive reliance on resource extraction, its small manufacturing base and its high level of foreign control, make it especially vulnerable. The absence of a viable economic strategy by either the federal or the provincial governments has enabled companies to maximize their leverage *vis-a-vis* Canadian workers and Canadian governments.

If current policies are not altered, the situation will deteriorate further in the coming years. The logic of the argument used by the multinationals points towards the equalization of wages throughout the world. For Canadian workers, this means equalization *downwards* to the levels of Third World countries. The objective of the corporations is not simply one of temporary belt-tightening or short-term sacrifices designed to enable us to raise living standards in the future. Rather, it is a long term restructuring of production and labour costs involving a permanent reduction in Canadian living standards.

As long as decisions on capital investment continue to be made by private corporations solely on the basis of maximizing profit, and as long as governments in Canada choose to allow market (and monopoly) forces to dictate the direction of the economy's development (or, more accurately, *underdevelopment*), the crisis in investment, production and jobs will deepen.

Thus we see that another major cause of our economic crisis lies with the narrow, profit-oriented investment policies of private corporations, which are willing to sacrifice employment in Canada for higher profits overseas.

## The Burden of Non-Productive Defence Spending

Another cause of the present economic crisis is the excessive burden of so-called "defence" spending. Overall federal government spending is declining, both in real terms and as a proportion of the GNP, while expenditure on war preparations is accelerating. This is largely a result of pressure from the U.S. and from Canada's other NATO allies. Several years ago, Canada agreed to increase spending on the military by at least 3 per cent in real terms each year for a minimum of five years. In the fiscal year 1982-83, defence spending in Canada amounted to \$7.0 billion, or 8.6 per cent of federal government expenditures. By fiscal 1986-87, the defence budget is projected to be \$10.4 billion and will amount to 9.6 per cent of total federal outlays. The following table documents this growth.

TABLE 35

### Defence Spending in Canada 1982-83 to 1986-87

FISCAL YEAR	TOTAL OUTLAYS (\$ millions)	PER CENT CHANGE OVER PREVIOUS YEAR	PER CENT OF TOTAL FEDERAL GOVERNMENT OUTLAYS
1982-83	6,963	15.5	8.6
1983-84	7,900	13.5	8.7
1984-85	8,785	11.1	9.2
1985-86	9,494	8.1	9.3
1986-87	10,359	9.1	9.6

Source: Marc Lalonde, *The Fiscal Plan of the 1983 Budget*, Ottawa: April, 19, 1983

Over the next five years, defence expenditures will increase at a rate 20 per cent *faster* than total federal government spending. It is widely held that defence spending acts as a stimulus on the economy by providing demand and therefore jobs. However, in the context of the current Canadian economy, the opposite is true. Military spending results in far fewer jobs than equivalent expenditures on health, educational and social services. Because a very large amount of the money spent on defence is devoted to high-technology equipment, purchased in the U.S. or abroad, defence spending has exacerbated our balance of payments problems. In addition, the extensive integration of the Canadian and U.S. economies has meant that the economic problems gener-

ated in the U.S. as a result of excessive spending on preparations for war are spilling over to Canada.

The reasons defence spending pose a heavy burden on the economy are numerous.<sup>44</sup> First, the only direct product of such spending is an intangible one: "security." (How much security we receive is another matter. It is arguable that the more we spend, the less secure we are.)<sup>45</sup> Unlike other forms of public spending, defence does not provide services or products for citizens. Schools, hospitals, medical services, public housing, roads, hydro-electric power and many other public services directly and tangibly benefit ordinary Canadians. Taxes paid to government actually result in the production of services which fulfill a real demand. No comparable benefits are received from defence spending.<sup>46</sup> The large sums of taxpayers' money allocated to non-productive defence expenditures is a major reason why government is perceived as inefficient and non-productive.

Defence spending also absorbs resources which could be used in other areas of the economy. As one observer has noted:

Resources spent on the military are a diversion from resources spent on other goods and services. Whatever role military expenditures played in stimulating the economy in the 1940s and 1950s, the real question is whether such stimulation can't also be provided in investing in socially useful goods and services. . . . In fact, a number of studies done in the U.S. show that each billion dollars invested in the military could have provided more jobs if invested elsewhere.<sup>47</sup>

Using U.S. Bureau of Labour Statistics, Dr. Marion Anderson points out that for each \$1 billion spent on military hardware in 1981, 11,000 jobs were created both directly and indirectly. In contrast, the same amount spent on clothing manufacturing provided 22,000 jobs. And the same \$1 billion provided 37,000 jobs in health services and 48,000 jobs in education.<sup>48</sup> In total, U.S. defence spending resulted in the loss of many thousands of jobs when compared with alternate civilian expenditures.

TABLE 36

**Jobs Generated in the U.S. by \$1 Billion  
of Expenditure**

SECTOR OF THE ECONOMY	NUMBER OF JOBS PER \$1 BILLION EXPENDITURE (1981)
Retail trade	50,000
Education	48,000
Hopitals	37,000
Apparel Manufacture	22,000
Fabricated Metals	12,000
Guided Missiles and Defence Ordinance	11,000

**Source:** Marion Anderson, *Neither Jobs Nor Security: Women's Unemployment and the Pentagon Budget*, Lansing, Michigan, Employment Research Associates, 1983, p. 3.

If we assume that the direct and indirect job loss is only 15,000 for every \$1 billion in expenditures – a very modest estimate – then the \$7.0 billion spent on defence in fiscal 1982-83 will amount to a loss of 105,000 jobs. It is not accidental that Japan, which has the lowest military budget per capita of the major western nations, also has the lowest unemployment rate and the highest rate of growth.

Aside from its deleterious impact on employment, defence spending is also a major factor contributing to our trade deficit in manufactured goods. This is because we import a large proportion of our military hardware. A good example of this was the decision to equip our forces with 137 U.S.-made McDonnell-Douglas F-18 fighter planes – at a total cost of \$5 billion.<sup>50</sup> At the time the decision was made, the most optimistic industry predictions claimed that \$3 billion of this expenditure would remain in Canada as a result of orders for Canadian-made components, primarily from U.S. subsidiaries operating in Canada. A closer examination revealed that much of the value of the offset orders was already agreed to before the federal government's decision.

A more realistic estimate suggests that this one order alone will cost the Canadian balance of payments between \$3 billion and \$4 billion. If there are cost overruns (which are common in military manufacture), the total costs will be much greater. Yet this order is only one of the numerous purchases of foreign-made equipment by the Department of National Defence in its campaign to re-equip our armed forces with the latest and most sophisticated technology.<sup>51</sup>

The balance of payments is also adversely affected by the costs of stationing thousands of Canadian troops overseas. They must be provided with accommodation, food and other supplies, much of which is purchased in the host country. And members of the armed forces spend substantial sums of their personal income on foreign goods while abroad.

The impact of high military spending on Canada's branch plant manufacturing sector is also significant. As we noted earlier, U.S. corporations, which control a large proportion of manufacturing in Canada, are facing growing competition from Europe and Japan. Because of high profits in the war industries, many U.S. firms have focussed their energies and talents on this sector for the past two decades. Over 50 per cent of research and development expenditures in the U.S. during the 1970s were arms-related. In Canada, approximately 35 per cent of R & D went to defence during the same period. Japan spent about 2 per cent on military research, while spending in West Germany fluctuated between 10 and 20 per cent.<sup>52</sup> The result was that West Germany and Japan gradually overtook the U.S. in the production of consumer and producer goods. They devoted their best brains to the question of how to improve commercial products and how to modernize their productive facilities so they could compete effectively on the world market.

In contrast, needed research money and skills were absorbed by the arms industry in the U.S. Consequently, large sectors of American

industry (such as autos, television and consumer electronics) are now losing their markets to the cheaper, higher quality, more technologically advanced products made in Europe and Japan. And, with President Ronald Reagan's commitment to the acceleration of the arms race, this situation will probably deteriorate further as more and more U.S. firms abandon commercial production in favour of the secure, high-profit, cost-plus government contracts handed out by the Department of Defence.<sup>53</sup>

The impact on the Canadian branch plants of U.S. firms has been even greater. Many of the plant closures, bankruptcies and layoffs experienced by Canadians are occurring precisely because the U.S. parent firms have failed to invest adequately in civilian manufacturing. Hence they are now restructuring to deal with their overseas competitors or attempting to get on the defence gravy train themselves. The relatively small amount of commercial R & D carried out by Canadian subsidiaries makes them particularly vulnerable in a period where new technology is required to remain competitive.<sup>54</sup>

U.S. defence spending is also a factor keeping interest rates high throughout North America. Spending increases on military hardware – planned by the Reagan administration – mean the U.S. government will continue to run up large deficits and borrow large sums on national and international money markets. By competing with the private sector for funds, the U.S. government will keep interest rates high in spite of its ruthless monetary policies. With Bank of Canada Governor Gerald Bouey intent upon keeping Canadian interest rates as high as those in the U.S., the result for the Canadian economy is clear.<sup>55</sup>

Defence spending is inflationary. It puts dollars into the economy but does not provide goods or services that consumers can purchase in return. It is analogous to printing money. Indeed, many economists feel that the Vietnam War, involving enormous U.S. expenditures both domestically and abroad, was one of the critical factors leading to the inflation of the 1970s in the U.S. and throughout the world. Again, it is notable that countries such as Japan and West Germany, which spend far less on defence, have been more successful in containing inflation.

While defence spending in Canada is more modest than in the U.S., it is not unsubstantial, as the data cited on the previous pages confirm. By increasing defence spending in an inflationary period, the federal government is ignoring the adverse effect it has on price increases.<sup>56</sup> One of the most decisive measures the federal government could take to control inflation would be to cut defence spending. This would provide more money for services that Canadians actually use. It would also increase employment and allow the government to reduce its borrowing requirements.

If the money currently spent on defence were directed to the construction of badly needed housing (to give only one example), it would provide work for tens of thousands of construction workers, generate orders for Canadian-made building materials (such as wood, glass and cement), and provide additional spinoffs for many other industries. Virtually none of the money would be spent abroad, so the

balance of payments would improve significantly. And Canadians would have something to show for their money: badly needed new housing.

Many other examples could be provided to show how resources currently spent on defence could be better used in providing needed public services to Canadians. Defence spending is a major burden on the economy. Certainly from an economic point of view, the cost of participating in this luxurious international competition is excessive and constitutes one of the major reasons for Canada's current economic crisis.

Finally, it is questionable whether Canada's participation in the arms race has resulted in the achievement of any progress towards security. As the arms race heats up, the prospect of war increases rather than diminishes.

## **The Cost of High Unemployment**

Another factor contributing to our economic crisis is lost production resulting from high unemployment. The federal government has chosen to increase unemployment as part of its solution to fighting inflation. As we noted earlier, there are at least 2 million Canadians without work. High unemployment contributes to the economic crisis in a number of ways.

First, total output is far less than the potential of the economy because idle workers do not produce goods and services. Therefore, all forms of income, including government revenue, are drawn from a smaller economic pie. Rising unemployment has contributed to the sharp drop in economic growth.

Second, unemployment depresses demand in the economy. Because the unemployed are no longer earning their normal incomes they do not have the money to purchase goods and services. This results in lower sales, lower output and, ultimately, lower levels of investment. Under such circumstances, companies with excess capacity do not normally build new plants or purchase new equipment.

Third, unemployment imposes a major burden on government finances. In recent years, the costs of transfer payments from governments to individuals, principally in the form of unemployment insurance and welfare benefits, have risen enormously. In 1967, for example, unemployment insurance benefits totalled \$307 million. In 1982, the cost was about \$9.2 billion, and in 1983 estimates place the figure at \$11.8 billion.

The overall costs of unemployment in Canada are difficult to calculate accurately, but they are enormous just the same. One rough method of estimating the loss to the economy of unemployment is to

calculate how much more would have been produced if those out of work produced as much as those who now have jobs.

Unemployment in 1983 stood at an official rate of about 1.5 million. The total Canadian labour force is 11.9 million. This means that the remaining 10.4 million workers are responsible for producing a GNP of approximately \$375 billion. The share of total GNP produced by each worker is therefore just over \$36,058. If we assume that the unemployed would produce, on average, the same amount of goods and services as those employed, the cost to the economy of their lost production is simply staggering, as the following table illustrates.

**TABLE 37**

**The Costs of Unemployment in  
Canada in 1983**

<b>ITEM</b>	<b>ESTIMATED COST (\$billions)</b>
Lost Production <sup>1</sup>	54.1
Lost Wages <sup>2</sup>	30.3
Mental Health Costs	Not calculated
Unemployment Benefits <sup>3</sup>	11.8
Social Welfare Payments	Not calculated
Training and Skills Wasted	Not calculated
Increased Crime	Not calculated
Lost Tax Revenue (Federal Government only) <sup>4</sup>	9.5

<sup>1</sup> Estimate based on 1.5 million unemployed and a GNP projection of \$375 million for 1983.

<sup>2</sup> Based on labour share of GNP of 56.0 per cent.

<sup>3</sup> Based on estimates in the April 19, 1983 Federal Budget.

<sup>4</sup> Based on 1982-83 Federal Revenues.

The enormous waste of human potential and productive capacity associated with Canada's very high unemployment rate – a waste amounting to at least \$54.1 billion in lost output if we accept the official rate of unemployment (and much more if we take a more realistic view) – is another major factor contributing to our economic crisis. As the preceding table also illustrates, the high level of unemployment reduces tax revenues by approximately \$9.1 billion and raises UIC costs by an estimated \$11.8 billion. It also places many additional strains on social and public services. Thus the cost to government (and therefore to all of us who pay taxes) is very substantial.

## Beating Inflation by Blaming Workers?

A final reason for the economic crisis stems from the wholesale adoption by governments of the deflationary policies advocated by corporate interests. Rather than dealing with the structural causes of our economic malaise, governments have followed policies explicitly designed to shift the burden of the economic crisis to workers.

Since 1975, the Bank of Canada and the Department of Finance have followed monetarist policies designed to squeeze inflation out of the economy. Yet because these policies have not addressed the root causes of our economic mess, they have only accelerated our descent into a near depression. As we noted earlier, high interest rates and tight money have throttled major portions of industry and led to mass layoffs and foreclosures. At the same time, these policies have greatly increased the degree of economic centralization within the country by providing the banks and other financial institutions with unprecedented control of corporate decisions in virtually every sector of the economy.

Reductions in public spending, advocated by business as a solution to our economic problems, have led instead to reduced demand in the economy, more layoffs, and the loss of valuable – and socially necessary – public services. Cuts in federal transfer payments to the provinces under the *Established Programs Financing Act*, the Canada Assistance Plan, and other cost-sharing arrangements, have resulted in tens of thousands of teachers, nurses, social service workers, and provincial government employees being laid off.<sup>57</sup>

Wage control programs, while not officially part of the monetarist “solution,” have reduced real wages. The objective has been to assist business to lower its labour costs and shift income from workers to investors. Yet these programs have taken purchasing power out of the economy and thereby pushed us further toward depression.

Wage controls have also raised the level of unemployment. Lower real incomes have meant that workers have less money to buy goods and services. This has led to lower sales, which in turn have led to reduced production and thus to more layoffs. Ironically, the arguments used by business representatives (such as Ian Sinclair) to sell the federal government’s “6 and 5” public sector wage controls program to private sector workers, suggest exactly the opposite to what is actually taking place. Wage controls in the public sector do not help private sector workers. Instead, they further deflate the economy and lead directly to more layoffs among workers in auto, steel and other manufacturing industries.

If monetarism is accelerating our descent into a depression, the question arises: why does the corporate sector still favour this approach? The answer is at the heart of understanding recent economic policies followed by federal and provincial governments.

First, it must be recognized that not all business enterprises are strongly in favour of monetarist policies. Many small firms have been

forced into receivership as a result of high interest rates and falling demand for their products. Gerald Bouey's "cure" for the economy is not one which benefits such firms.<sup>58</sup> And not just the small firms are suffering. Certain sectors of the economy, such as manufacturing, are being particularly hard hit. Monetarist policies do not make a great deal of sense for many of these companies either.

For other firms, and especially the large multinationals, monetarist policies *do* make sense in the long term. High interest rates result in numerous bankruptcies and reduce competition; hence, they increase corporate concentration. Control of the economy by the major financial institutions is greatly increased as hard-pressed companies scramble to meet the rising costs of borrowed money.

More significantly, monetarist policies are facilitating the systematic dismantling of the welfare state. They are laying the groundwork for a basic re-orientation of future government policies. Business interests believe the crisis will facilitate major cuts in government funding for health, education and social welfare. This in turn will mean that more of these activities will be carried out in the private sector and that taxes can be reduced correspondingly.

The dominant groups within the corporate sector also believe the crisis can be used to carry out major – and permanent – reductions in the real wages and living standards of Canadian workers. At the same time, high unemployment will enable firms to undermine the bargaining power of unions and roll back many of the contractual benefits negotiated over the past two decades. Such major "takeaways" can only be justified and carried out in the context of a major economic crisis, when workers can be admonished to make sacrifices "in the national interest."

The crisis is also providing the opportunity for many firms to restructure their operations by closing down less efficient plants and laying off workers in less productive areas of their operations. In the international context, it will provide companies with an opportunity to transfer more of their labour-intensive jobs to low-wage, Third World countries.

The long-term objective of the banks and larger corporations in advocating monetarist policies is clear. They want to restructure the economy on a new foundation, one in which the demand of corporations for higher profits will take precedence over the social and economic needs of ordinary Canadians. Falling real wages, lower living standards, and reduced union interference in corporate affairs will provide the basis for major increases in profits in the long term. At the same time, the economic crisis will be used to shift the balance of social power. The labour movement will be greatly weakened while the influence of investors, bankers and corporate executives will expand.

To put this another way, the policies followed by governments in recent years are – and will continue to be – disastrous from the viewpoint of ordinary Canadians. Rising unemployment, lower living standards and deteriorating public services are clearly not what ordinary Canadians want. But these very same policies appear likely to provide the corporate sector with a new and much more favourable investment

climate. As syndicated Ottawa columnist Don McGillivray has pointed out: "Workers are being told to bite the bullet so that investors can bite a little more filet mignon."

The preceding discussion of the underlying causes of our present economic mess demonstrates why neither government social programs, nor workers' wage increases, are responsible for our deepening recession. The growing monopolization of the economy, the high level of foreign control, the distorted pattern of investment promoted by the private sector, the excessive level of defence spending, the lost output associated with high unemployment, and the disastrous economic policies promoted by business (such as monetarism), have all contributed to the present economic morass. Yet the federal government is reluctant to take action to rectify the underlying causes of the crisis because it would offend the powerful business interests who control the economy and who ultimately believe they will benefit from these policies. Instead, the federal government has decided to make working people bear the burden of the crisis.

## CHAPTER 4

# The Impact of the Economic Crisis on Government

### Deficits in a Cold Climate

**A**s we have seen, the corporations blame government for the current economic mess. In particular, they argue that government spending in recent years has been totally out of control, with the result that deficits have ballooned. It is true that deficits have risen dramatically, but the reason is not to be found in new spending sprees by federal, provincial and local levels of government. In fact the opposite is true: public spending on services has decreased sharply in recent years. Yet despite major cutbacks, the financial situation of governments at all levels has continued to deteriorate.

The reason for this deterioration lies in the wider crisis of the capitalist economy, which has placed increasing pressures on government revenues and expenditures. Some of these pressures are a direct result of the halt to economic growth in recent years.<sup>1</sup> Others are due to government policies designed to bail out the private sector, such as more tax breaks and corporate subsidies.<sup>2</sup> And, finally, some are due to the underlying structural weaknesses of the Canadian economy that are leading to a contracting tax base. Because the issue of government spending and government deficits has become such a crucial one in recent years, it is fruitful to look, in turn, at each of these causes of the deteriorating state of government finances.

TABLE 38

**Federal Government Revenues and Expenditures  
(National Income and Expenditure Accounts Basis)  
1947 – 1982**

YEAR	TOTAL REVENUES	TOTAL EXPENDITURES	DEFICIT (-) OR SURPLUS	SHARE OF GROSS DOMESTIC PRODUCT
			(\$ millions)	
1960	6,517	6,747	-229	2.9
1961	6,779	7,189	-410	2.8
1962	6,979	7,486	-507	6.8
1963	7,323	7,609	-286	5.5
1964	8,355	8,010	345	6.4
1965	9,095	8,551	544	6.8
1966	9,984	9,753	231	7.0
1967	10,906	10,990	-84	3.4
1968	12,218	12,229	-11	5.6
1969	14,490	13,469	1,021	5.2
1970	15,528	15,269	266	2.6
1971	17,241	17,386	-145	7.0
1972	19,560	20,126	-566	5.8
1973	22,809	22,422	387	7.5
1974	29,978	28,869	1,109	3.5
1975	31,703	35,508	-3,805	1.1
1976	35,313	38,704	-3,391	5.8
1977	36,509	43,812	-7,303	2.4
1978	38,390	49,075	-10,685	3.9
1979	43,541	52,805	-9,264	3.2
1980	50,646	60,799	-10,153	0.5
1981	63,737	71,716	-7,979	3.8
1982	64,874	85,957	-21,083	6.0

**Source:** Statistics Canada, *National Income and Expenditure Accounts*, cat. 13-001.

## The Impact of Economic Stagnation: Decreasing Government Revenues and Increasing Costs

The decline in economic growth since the late 1970s has resulted in a sharp reduction in tax revenues. Yet, at exactly the same time, major increases in spending have been required to deal with the costs of higher unemployment and related social welfare services. The recent experience of increasing deficits, despite fiscal restraint, contrasts sharply with the period in the 1960s and early 1970s when government services were expanding.

In the context of a growing economy, it was possible to increase services without incurring major government deficits. This was because growth generated sufficient additional tax revenues to pay for more public services. Low levels of unemployment meant that expenditures on unemployment insurance, welfare and related social services did not constitute a major drain on government finances. Indeed, it can be argued that the expansion of government during this period acted as a stimulus to overall economic growth which, in turn, provided the revenues needed to pay for the expansion.

In the decade of rapid economic expansion between 1960 and 1969, the federal government averaged a small surplus of revenue over expenditures on a national accounts basis. Although the pattern of surpluses and deficits fluctuated from year to year, the overall trend was positive. Growth in the economy averaged 5.2 per cent per year. Between 1971 and 1974, federal expenditures were approximately equal to revenues, and there was no clear trend towards either surplus or deficit. Economic growth averaged 5.3 per cent per year. Table 38 illustrates these trends.

If we examine the relationship between *total* government budget balances (federal, provincial and local), and economic growth, the situation is broadly similar. The deficits that occurred in the early years of the 1960s were more than compensated for by the surpluses of the latter part of the decade. The first half of the 1970s was also characterized by small surpluses each year. What is significant is that the major increase in government spending at all levels of government occurred precisely in the 1960 to 1974 period. The Canada Assistance Plan, medicare, the expansion of post-secondary education, and a

TABLE 39

**Total Government Revenues and Expenditures in Canada  
(National Income and Expenditure Accounts Basis)  
1947 – 1982**

YEAR	TOTAL REVENUES	TOTAL EXPENDITURES (\$ millions)	DEFICIT (-) OR SURPLUS
1960	10,710	11,380	-670
1961	11,365	12,200	-835
1962	12,491	13,197	-706
1963	13,308	13,932	-624
1964	15,004	14,905	99
1965	16,761	16,554	207
1966	19,526	19,101	425
1967	21,976	21,828	148
1968	24,974	24,472	502
1969	29,141	27,226	1,915

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1970	31,954	31,148	806
1971	35,335	35,205	130
1972	39,819	39,738	81
1973	46,297	45,045	1,252
1974	58,756	55,961	2,795
1975	64,239	68,288	-4,049
1976	73,496	76,718	-3,222
1977	81,310	86,315	-5,005
1978	89,489	96,881	-7,392
1979	101,472	106,475	-5,003
1980	115,676	121,851	-6,175
1981	137,385	141,410	-4,025
1982	146,925	165,557	-18,632

**Source:** Statistics Canada, *National Income and Expenditure Accounts*. Cat. 13-001.

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wide range of other programs were initiated during this period. The expansion of public programs was *not* accompanied by major increases in government indebtedness.

It was only as the economy began to falter in the mid-1970s that government finances deteriorated sharply. Ironically, as policies of fiscal restraint were ratcheted ever more tightly, government deficits skyrocketed.

In 1975, the year that Finance Minister John Turner announced his intention of keeping government spending below the overall growth of the economy, the federal government incurred its first major deficit of \$3.8 billion. This was the year that wage controls were introduced and the year that Turner slashed \$1.0 billion from projected federal spending. It was also the year in which many of the tax concessions to business, which Turner had introduced in 1972, began to have a significant impact in lowering tax revenues.

The high federal government deficits from 1975 onwards have come at precisely the time that government spending stopped growing, relative to spending in other sectors of the economy. According to the 1980 federal finance department's *Annual Review*:

There were important developments in the government sector over the course of the 1970s. The decade began with relative rapid growth of government expenditures building to a peak at mid-decade. The latter part of the decade was characterized by the emergence of an express policy of [government] expenditure restraint, which led to much more moderate rates of expenditure growth in relation to Gross National Product (GNP). In the first half of the decade the fiscal position of all levels of government tended to surplus, despite significant increases in expenditure, and in the latter half, large deficits appeared.<sup>3</sup>

It is not the absolute size of the public sector or the growth of public spending that is responsible for the current deficits, but rather the new economic circumstances of low growth, high inflation, high unemployment, balance of payments deficits and the resulting reduction of government revenues. In the five years between 1975 and 1979, the average rate of economic growth fell to 3.3 per cent. Federal government and total government deficits rose substantially during this period. Again, to cite the Department of Finance and its 1980 *Annual Economic Review*:

In contrast to the early 1970s, the second half of the decade was characterized by budget deficits which were large in historical perspective, both in absolute terms and in relation to GNP. This deficit resulted from a slowdown in revenue growth originating from a cyclically weakening economy and large tax cuts at the same time as expenditures continued to expand at rates in excess of 20 per cent. Since 1976, the growth of expenditures has been restrained as a matter of policy. In 1976, expenditure restraint and the absence of major tax cuts led to a small reduction in the deficit. The deficit increased in both 1977 and 1978, reaching \$11.4 billion or 4.9 per cent of GNP in 1978 as a result of significant tax reductions. In 1979, the deficit declined markedly to \$9.2 billion, or 3.5 per cent of GNP. This turn-around can be attributed to the combination of tight expenditure restraint and revenue recovery associated with the expiry of temporary tax cuts in effect in 1978 and with strong growth in corporate profits.<sup>4</sup>

Since the preceding comments were written, the economic climate has deteriorated sharply. GNP rose by 0.5 per cent in 1980 and 3.4 per cent in 1981. However, it fell sharply by 4.4 per cent in 1982, and increased by only 2.9 per cent in 1983. In other words, the first four years of the 1980s have yielded negligible growth, on average.

The sharp decline in economic activity had a corresponding impact in reducing government revenues and increasing expenditures. The contribution of the slump to increasing the federal deficit was underlined in the April 1983 budget of federal Finance Minister Marc Lalonde.

The very severe recession that started in mid-1981 caused a dramatic widening of the deficit as revenues fell and expenditures, particularly unemployment insurance benefits, rose. The estimates of the budget deficit, adjusted for cyclical conditions, indicated that 60 to 80 per cent of the approximately \$13 billion rise in the federal deficit that occurred in 1982 was due to the automatic effect of lower activity levels on revenues and expenditures. In terms of levels, the estimates for 1982 suggest that the federal cyclically-adjusted or structural deficit might be in the \$9 billion to \$12 billion range, compared to an actual deficit of over \$21 billion. This indicates that about half the federal deficit in 1982 was due to the impact of economic conditions on revenues and expenditures.<sup>5</sup>

Moreover, it is estimated that federal budget deficits will remain high in the coming years. The 1983-84 deficit was estimated at \$28.2 billion, and the 1984-85 deficit is projected at \$24.7 billion.

Growing deficits were not a result of increases in spending on government programs. Actual spending on hospitals, medicare, education, social services and many other public services has been cut back sharply. Federal government program outlays have *fallen* from 20.5 per cent of GNP in 1975-76 to 18.2 per cent in 1982-83. The following table illustrates this decline.

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**TABLE 40**

**Federal Government Program Outlays  
as a Per Cent of GNP**

YEAR	PROGRAM OUTLAY (per cent GNP)
1975-76	20.5
1976-77	18.6
1977-78	18.4
1978-79	17.5
1979-80	16.4
1980-81	16.2
1981-82	15.9
1982-83	17.6
1983-84 (preliminary)	18.6
1984-85 (estimate)	18.1

**Source:** Marc Lalonde, *The Fiscal Plan*, Department of Finance, *Budget paper*, Feb. 15, 1984.

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This point was forcefully made by the Finance Minister in the April 1983 budget.

Compared to revenues, the share of expenditures in GNP has remained relatively stable since 1975. This stability is ever more noticeable when allowance is made for varying cyclical conditions. In 1975, the government announced that it would endeavour to hold the trend growth in its expenditures to no more than the trend growth in the economy as a whole. . . . The expenditure to GNP ratio was indeed held more or less constant over the 1975-81 period.<sup>6</sup>

The preceding quotation gives the impression that spending on government social programs has remained constant. This is not the case. There has been a shift within government program outlays towards more spending on defence and economic development projects (read corporate subsidies) at the expense of public services. As we shall discuss in a following section, interest costs have also been taking a larger and larger share of public expenditures. Thus, while total government spending has dropped by 2 per cent of GNP since 1976, the composition of that expenditure has also changed significantly.

The seeming paradox of reduced expenditure on public services and growing deficits is not unique to Canada. The adoption of more conservative economic policies in the majority of western capitalist countries since the mid-1970s led to attempts to reduce the share of

government spending in total Gross National Expenditure. Most governments cut back on social programs in their efforts to reduce public spending and limit the growth of their deficits. However, the impact of the economic crisis counteracted these policies. As the OECD *Observer* points out:

A central aim of most governments over this period has been the reduction of budget deficits; and here they have been less successful. There can be no doubt about the will of governments to reduce deficits. Over the three years from 1979 the effect of action taken by the seven largest countries in respect of expenditure and tax rate changes might, taken by itself, have been such as to reduce their combined deficit by nearly 1-1/2 per cent of GNP; only in the United States has there been a move, on this basis, towards greater ease, and that only small. But governments' efforts in many countries have been frustrated by two factors. . . . First, in the general deflationary climate, itself in part due to the fact that many countries were simultaneously adopting tight policies, all deficits were swollen by what have traditionally been thought of as "automatic stabilizers" – reduced tax yields and increased payments to the unemployed-on average by perhaps 2-1/2 to 3 per cent of GNP. . . . Second, increased interest payments, resulting largely from higher interest rates, but also from increased indebtedness, may have pushed deficits up by between one-half and one per cent of GNP.<sup>7</sup>

TABLE 41

**Changes in Budget Balances<sup>1</sup>, 1979 to 1982  
OECD Estimates, Per Cent of GDP/GNP,  
(Minus (–) Equals Movement Towards Deficit)**

	APPARENT "EX ANTE" CHANGE <sup>2</sup>	EFFECT OF CHANGES IN ECONOMIC ACTIVITY	EFFECT OF INCREASED INTEREST PAYMENTS <sup>3</sup>	ACTUAL CHANGE
United Kingdom	6.0	–4.4	–0.5	1.1
Japan	3.4	–0.7	–1.2	1.5
Canada	2.6	–5.7	–1.3	–4.4
Germany	2.1	–2.8	–0.7	–1.4
France	1.2	–2.5	–0.9	–2.2
Italy	1.2	–2.3	–1.8	–2.9
United States	–0.2	–3.5	–0.6	–4.3
<b>Average, seven countries<sup>4</sup></b>	<b>1.5</b>	<b>–3.0</b>	<b>–0.8</b>	<b>–2.3</b>

<sup>1</sup> General government financial balances.

<sup>2</sup> i.e., excluding effects of changes in economic activity and increased interest payments.

<sup>3</sup> On public debt, assuming one-third of interest payments is returned to the government in taxes.

<sup>4</sup> 1982 GNP/GDP weights and exchange rates.

In short, one of the key factors in increasing the size of government deficits has been the adverse impact of economic stagnation on government revenues and expenditures, and not government spending sprees, as we are so frequently told by the corporate sector.

## The Costs of Regressive Fiscal Policies

We noted earlier that the adoption of economic policies advocated by business has adversely affected government budget balances. This has happened in a number of related ways. First, by deliberately deflating the economy, such policies have pushed us much closer to a depression. In the process, they have greatly exacerbated the adverse impact of the downturn in the business cycle on government finances. Economic stagnation has lowered tax revenues, while simultaneously increasing expenditure responsibilities. Those who have lost their jobs no longer pay income taxes. And they make new demands on UIC and welfare programs.

In addition, the deliberate lowering of real wages since the imposition of the Anti-Inflation Board (AIB) has reduced the amount raised from income taxes. Those with lower incomes do not pay as much in tax; nor do they purchase as many goods and services, so indirect tax revenues also suffer. And they are not producing goods or services, so there is a further loss in revenue associated with taxes flowing from production.

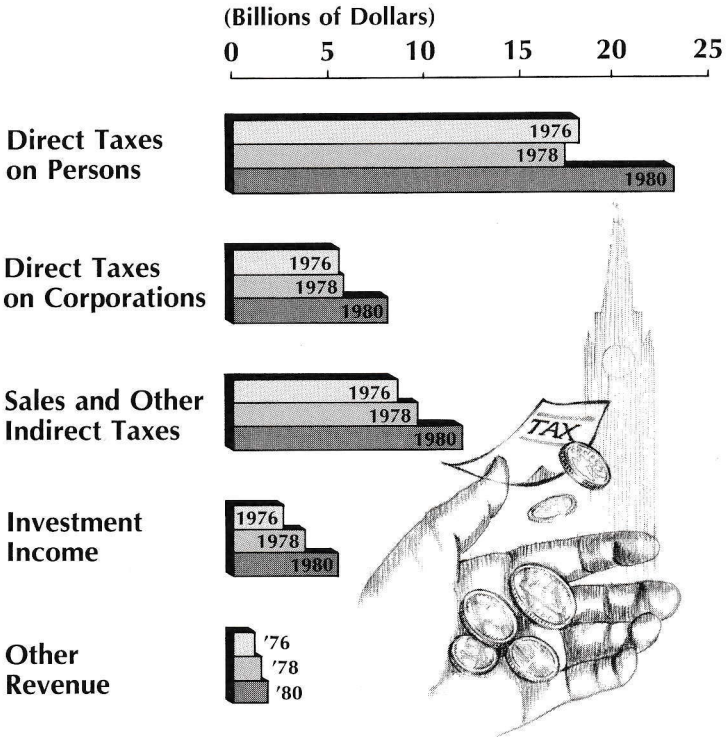
Between 1976, when the AIB wage restrictions began to bite, and 1980, revenue from taxes on persons increased from \$18.0 billion to \$23.0 billion. This constituted a rise of only 27.8 per cent. In the same period, the Consumer Price Index increased by 41.4 per cent. So government revenues from personal income tax fell 13.6 per cent behind inflation in that four-year period alone.

The chart on page 81 illustrates the way in which the falling real value of personal incomes affected overall government revenue in the 1976 to 1980 period.

It should be noted that the slight increase in corporate taxation, which arose because of the shift in national income from wages to profits during the 1976-1980 period, was only a small proportion of the total lost by the relative decline in wages. Therefore, while the AIB was extremely effective in transferring income from workers to shareholders, it was highly detrimental to government revenues. These observations are reinforced by the conclusions of the Department of Finance:

Federal direct taxes on persons increased from 8.7 per cent of GNP in 1970 to 9.4 per cent of GNP in 1976, declined in 1977 and 1978 to 8.5 and 7.5 per cent respectively, and recovered somewhat to 7.6 per cent of GNP in 1979. These trends are explained by the trajectory of personal income taxes which are the main source of revenue in this particular tax category. These taxes grew rapidly during 1973-1976 in response to a significant surge in the growth of personal incomes and

## Federal Government Revenue by Source (1976-1980)



in spite of a number of discretionary tax reductions. They declined in dollar terms in 1977 and 1978 due to a slowdown in the growth of personal incomes.<sup>8</sup>

Unfortunately, the federal government has apparently not learned from its past experience. Prime Minister Trudeau argued vigorously at the February 1982 First Ministers' Conference that provincial governments must restrain spending and impose wage guidelines on their employees. In June of that year, Finance Minister MacEachen introduced the "6 and 5" wage restraint program. Shortly after, most provinces announced measures to control public sector wages in their respective jurisdictions. Some provinces, such as Quebec and B.C., actually reduced the wages of their public sector workers. Private sector employers, spurred on by the example of the federal and provincial governments, accelerated their push to lower wages.

At the time of writing (early 1984), it appears that forms of wage restraint will continue. The adverse impact of such policies in lowering government revenues is obvious. The federal government has responded by introducing a number of measures that will effectively increase the rate of personal taxation. The measures include the partial de-indexing of income tax brackets (introduced in the 1982 budget) and the abolition of a number of tax deductions for low and middle income earners (in the June 1983 budget).

In other words, to prevent a continuing decline in tax revenues from personal income tax, the federal government is adopting measures which will raise the rate of tax paid by low and middle income earners. Declining real wages will be accompanied by rising real rates of taxation on ordinary working Canadians. This is illustrated in the sharp increase in personal tax revenues between 1980 and 1982, and the corresponding decline in corporate revenues during the same period. This is shown in the following table.

**TABLE 42**

**Federal Government Revenue by Source  
1976 – 1982**

<b>SOURCE OF REVENUE</b>	<b>1976</b>	<b>1978</b>	<b>1980</b>	<b>1982</b>
		(\$billion)		
Direct Taxes on Persons	18.0	17.3	23.0	32.2
Direct Taxes on Corporations	5.2	5.5	8.0	6.7
Sales and Other Indirect Taxes	8.6	9.7	12.1	17.3
Investment Income	2.6	3.8	5.2	6.2
Other Revenue	1.0	1.2	1.8	2.5
<b>TOTAL</b>	<b>35.4</b>	<b>37.6</b>	<b>50.1</b>	<b>64.9</b>

**Source:** Statistics Canada, *National Income and Expenditure Accounts* Cat. 13-001

Another component of the more conservative policies adopted since the mid-1970s has been a growing reliance on monetary policy. Monetarism has been characterized by the belief that inflation can be squeezed out of the economy if the money supply is tightened sufficiently. But restricting the growth of the money supply has led to skyrocketing interest rates. And high interest rates have in turn become a growing burden on government finances, absorbing a greater and greater share of government budgets. It is ironic, but true, that the policies of Gerald Bouey and the Bank of Canada have resulted in significantly higher government spending to service the deficit.

In fiscal 1975-76 the share of interest payments in total government spending in Canada was 10.3 per cent. In fiscal 1981-82 it had risen to 22.0 per cent of total spending. While some of this increase was a result of the larger government deficit, much of it can be directly attributed to higher interest rates.

Interest rates payable on Government of Canada 10-year bonds increased from an average of 8.70 per cent in 1977 to 15.22 per cent in 1981 and 14.26 per cent in 1982. Although interest rates declined in 1983, the rate still hovered around 11 per cent. The following table shows the interest rates paid on government securities from 1977 to the beginning of 1984.

TABLE 43

### Interest Rates Paid On Government of Canada Securities

YEAR (Annual Average)	BANK RATE	1-3 YEAR BONDS	5-10 YEAR BONDS	10+ YEAR BONDS
1977	7.71	7.33	8.13	8.70
1978	8.98	8.74	9.08	9.27
1979	12.10	10.75	10.16	10.21
1980	12.89	12.44	12.29	12.48
1981	17.93	15.96	15.29	15.22
1982	13.96	13.81	14.03	14.26
1983	9.56	11.01	11.09	11.79
1984 (Jan.)	9.98	8.95	11.32	11.92

Source: Bank of Canada

The growing share of government expenditure allocated to interest payments is one reason for the seeming paradox of rising government expenditures at a time when major cuts in public and social services have been implemented. Between 1970 and 1980, interest paid on the federal government's deficit increased from \$1.9 billion to

\$9.6 billion. In 1981, interest charges amounted to \$14.7 billion and in 1982 they were \$16.7 billion.

Monetarist policies have done more than simply raise the cost of servicing the federal government's debt. Monetarism and its high interest rates have played a major role in throttling Canada's overall economic activity, and as a result have reduced government tax revenues and raised expenditure responsibilities.

Regressive economic policies have also resulted in the abandonment of a number of important sources of tax revenues. In order to promote private sector investment and placate demands by the well-to-do for greater incentives, federal and provincial government have enacted a wide range of new corporate tax reductions. Simultaneously, other tax loopholes have been introduced to permit higher income earners to retain more of their income. This has been done in the (mistaken) belief that economic recovery is critically dependent on placing more money in the hands of private investors.

Bailing out the corporate sector has proved to be an increasingly costly proposition. The Department of Finance has published a number of assessments of the impact of tax concessions on government finance in recent years, but none is complete and many tax expenditures have never been properly costed.<sup>9</sup> Data on those that have been costed are presented in the following chapter for both corporations and individuals.

The conclusion flowing from this data is that the tax expenditures introduced since 1972 have resulted in losses to the federal government almost equal to the deficits incurred in recent years. For example, in a special study on the impact of tax expenditures, the Department of Finance outlined a list of 16 tax changes introduced between 1972 and 1979 which, in total, cost the federal government \$14.9 billion in 1979 revenues. This was almost \$6 billion greater than the federal government's deficit that year. In a paper accompanying the June 1983 budget, the finance department listed a more limited number of tax concessions introduced since 1972 which cost the federal government a total of \$13.7 billion in lost 1982 tax revenues.

Caution is always required in making projections of possible revenue if certain concessions had *not* been made. But it is not unreasonable to assume that much of the current federal deficit could have been avoided if such large tax concessions had not been given to the private sector during the past decade and if the federal government had not been so anxious to appease business interests by adopting anti-inflation policies which resulted in deflating the economy and lowering tax revenues.<sup>10</sup>

What is perhaps most worrying about the impact of tax concessions over the past decade is that they have contributed to a basic structural imbalance between revenues and expenditure responsibilities which will not disappear even if the economy once again achieves a high rate of sustained economic growth. Current projections indicate that the federal deficit will continue to remain quite large for the remainder of the decade, despite projected improvements in Canada's

economic performance.<sup>11</sup> And, if the improvements do not materialize, the deficits will be even larger.

A large deficit would not be a serious problem if the money were being allocated to improving the underlying structure of the economy. Borrowing to make investments, strengthening the economic infrastructure, implementing a manufacturing strategy, modernizing educational and hospital facilities, and laying the foundation for domestic processing of our raw materials would be perfectly justified. For it would strengthen the future productive capacity of the economy. And, in the process, it would put the unused resources of the economy and the two million unemployed back to work.

Unfortunately, much of the growth of the present deficit does not fall into this category. While part of the deficit is a result of the recession, a major portion can be attributed to the loss in government revenues associated with the huge giveaways to business which began in 1972. Ironically, the present finance minister, Marc Lalonde, acknowledged this point in the 1983 budget:

[T]he increased federal deficit over the second half of the 1970s was not due to runaway expenditure growth. It was due in large part to a succession of tax cuts introduced in response to weak activity.<sup>12</sup>

To put this more bluntly, the federal government has been borrowing to provide tax concessions to companies and private investors. The long-term implications of this policy for the financial position of the federal government are of great concern. For the resulting revenue shortfall is gradually crippling the ability of the federal government to support other programs.

What is even more disturbing is that recent budgets have introduced a wide range of new corporate tax concessions. These will further erode the government's ability to raise revenues in the coming years.

## **The Contracting Tax Base: Resource Development and the Loss of Tax Revenues**

Another aspect of the financial crisis facing government is the growing structural weakness of the Canadian economy. As we noted earlier, our manufacturing industry is in a state of crisis. We have become more and more dependent upon the export of raw materials and unprocessed foodstuffs. And we have devoted very large amounts of our investment capital to oil, hydro-electric and other energy investments.<sup>13</sup>

The distorted pattern of investment, much of which is controlled by foreign multinational companies, has resulted in the erosion of a substantial portion of the tax base. This is most obvious in the area of natural resources. Total employment in forestry, mining and oil represents less than two per cent of overall employment in Canada. It is declining year by year as technology replaces labour. What this means is that personal and sales tax revenues derived from employees

in these industries constitute a very small percentage of overall tax revenues, despite the enormous investments which have been made in these resource industries.

At the same time, revenue from corporate taxes on these industries is surprisingly small, particularly when government subsidies and grants to the resource sector are taken into account. The following table gives a detailed breakdown of the corporate tax contribution to all levels of government by various industries.

**TABLE 44**

**Total Federal and Provincial  
Corporate Income Taxes for  
Selected Industries  
1981 and 1982**

INDUSTRY GROUP	1981	1982
	(\$ millions)	
Agriculture and Fishing	99.2	94.5
Forestry	22.1	16.3
Mining Total	1,637.5	1,851.6
Metal Mining	176.5	49.2
Mineral Fuels	1,213.6	1,611.2
Other Mining	247.4	191.2
Manufacturing Total	3,722.5	2,284.0
Construction	451.3	431.3
Transportation, Communication and Utilities	924.7	1,087.7
Wholesale Trade	1,111.8	821.4
Retail Trade	680.8	533.7
Finance	1,642.1	1,441.8
Services	881.2	803.8
<b>All Industries Total</b>	<b>11,173.1</b>	<b>9,365.8</b>

**Source:** Statistics Canada, *Corporation Taxation Statistics*, Cat. 61-280p.

As the preceding table documents, total corporate tax revenue from the entire mining sector amounted to \$1.6 billion in 1981 and \$1.9 billion in 1982. This represented 14.7 and 19.8 per cent of total corporate tax revenues. And, when looked at as a percentage of total government revenues (which amounted to \$137.4 billion in 1981 and \$146.9 billion in 1982), corporate taxes in this sector amounted to approximately 1.2 per cent in 1981 and 1.3 per cent in 1982.

Moreover, these relatively small revenues are largely offset by the generous subsidies provided by federal and provincial governments.

According to the federal Petroleum Monitoring Agency, a total of \$0.8 billion was given in subsidies to the oil industry in 1981. Yet total tax revenues from companies in the mineral fuels sector were just over \$1.2 billion. Consequently, the total contribution of the oil industry to government revenues, through corporate income tax, was approximately \$400 million in that year.

Figures released by the Petroleum Monitoring Review Agency indicate that subsidies under the Petroleum Incentives Program rose to \$1.5 billion in 1982.<sup>14</sup> Accordingly, the contribution of corporate taxes by the oil industry to government revenues will likely be only \$350 million. Although corporate taxes raised in the resource sector are surprisingly low, the amount of capital invested in this sector is enormous. In 1981 and 1982, the oil industry absorbed \$10.4 and \$10.6 billion in investment capital.<sup>15</sup> Total investment capital in primary industries for the same years was \$20.9 billion and \$23.9 billion. This amounted to over one-fifth of all investment in the economy in these years and was significantly greater than the amount invested in manufacturing.

The reduction of the tax base as a result of the distorted pattern of investment in the Canadian economy is likely to become more serious as tax revenues from manufacturing decline due to the contraction of that sector of the economy. This problem is exacerbated by the increasing ability of many of the larger companies to avoid taxation through a wide range of business practices, such as transfer pricing by multinationals and the use of overseas tax havens. In short, the overall direction of economic development favoured by the private sector is one which is undermining the tax base needed to support public services.

The conclusions flowing from the preceding analysis show that the deteriorating financial situation of the public sector in Canada is not caused by excessive government spending but by the underlying crisis of the free enterprise or capitalist economy. The growing depression, when combined with the deliberate adoption of monetarist economic policies, has reduced revenues dramatically while raising expenditure obligations associated with assisting the victims of the crisis.

In addition, the deliberate and systematic reduction in corporate taxes and the increased level of subsidies for the private sector have placed a growing burden on hard-pressed public budgets. The costs to the public treasury of generating a favourable investment climate for private capital have been, and continue to be, enormous. Finally, the distorted pattern of investment and economic development followed by the private sector has led to a major contraction of the tax base with serious implications for the future solvency of government finance in Canada.

## CHAPTER 5

# Regressive Tax Policies and the Undermining of Government Finances

### The Tax Shift from Corporations to Workers

**I**n the previous chapter we examined some of the ways in which government tax policies have contributed to the current crisis in public sector finance. The importance of this subject warrants a more in-depth examination of the overall trend of taxation – both corporate and individual. In this chapter, we shall see how our tax structure is becoming less progressive because the burden of taxation has shifted from corporations and the wealthy to ordinary taxpayers. In the process, the ability of governments to raise adequate revenues is being systematically eroded. Major sources of government funding have been deliberately left untapped because those individuals and corporations who would be taxed have sufficient political and economic power to gain tax-exempt status for their wealth and income.

In the period immediately after the Second World War, working people paid only a small percentage of their income in personal taxation. Large numbers of workers paid no income tax at all. Corporations, on the other hand, supplied a very substantial part of overall government revenues.

Since the 1950s, this has changed dramatically. The burden of paying for government services has increasingly been shifted to working people. Social programs have not been financed through redistributive taxation but by increasing taxes on ordinary Canadians. The following table shows the increase in the number of taxpayers from 1938 to 1980 for selected years.

One reason why more people are paying increased personal income tax is that the corporations have succeeded in reducing their

TABLE 45

**Personal Income Tax Payers as  
a Per Cent of Total Population**

TAXATION YEAR	NUMBER OF TAXPAYERS (thousands)	TOTAL POPULATION	TAXPAYERS AS A PER CENT OF TOTAL POPULATION
1938	293	11,152	2.6
1945	2,254	12,072	18.7
1960	4,390	17,870	24.6
1970	7,642	21,297	35.9
1980	9,907	23,809	41.6

**Source:** Revenue Canada *Taxation Statistics*; Statistics Canada, *Canadian Statistical Review*, Cat. 11-003.

share of tax contributions. In 1950, direct taxes on persons (principally income tax) amounted to 19.7 per cent of total government revenues. Corporation taxes in the same year represented 21.4 per cent of government revenue, a larger share than that paid by individuals. By 1982, after many years of business lobbying, taxes on individuals had risen to \$57.8 billion, or 39.2 per cent of government revenues. In contrast, taxes on corporations had risen to \$9.1 billion, and the share of revenues from corporate taxes had fallen to only 6.4 per cent.

Thus, in the past three decades, corporate taxes, which once substantially exceeded those imposed on individuals, have fallen to one-sixth of what individuals pay. The following table provides data on the taxes paid by each group from 1950 to 1982.

TABLE 46

**Corporate and Personal Taxes as a Percentage of  
Total Government Revenues (Excluding Inter-Governmental  
Transfers)**

YEAR	CORPORATE TAXES (\$ billion)	CORPORATE TAXES AS A PER CENT OF TOTAL REVENUE	PERSONAL TAXES (\$ billion)	PERSONAL TAXES AS A PER CENT OF TOTAL REVENUE
1950	.99	21.4	.91	19.7
1960	1.56	14.5	2.79	26.1
1970	3.07	9.6	11.55	36.1
1980	12.2	11.0	42.2	36.5
1982	9.06	6.4	57.77	39.2

**Source:** Statistics Canada, *National Income and Expenditure Accounts*, Cat. 13-001.

Future projections do not indicate that there will be a marked change in this situation. According to the federal finance department, revenue from personal income taxes at the federal level will increase from \$19.8 billion in 1980-81 to \$29.0 billion in 1983-84.<sup>1</sup> In contrast, revenue from corporate taxes will actually decrease from \$8.1 billion in 1981-82 to \$7.8 billion in 1983-84. While it is true that corporate taxes are down because corporate profits have dropped significantly, the fact remains that the share of federal government revenues derived from corporate profits is projected to diminish even further. Because provincial income tax is tied to federal tax rates, the share of total government revenue paid by the corporations will continue to decline in coming years.

Historically, the rate of corporate taxation has been lower in Canada than in the United States. A Department of Finance study, comparing the tax systems of the two countries, found that corporate taxes, as a percentage of pre-tax income, were consistently lower in Canada in the period between 1972 and 1977. In the latter year, the effective tax rate was 6 per cent lower in Canada than the United States.<sup>2</sup> And in the manufacturing sector, corporation taxes were 11.3 per cent lower.

The table below compares U.S. and Canadian corporate tax rates.

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**TABLE 47**

**Corporation Income Taxes as a Percentage of Corporation Profits**

	<b>CANADA (Per Cent)</b>	<b>UNITED STATES (Per Cent)</b>
1972	36.2	41.1
1973	32.8	40.0
1974	35.1	38.7
1975	37.8	38.8
1976	36.6	39.1
1977	33.4	39.4

**Source:** Department of Finance, *The Tax Systems of Canada and the United States*, November, 1979.

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Governments in Canada have also introduced more and more tax loopholes in the past decade. Some of the largest loopholes have been created in the form of tax expenditures. Basically, a tax expenditure is an indirect expenditure by government through the provision of a reduced level of taxation to individuals or corporations. In the words of the federal finance department:

The Canadian tax system contains a number of provisions that give preferential treatment of certain groups of individuals or businesses in the form of tax exemptions, deductions, reduced tax rates, or tax credits. The purpose of these provisions is to grant a subsidy or

incentive for those engaging in a specific activity or for those in certain special circumstances by lowering or deferring their tax liabilities . . . Such tax forgiveness or postponement is equivalent to the government first collecting the sums involved by imposing tax on a more comprehensive base at uniform rates and then making a direct expenditure or loan in an amount equal to the revenue foregone due to the tax preferences. Such provisions have thus come to be called tax expenditures.<sup>3</sup>

Although the costs to the government may be the same, tax expenditures are less visible than direct subsidies. For this reason they tend to be favoured by government and recipients. Both parties are able to avoid attracting public attention to the money given out. A tax which is not levied somehow seems less of a benefit than a direct subsidy.

Aside from their lower public visibility, tax expenditures frequently have few, if any, strings attached to them. Consequently, there is generally less accountability for the public money involved. And because of their lower visibility, they tend to continue, year after year, without being subject to the kind of examination and review that accompanies direct subsidies.

In recent years, more attention has been paid to tax expenditures by governments. In December 1979, the federal finance department published the first attempt to quantify the costs of the major tax expenditures incurred by the federal government. A list of some of the more important of these tax expenditure items is given on table 48 (following page), along with the resulting tax losses suffered by the federal government in 1979.

There are many other tax concessions which have not been costed by the Department of Finance or Revenue Canada. Thus the total cost of all tax expenditures is much higher than the table indicates.

Perhaps the most glaring example of the reduction in the share of taxes paid by the corporations in recent years is in the banking industry. The rate of tax paid by the chartered banks in Canada fell from 49.9 per cent in 1971 to 6.4 per cent in 1982, despite an increase in pre-tax profits from \$596 million to \$1,630 million during the same period. If the 1971 tax rate had remained in force, the banks would have paid \$514 million more in taxes in 1980, \$628 million more in 1981 and \$709 million more in 1982.

The oil and gas industry, despite enormous revenues, pays very little in corporate taxes. It is true that federal and provincial governments gain some revenues through royalties, and they obtain even more through consumption taxes on gasoline, heating oil and other mineral fuels. But given the size of the energy revenues in recent years, the rate of taxation on the oil industry remains exceedingly low (see preceding chapter).

Despite the dramatic reduction in corporate taxes in recent years, the April 1983 federal budget implemented further reductions amounting to \$905 million in fiscal 1983 and \$955 in fiscal 1984. Table 49 (page 93) lists these tax reductions.

TABLE 48

**The Cost of Selected Corporate  
Tax Expenditures to the Federal Government in 1979**

ITEM	CORPORATE TAX LOSS
Fast Write Off for Resource Exploration and Development	\$425 million
Frontier Depletion Allowance	\$ 70 million
Accelerated Depreciation for Mining Assets	\$ 70 million
Excess Resource Tax Depreciation over Book Depreciation	\$215 million
Resources Investment Tax Credit	\$220 million
Lower Manufacturing Sector Taxes	\$400 million
Manufacturing Investment Tax Credits	\$225 million
Various Research and Develop- ment Write Offs	\$150 million
Lower Small Business Tax	\$ 1 billion
Non Taxation of One Half of Corporate Capital Gains	\$225 million
Preferential Treatment of Income Debentures and Preferred Shares	\$400 million
3 Per Cent Inventory Valuation Adjustment	\$325 million

**Source:** Department of Finance, Government of Canada Tax Expenditure Account, Dec. 1979, pp. 33-47.

TABLE 49

**New Corporate Tax Concessions  
Introduced In The  
April 19, 1983 Budget**

ITEM	EFFECTIVE DATE	TAXATION YEARS	
		1983	1984
Allow extended carryovers of business and capital losses	1983 tax year	-305	-225
Remove limits on claiming of investment tax credit and extended carryovers	Investments after April 19, 1983 and before May 1, 1986	-115	-120
Special recovery share-purchase tax credit	Equity issued after June 30, 1983 and before 1987	-50	-70
Extended 7 per cent investment tax credit to heavy construction equipment	Investments after budget night	-20	-30
Proposals for changes in R&D tax incentives	Fall 1983	—	-150
Deduct enhanced oil recovery expenditures from PGRT	Investments after December 31, 1982	-20	-25
Suspend IORT for one year	June 1, 1983 to May 31, 1984	-190	-35
Extend deduction of earned depletion for mining exploration	Expenditure after budget night	-15	-20
<b>Total</b>		<b>905</b>	<b>955</b>

**Source:** Department of finance, *Budget Papers* Ottawa: April 19, 1983.

At the provincial level, the situation is even more favourable to the corporations. The share of provincial revenue derived from corporate taxes is much lower than that of the federal government. The ten provinces collected only \$2.3 billion from corporate taxes in 1982. This represented 3.3 per cent of their total revenues. Instead of taxing corporations, the provinces have increasingly relied on regressive sales taxes, hospital insurance premiums, and user fees to raise revenues.

## Subsidies have Ballooned

The other side of the revenue account is that of expenditures. While it is commonly thought that governments lavish all their money on costly social programs, the reality is quite different. A substantial proportion of government revenue is given to corporations in the form of grants, subsidies, investment incentives, interest-free loans and a wide range of other handouts. In 1979, the federal government gave over \$6 billion in direct financial aid to business, according to one of its own publications, *Assistance to Business in Canada*. In the same year, federal corporation tax revenues amounted to only \$6.9 billion.<sup>4</sup> Thus the corporations received almost as much back from government as they paid in taxes.

More than 300 federal government programs, administered by over 30 departments, provide subsidies to business.<sup>5</sup> This does not include government expenditures in the economic infrastructure, such as road construction, subsidized rail transport, training programs, research and development, land servicing, reforestation programs, and a wide range of other government services that benefit the private sector. As a *Canadian Business* article cynically put it:

Despite the recession, in fact, the public trough has never been broader or deeper. And although the biggest whack of government largess is still directed towards manufacturers and processors, there is indeed something for just about everybody.<sup>6</sup>

A typical example of the type of public support given to private industry is the Federal Business Development Bank. The purpose of the bank's activities, according to current president Guy A. Lavigueur, is as follows:

The bank endeavours to respond to the needs of the business community in many different ways. It offers financial services in the form of loans and investments as well as a wide range of consulting, management training and information services to the small business community. Under the terms of the *FBDA Act*, the bank provides loans or other forms of financial assistance when it is clear that the required funds are not available elsewhere on reasonable terms and conditions.<sup>7</sup>

In the 1983 fiscal year, the bank approved 3,500 business loans with a total value of \$370.5 million. It also had \$44.5 million in high-risk venture capital committed to various projects. In the same year, it wrote off \$91.4 million in unrecoverable loans previously made to business enterprises.

Perhaps the most striking example of government assistance to corporations is found in the energy sector. The vaunted Syncrude project in Alberta, for instance, received \$1.298 billion in subsidies in 1982. And the federal government's newly formed Petroleum Incentives Program (PIP) provides very generous support for companies involved in the exploration and development of new sources of petroleum. Depending on the corporation's level of Canadian ownership and control, the location of the drilling, and the year it takes place, PIP reimburses companies for up to 80 per cent of their expenses.<sup>8</sup> PIP was formed in July 1982 with an initial appropriation of \$1.9 billion to cover grants made in 1981, 1982 and the early part of 1983.

At the provincial level, every province sponsors a wide range of incentive programs for business. In British Columbia, there is the Small Enterprise Program, the B.C. Development Corporation and the Research Program. In Alberta, there is the Alberta Opportunity Company. In Saskatchewan, the Small Industry Development Corporation, the Saskatchewan Economic Development Corporation, and the Small Business Interest Abatement Program all provide assistance to business. Manitoba has the Enterprise Manitoba Program. Ontario has a wide range of handouts, including those administered by the Ontario Development Corporation and the Employment Development Fund. The Quebec government funds the Société de Développement Industriel de Québec. New Brunswick provides assistance under the *New Brunswick Commerce and Development Act*, while Nova Scotia has the Development Incentives Program. Prince Edward Island has Industrial Enterprises Incorporated, and Newfoundland provides grants under the Newfoundland and Labrador Development Corporation Ltd.

These are but a *few* of the provincial programs designed exclusively to assist business and industry.

Many municipalities also have their own incentive programs to attract industry. Industrial parks, subsidized land servicing and tax abatements are among the many ways municipal governments provide assistance to the private sector. Municipal governments are also quite helpful to business interests in respect of amendments to zoning regulations and planning permission.

When the various tax loopholes, reduced tax rates, tax expenditures, subsidies, and other forms of government assistance to the corporate sector are taken into account, it becomes clear that far from making a major contribution to the support of government finances, the corporate sector makes little, if any, net contribution.

## The Wealthy are Paying Less

The increasingly regressive character of our tax system is also visible in the personal income tax structure. One of the most significant changes in the tax system since the Second World War has been the systematic reduction of the rate of taxation on the top income brackets. In 1949, the highest marginal rate of tax was 84 per cent. This applied to

incomes of over \$400,000. In 1971, this rate was reduced to 80 per cent. A further reduction to 59.9 per cent was made by the (then) Finance Minister John Turner in his 1972 budget. The next major change occurred in November 1981 when Finance Minister Allan MacEachen lowered the marginal tax rate to 49.98 per cent. This last change was justified on the basis of closing a number of loopholes, which had resulted in some very high income earners paying no tax while others were hit with the full rate.

The following table, prepared by the Canadian Tax Foundation, documents the major changes in the marginal tax rates since 1949.

TABLE 50

### Combined Federal and Provincial Personal Income Tax Marginal Rates for Selected Years 1949 to 1983

Taxable Income (dollars)	1949 Per Cent	1971 Per Cent	1972 Per Cent	Taxable Income (dollars)	1983 Per Cent
1	15.00	00.00	21.68	1	2.82
501	15.00	19.76	22.95	1,180	7.52
1,001	17.00	21.76	24.23	2,359	24.99
2,001	19.00	24.00	25.50	4,717	26.46
3,001	19.00	25.00	26.78	7,075	27.93
4,001	22.00	28.00	26.78	9,429	27.93
5,001	22.00	28.00	29.33	11,791	29.40
6,001	26.00	26.00	29.33	14,143	29.40
7,001	26.00	26.00	31.88	16,507	33.81
8,001	30.00	30.00	31.88	18,857	33.81
9,001	30.00	30.00	34.43	21,223	36.75
10,001	35.00	35.00	34.43	23,571	36.75
11,001	35.00	35.00	39.53	25,928	36.75
12,001	40.00	40.00	39.53	28,285	36.75
14,001	40.00	40.00	44.63	33,013	44.10
15,001	45.00	45.00	44.63	35,356	44.10
24,001	45.00	45.00	49.73	56,593	49.98
25,001	50.00	50.00	49.73	58,926	49.98
39,001	54.00	50.00	54.83	91,924	49.98
40,001	59.00	55.00	54.83	94,281	49.98
60,001	64.00	60.00	59.93	141,421	49.98
90,001	69.00	65.00	59.93	212,131	49.98
125,001	74.00	70.00	59.93	294,626	49.98
225,001	79.00	75.00	59.93	530,326	49.98
400,001	84.00	80.00	59.93	942,801	49.98

Source: Canadian Tax Foundation, *The National Finances 1982-83*, Toronto, 1983, p. 54.

As the preceding table illustrates, the top marginal tax rate has fallen from 84.0 per cent to 49.98 per cent. More significantly, almost all of this change occurred between 1972 and 1982. There were several justifications for these major changes to the tax structure. One was that high marginal tax rates acted as a disincentive, deterring those earning high incomes from producing more. Another was that high marginal rates encouraged sophisticated tax avoidance schemes and thus were largely ineffective. And, as we noted earlier, there was the claim that the tax rate was not fair because some high income individuals were able to escape tax through various deductions while others were forced to pay the full amount.

A final justification for lowering the marginal tax rates was that it would encourage new private investment. By allowing high income earners to retain more of their incomes, they would be able to invest more. Higher levels of investment, it was argued, would act as a stimulus to improved rates of economic growth in the long term.

The justifications for such measures are questionable to say the least. There is little evidence that the promised economic results have occurred. But the adverse impact on government finances of lowering the top marginal tax rates is clear. The increasingly regressive character of the tax system has resulted in major losses of revenue from precisely those who are most able to carry the burden.

In addition to the reduction in the top marginal tax rates, there has also been a major increase in the number of tax expenditures available to individual taxpayers. More and more loopholes and special privileges have been granted to the well-to-do over the past decade. At the time of the November 1981 budget, the Department of Finance released a study documenting some of the costs of recent tax expenditures granted by the federal government.

The study pointed out that the numerous tax expenditures for individuals had shrunk the federal tax base and reduced the federal government's revenues by \$13.8 billion in 1979. To quote from the Department of Finance:

There is little question that these tax expenditures seriously erode the federal tax base...In the case of personal income tax alone, expenditures that could be quantified reduced the amount of income received by individuals subject to tax by over \$47 billion in 1979, or roughly 45 per cent of the total income received in that year. In total, tax expenditures resulted in \$13.8 billion of federal tax savings for individuals.<sup>9</sup>

The following table illustrates how these tax expenditures affected federal government revenues.

TABLE 51

### Loss of Federal Government Revenue Due to Selected Tax Expenditures in 1979

IMPACT ON INCOME SUBJECT TO TAX	(\$ billions)
Income Without Tax Preferences	156.3
Less: Income Actually Subject to Tax	109.0
Equals: Erosion of Tax Base to Tax Expenditures	47.3
<b>IMPACT ON TAX PAYABLE</b>	
Federal Income Tax Without Tax Preferences	30.8
Less Actual Federal Income Tax	17.0
Equals: Value of Tax Expenditures Benefits	13.8

**Source:** Department of Finance, "Analysis of Federal Tax Expenditures for Individuals," Ottawa, Nov., 1981, page 1.

The preceding federal tax expenditures also have a significant impact on provincial treasuries. When provincial and federal losses are calculated, the total loss in government revenue amounted to more than \$20 billion for 1979 alone. Not all the tax expenditures in the preceding table benefit the well-to-do. But the fact remains that a very large proportion of these tax concessions were (and are) being reaped by individuals who can well afford to pay a fairer share of tax.

Even the Department of Finance has acknowledged this fact. It notes that the largest beneficiaries of tax expenditures are wealthy investors and property owners. The value of tax expenditures for these two groups was more than 13 per cent of their income in 1979 and amounted to a 60 per cent federal tax cut. In contrast, tax expenditures represented only 4 per cent of the income received by wage earners. Moreover, those employees who have large incomes benefit much more from the numerous tax shelters available. Table 52 on the following page shows how tax expenditures disproportionately favour high income earners.

The basic truth about our tax system is that income received by the wealthy (in the form of dividends, capital gains, rents, investment income and business receipts), is taxed at a far lower rate than income received by ordinary Canadians in the form of wage and salaries. It is for this reason that 3,400 individuals with incomes over \$50,000 paid no tax whatsoever in 1979, while another 21,300 persons with similarly high incomes were taxed at a rate of less than 10 per cent. In fact, there were 740 individuals with incomes over \$100,000 in 1979 who paid absolutely nothing.<sup>10</sup>

**TABLE 52**  
**Average Dollar Benefits Per Tax Filer from Federal Tax Expenditures by Income Group, 1979**

TOTAL INCOME GROUP <sup>1</sup>	Type of tax expenditure						TAX CREDITS
	All tax expenditures			(dollars)			
	INCLUDING HOUSING	EXCLUDING HOUSING	INCOME EXCLUSIONS	DEDUCTIONS	EXEMPTIONS		
Under 5,000	195	163	1	3	1	157	
5,000-10,000	460	289	4	117	80	64	
10,000-15,000	771	457	17	233	163	40	
15,000-20,000	1,296	677	42	341	257	31	
20,000-25,000	1,910	946	75	479	334	37	
25,000-30,000	2,704	1,392	158	704	436	49	
30,000-50,000	4,429	2,435	537	1,198	564	116	
50,000-100,000	9,928	6,258	3,007	2,542	628	344	
100,000 and over	46,076	39,323	23,592	15,629	576	965	
<b>Total All Groups</b>	<b>1,089</b>	<b>631</b>	<b>113</b>	<b>274</b>	<b>151</b>	<b>88</b>	

<sup>1</sup> Total income is before any income exclusions, deductions or exemption tax expenditures. Average benefits are total benefits divided by the number of tax filers in the income group. Table 7 shows the number of tax filers in each income group.

Source: Department of Finance, *Budget Papers*, November 12, 1981.

The Department of Finance study referred to earlier made a number of preliminary costings of the tax revenue lost to individuals and corporations since 1972. The study detailed some of the key ways that the tax system has favoured the rich in recent years.

In December 1971, the federal government abolished estate duties at a cost of approximately \$200 million in lost revenues to federal and provincial governments.<sup>11</sup> At current prices, this would amount to more than half a billion dollars per year.

The justification for this measure was that a capital gains tax was being introduced and it would allegedly have been unfair to tax wealth twice. However, instead of taxing all capital gains, only 50 per cent was declared taxable. Fully 54.2 per cent of all reported capital gains was accounted for in 1979 by less than one per cent of tax filers.<sup>12</sup> These individuals all earned over \$50,000 per year. Total revenue lost to the government in 1979, as a result of this loophole, was half a billion dollars.

There are many other deductions which enable wealthy taxpayers to minimize their taxes. Investment tax credits for individuals cost the federal government \$30 million in 1979. Dividend gross up exemptions amounted to another \$350 million. The basic \$1,000 investment income exemption cost another \$650 million to the federal treasury. Over-generous depreciation allowances added another \$150 million to the total. Income-averaging annuity contracts resulted in another \$105 million loss in tax revenues, while the age exemption under the *Personal Income Tax Act* resulted in \$189 million in foregone revenues in 1979.

Registered Retirement Plans and Registered Retirement Savings Plans cost \$2 billion in lost taxes. Non-taxation of capital gains on homes resulted in the loss of \$2.5 billion, while non-taxation of imputed income on the equity of owner-occupied residences amounted to another \$3.7 billion. Registered Home Ownership Savings Plans cost the federal government \$115 million, and the charitable donations provision cost another \$355 million in 1979.

The preceding tax concessions concern federal taxes and apply only to individuals. They do not include provincial tax concessions, which are equally generous in many cases. There are many other tax expenditures whose cost has not been estimated by Revenue Canada. Literally billions in government revenues are being lost because of the many loopholes introduced to assist individuals in higher income brackets.

Some discussion of the unjust character of the tax system occurred in the aftermath of MacEachen's November 1981 budget, when it was admitted that there were a significant number of individuals earning more than \$100,000 who paid no tax. But the policies implemented did nothing to address the basic problem. On the contrary: they made it worse. Under the guise of making the system fairer – the catch phrase was "horizontal equity" – MacEachen reduced the basic rate of taxation for higher income earners.<sup>13</sup> The following table shows the actual reductions for each tax bracket at the federal level.

**TABLE 53**  
**Tax Reductions Introduced in the 1981 Budget**

TAXABLE INCOME (dollars)	NEW RATE (Per Cent of Income)	OLD RATE (Per Cent of Income)	TAX REDUCTION (Per Cent of Income)
Under— 1,112	6	6	0
1,112— 2,224	16	16	0
2,224— 4,448	17	17	0
4,448— 6,672	18	18	0
6,672— 11,120	19	19	0
11,120— 15,568	20	21	1
15,568— 20,016	23	23	0
20,016— 24,464	25	25	0
24,464— 31,136	25	28	3
31,136— 53,376	30	32	2
53,376— 86,736	34	36	2
86,736— 133,440	34	39	5
133,440 and up	34	43	9

**Source:** Department of Finance *Budget Papers*, Nov. 12, 1981.

The preceding table shows federal taxes only. When provincial taxes are taken into account, the drop is even more substantial. The following table shows the total tax reductions for a person in the top tax bracket in each province.

**TABLE 54**  
**Total Federal and Provincial Tax  
at Highest Marginal Tax Rate**

Province	OLD RATE (Per Cent)	NEW RATE (Per Cent)
British Columbia	63.8	50.5
Alberta	59.6	47.1
Saskatchewan	67.8	53.4
Manitoba	66.2	52.4
Ontario	62.8	50.3
Quebec	67.9	60.4
New Brunswick	65.6	51.8
Nova Scotia	65.6	51.8
P.E.I.	65.6	51.8
Newfoundland	67.9	53.7

**Source:** *Globe and Mail*, Toronto, Dec. 14, 1981.

According to estimates in the 1983 budget, the lowering of the top marginal tax rates cost the federal treasury \$1.05 billion in the 1982-83 tax year.<sup>14</sup> In 1982, according to the Department of Finance, an estimated 50,000 Canadians with taxable incomes of over \$100,000 paid an average of \$5,625 less as a result of the new tax structure. In contrast, 3.4 million taxpayers with annual incomes of less than \$15,000 received no benefit from the budget, while another 5.8 million taxpayers in the same (under \$15,000) bracket saved an average of \$115 per year each. This represented approximately 2 per cent of what those earning over \$100,000 per year received. In fact, 200,000 Canadians with incomes of less than \$15,000 per year actually had a tax *increase* in 1982 averaging \$75 each. The figures hardly justify MacEachen's claim at the time that the budget would promote equity and justice.<sup>15</sup>

In the June 1982 budget, even more handouts were provided to the well-to-do. Income from interest and capital gains was indexed. It was estimated at the time that this measure would lower the tax paid by investors by approximately \$700 million in the first year and over \$2 billion in the second year. Yet in the same budget, indexation of personal income tax was limited to 6 per cent in 1982-83 and 5 per cent in 1983-84. The effect was to increase income taxes by an estimated \$1.3 billion over the two-year period, with most of it paid by ordinary wage and salary earners. At the same time, increases in family allowances and old-age pension cheques were limited to 6 per cent in 1982-83 and 5 per cent in 1983-84. Again, the impact was to lower the value of these benefits substantially.

One reason for these concessions to the rich was the reduction in U.S. personal taxes by the Reagan Administration. The Department of Finance regularly compares personal and corporate tax rates in the U.S. and Canada. The lowering of taxes on wealthy U.S. citizens has somehow obligated the Canadian government to do the same. More significantly, the Liberals are responding to their wealthy supporters who have been pressing for lower taxes, ostensibly to provide more "incentives" so they will be motivated to work harder and invest more.

If we are to accept their claims, only massive tax concessions to the rich can prevent widespread malingering by Bay Street executives and corporate managers. These regressive tax measures perpetuate the pattern of inequality in income and wealth in Canada that has prevailed since the Second World War. Approximately 42 per cent of total reported income is taken by the top 20 per cent of income earners. The bottom 20 per cent get only 4 per cent. Recent tax changes will widen this gap even further. The magnitude of this tax giveaway to the rich has attracted little attention in the media. Instead, much of the coverage has focussed on the alleged hardship imposed on those wealthy individuals whose tax loopholes were plugged.

As the preceding figures illustrate, the Canadian tax system has become more regressive in the past decade. More and more loopholes have been opened to help the rich avoid taxation. As a result of their responsiveness to pressures from the affluent and powerful, both federal and provincial governments have sacrificed literally billions of dollars in potential revenues. The present fiscal crisis affecting all levels

of government must be assessed in light of these deliberate policy measures.

When governments say they can no longer afford to pay for public services, what they are really saying is that they have provided so many tax loopholes and concessions that they can no longer collect sufficient revenues to cover their costs. The problem is not that they cannot raise the money for public programs through the tax system, but that the influence of the corporate sector and the very wealthy is so strong that governments deliberately choose not to raise revenues from them.

To summarize, our tax system does not raise adequate revenues because vested corporate interests have pressured governments into opening numerous loopholes and tax avoidance schemes. Hence, government revenue is billions of dollars less than it should be because of an unfair tax system. At the same time, corporations are receiving virtually as much back in the form of grants and subsidies as they pay in taxes. And this does not take into account the many government services provided to business free of charge.

In light of this evidence, the reason why governments are in a financial crisis is obvious. Too little revenue is being raised because the wealthy are avoiding taxation. Too much is being spent on handouts to the corporations. The problems associated with providing adequate funding for existing services and developing new services would be significantly reduced if the abuses now present in our taxation system were rectified.

## CHAPTER 6

# The Positive Impact of Government Spending in the Post-War Period

### Government Growth Has Been Modest

**C**ritics of government expenditures during the post-war period claim that governments at all levels have grown at an alarming rate. More significantly, they also suggest that this growth has been detrimental to our economic development.

There are many misconceptions about the extent of government growth and its real impact on our economy. In the following pages, its significance will be assessed. It will be shown that the size of government has been exaggerated and that the modest growth of the public sector has not been detrimental.

On the face of it, the growth in the size of government has been staggering. Total government spending in Canada (federal, provincial and municipal) increased from \$4.1 billion in 1950 to \$165.6 billion in 1982. But these figures tend to mislead for a number of reasons. They do not take account of the dramatic increase in prices during the past 30 years; nor do they take account of economic expansion in the post-war period. A more useful way to assess the growth of government spending is to compare it with the growth of the economy as a whole.

Between 1950 and 1975, total government spending in Canada grew from 22.1 per cent of Gross National Expenditure (GNE) to 41.3 per cent. In the period between 1975 and 1980, it remained at roughly the same level. In 1981, it increased by one per cent to 42.7 per cent. However, due to the sharp drop in economic activity in the private sector and the increased demands for UIC payments and related social welfare expenditures, the government share of GNE rose to 47.4 per cent in 1982. The following table documents the growth of total government spending in the post-war period.

TABLE 55

### Total Government Spending as a Per Cent of Gross National Expenditures

YEAR	TOTAL EXPENDITURES (\$ billions)	PER CENT OF GNE
1950	4.1	22.1
1960	11.4	29.7
1970	30.9	36.4
1975	68.3	41.3
1980	121.9	41.7
1982	165.6	47.4

**Source:** Statistics Canada, *National Income and Expenditure Accounts*, Cat. 13-001.

Aggregate figures on the growth of public spending do not, in themselves, tell us very much about which areas of government have grown or how this growth has affected the economy. A further breakdown of government expenditures is therefore required.

There are basically two types of government spending: transfer payments and government consumption. The former refers to money which is transferred from one segment of the population, via taxation, to another segment. At different periods in our lives we may be contributors to, and recipients of, transfers from government. Transfer payments include old-age pensions, unemployment insurance, Workers' Compensation benefits, social security, welfare payments, and a wide range of other cash items. The basic point about transfers is that government does not determine how the money will be spent. It simply reallocates funds from one group to another or from one period in a person's life to another (e.g. pensions). Thus money paid in transfers is largely spent within the private sector. For this reason it is misleading to consider increases in transfer payments as evidence of a dramatic growth in the economic resources absorbed by government. Rather, what transfers do is to change the timing and the pattern of spending on private sector goods and services.

The second form of expenditure – government consumption – does involve the actual use of resources by government. Government directly consumes goods, services and labour to carry out its various programs and activities. It is these expenditures which reflect the real size of government in the economy.

Examples of these types of expenditures include health care, defence, education, police protection, public administration, municipal services, and day care. Such expenditures are frequently referred to as "exhaustive" because government consumes the resources itself.

The distinction between transfer payments and government consumption is important in assessing precisely how much of our economy's resources are absorbed by government. Of the 47.4 per cent of

GNE spent by government in 1982, 24.8 per cent was in the form of exhaustive expenditures (including capital investment), while 22.6 per cent was in the form of transfers to individuals. The following table shows the growth of exhaustive expenditures and transfers during the 1943-1982 period.

**TABLE 56**

**Government Consumption and Transfer Payments  
as a Percentage of Gross National Expenditure**

YEAR	GOVERNMENT TOTAL EXPENDITURES (Per Cent GNE)	GOVERNMENT CONSUMPTION (Per Cent GNE)	TRANSFER PAYMENTS (Per Cent GNE)
1943	45.4	38.2	7.2
1950	22.1	13.1	9.0
1960	29.7	17.7	12.0
1970	36.4	23.1	13.3
1975	41.3	24.0	17.3
1980	41.6	22.9	18.7
1982	47.4	24.8	22.6

**Source:** Statistics Canada, *National Income and Expenditure Accounts*, Cat. 13-001.

Government consumption dropped sharply after the Second World War and began to rise again during the 1950s and 1960s. During the past decade, government consumption has remained relatively constant as a percentage of GNE, and is not significantly higher than in 1970. In contrast, transfer payments climbed significantly: from 13.3 per cent of GNE in 1970, to 18.7 per cent in 1980, and 22.6 per cent in 1982.

As the preceding figures indicate, despite the significant growth of total government spending in the post-war period, less than one-quarter of Gross National Expenditure was actually consumed by the public sector in 1982. The remainder was returned to the private sector through transfer payments. To put this another way: the private sector is still responsible for the production and allocation of more than three-quarters of our goods and services.

The modest growth in government spending since the mid-1970s has been the result of the increased costs of UIC and other transfer payments associated with the economic slump and the sharp increase in interest costs on the deficit. As noted in the previous chapter, government expenditures on programs have remained stable since 1975.

To put this in perspective, government consumption is still far less than during the Second World War. In 1943, for example, it amounted

to 38.2 per cent of total GNE. This is two-thirds more than the current figure.

As Richard Bird points out in his recent book on Canadian government finance:

... [T]he proportion of goods and services produced in the economy that are used up directly by government in the course of its activities has risen hardly at all over the last thirty years and has actually declined in the last decade [i.e. the 1970s. Ed.] Even when the decline in defence spending is taken into account, much of the observable increase in real civilian expenditures is attributable to the shift of most health spending to the public sector.<sup>1</sup>

A final point about the 24.8 per cent of GNE devoted to government consumption is warranted. Much of this money is actually spent on privately produced goods and services. Literally billions of dollars worth of contracts are given to business firms every year by all levels of government. In every area of the public sector, room has been made to accommodate the demands of private firms anxious to make profits by providing goods or services for the public sector.

Government road construction is normally carried out by private firms; defence contracts are given out to private aircraft and weapons firms; government buildings are erected by private construction companies; government vehicles are manufactured by private car and truck makers. Supplies for a wide range of government activities – from paper to heavy equipment – are all purchased from the private sector. The list is almost inexhaustible.

Through these purchasing activities, governments provide a large market for private companies and thereby contribute substantially to the profitability of the private sector. This is hardly accidental. For many years federal and provincial governments have followed a deliberate policy of searching for ways to contract out various services, rather than have them performed by their own employees. So, even within the area of government consumption, there is a very significant private sector component which is not reflected in the figures given for the government's share of GNE.

## The Productivity Myth

One of the most commonly voiced objections to government spending is that it redirects resources away from productive activities into non-productive services. However, this criticism is to a large extent misplaced. A substantial proportion of the growth of government consumption in the post-war period has come about because of the takeover of services (such as hospital care) that were previously carried out by the private sector. Although such takeovers have often been accompanied by major administrative reorganizations, they have not normally resulted in dramatic increases in the resources allocated to the particular sector of the economy.

Thus, in assessing the growth of public spending in the 1960s and early 1970s, there are really two separate issues. The first is the take-

**TABLE 57**  
**Total Government Expenditure for Goods and Services in Current Dollars and as a Per Cent of GNP 1975 to 1982**

EXPENDITURE ITEM	1975	1976	1977	1978 (\$ billions)	1979	1980	1981	1982
Current Expenditures on Goods and Services	33.4	38.3	43.4	47.8	52.3	58.6	66.7	75.7
Gross Capital Formation	6.4	6.4	6.9	7.2	7.5	8.3	9.3	10.7
Total Government Expenditure on Goods and Services	39.7	44.7	50.3	55.0	59.8	66.9	76.1	86.4
Total Government Expenditure	66.3	76.7	86.3	96.9	106.5	121.9	141.4	165.6
Total Gross National Expenditure	165.3	191.0	208.9	230.5	261.6	291.9	331.3	348.9
Government Expenditures on Goods and Services as a per cent of GNE	1975	1976	1977	1978 (Per Cent)	1979	1980	1981	1982
	24.0	23.4	24.0	23.9	22.8	22.9	23.0	24.8
Total Government Expenditure as a per cent of GNE	41.3	40.2	41.3	42.0	40.7	41.7	42.7	47.4

Source: Statistics Canada, National Income and Expenditure Accounts. Cat. 13-001.

over, by the public, of certain services formerly provided by the private sector, such as health care. The second is the expansion of existing services and the establishment of new ones.

Critics of the growth of public spending have tended, indiscriminately, to lump the two together. They conveniently ignore the fact that resources now being spent by the public sector on certain services would be spent on these same services even if they were provided by the private sector. In this sense, the public sector has not redirected resources within the economy to the degree that its critics suggest.

Moreover, it can be argued that the public sector is doing a much better job in administering many services than would be the case under private ownership.<sup>2</sup>

This is most dramatically revealed in the case of medicare. The basic health care questions facing any country are how much of its national resources it is prepared to spend on medical services and if it is receiving good value for this expenditure. Whether it is funded publicly or privately does not necessarily indicate if the resources are being used efficiently.

In the United States, for example, a higher proportion of Gross National Product is now spent on hospital and medical services than in Canada, despite a private system. Health care expenditure in the U.S. was 5.3 per cent of GNP in 1960, less than in Canada. By 1982, it had risen to 10.5 per cent of GNP, compared with 7.5 per cent in Canada. Health care costs now absorb roughly one quarter more of national resources in the U.S. compared with Canada, and they have risen far more quickly as well.

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**TABLE 58**

**Per Cent of GNP Allocated to Health Care  
in Canada and USA**

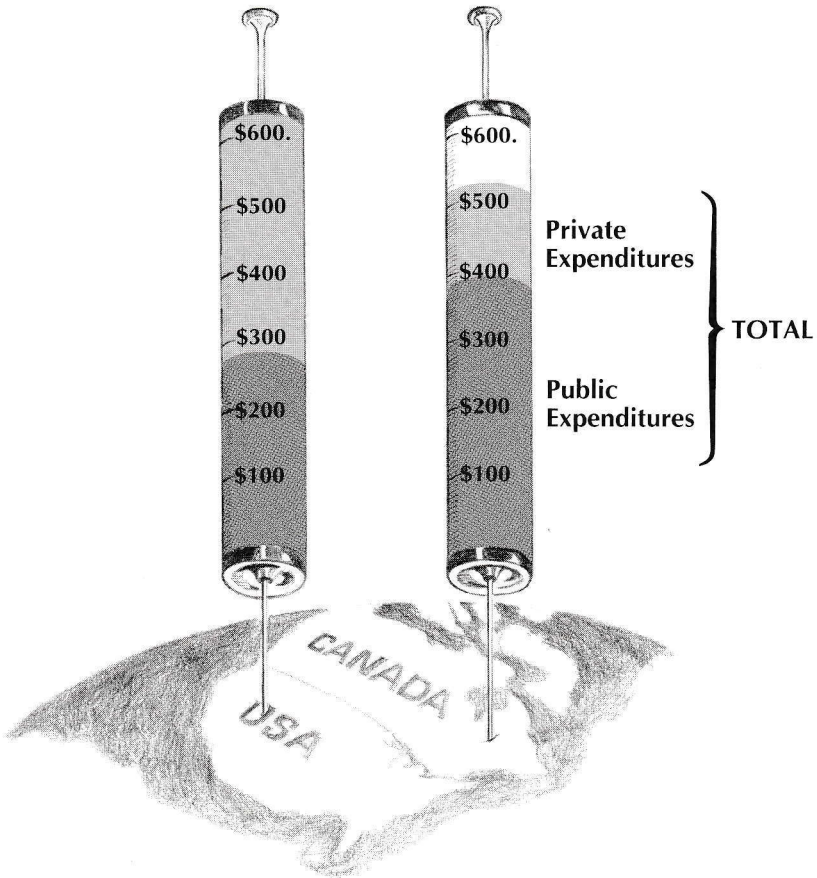
<b>YEAR</b>	<b>CANADA (Per Cent)</b>	<b>UNITED STATES (Per Cent)</b>
1960	5.6	5.3
1967	6.4	6.2
1970	7.1	7.2
1975	7.1	8.4
1980	7.5	9.5
1982	7.5	10.5

**Source:** Health and Welfare Canada.

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What is significant in this comparison is that the U.S. system is basically a private one, while the Canadian system is largely public. According to Statistics Canada, governments accounted for 74.2 per cent of health care expenditures in Canada in 1981. The remaining 25.8 per cent was funded through the private sector. In the U.S., only 42 per cent of health care costs was paid by governments in the same year. The remaining 57 per cent was borne by private individuals and insurance carriers. The following chart compares public and private expenditures in the two countries.

### Per Person Health Expenditures in U.S.A. & Canada, 1975



As the preceding chart shows, if only the government costs of health care are considered, it appears that the per capita expenditure is far lower in the U.S. However, when we look at how much of society's income is spent on health care, and not whether the expenditure is public or private, an entirely different picture emerges. The predominately private system of the U.S. absorbs much more of that nation's resources than the predominantly public system of Canada: 10.5 per cent of GNP compared to 7.5 per cent in Canada.

With regard to the question of how efficiently each system uses its resources, a strong case can be made that the Canadian system provides a much better quality of service, despite the lower level of funding it receives. Overhead administration costs amount to only 2.5 per cent of total spending on health care in Canada, compared with 12.5 per cent in the U.S. The Canadian health care system is by no means perfect. But for the average working person the availability and quality of health care is significantly better than in the U.S.

Because governments are responsible for providing both medical insurance and hospitalization on the basis of universal accessibility, virtually all Canadians have the right to these services. Prolonged illness may still create financial hardships if the breadwinners in a family are affected, but at least Canadians do not have to worry that they will be impoverished for life as a result of medical and hospital expenses arising from prolonged illness. Many Americans do.

The change from private to a predominantly public system of health care in Canada during the post-war period has been reflected in the growth of the government sector in the economy. But there is little doubt that this has resulted in a major improvement in services. In the case of health care, the growth of the public sector and the consequent reduction of the private sector has led to a more efficient use of social resources. This may not be viewed with favour by the corporate sector, and particularly by the health insurance and pharmaceutical industries. But for ordinary Canadians, the growth of the public sector in health care has been clearly beneficial.<sup>3</sup>

Turning to another example, most electrical utilities in Canada are publicly owned. Their spending shows up as part of the overall spending of the government sector of the economy. In the U.S., most hydro utilities are privately owned and are viewed as part of the private sector. Yet provincial public utilities across Canada have performed as well as, and perhaps more efficiently, than their counterparts south of the border.

The same argument can be made for a wide range of other government agencies or Crown corporations. It is by no means clear, for example, that publicly owned Air Canada has performed less efficiently than the major privately owned U.S. airlines. In fact a strong case can be made that Air Canada's long-term profitability has outstripped most of the U.S. carriers. More importantly, it is legitimate to ask what would be fundamentally different from the point of view of ordinary Canadians if Air Canada were in the private sector? Its activities would be the same, its employment level would be approximately equivalent, and prices would not vary significantly. True, its profits would go to

private shareholders rather than the public treasury. But beyond this difference, which is not of obvious benefit to ordinary taxpayers, the question remains: would shifting Air Canada to the private sector make any difference in the allocation of resources in the economy? The fact is it would not make any difference at all.

## The Interdependence of the Private and Public Sectors

It is not always easy to separate public and private sectors of the economy because they are so closely intertwined. In a very important sense, statistical information on the share of public and private sectors in the economy does not reflect the complexity of their interdependence. This has been strikingly illustrated by the Australian economist Hugh Stretton in describing the interaction of the public and private sectors.

For example, a private firm mines public coal or oil, and sends it by private ships using public docks and navigational aids, or by public pipelines or freight railways, to a private gasworks or a public power generator. There it is transformed and sent through public wires or publicly franchised private pipes to (say) a private brickworks where it mixes with private clay to produce bricks, which go by private truck over public roads to (say) a Housing Commission building site. There a private contractor puts the bricks into a house, which a public agent then sells to a private buyer, who pays for it (and for all the foregoing processes) from income earned from either the public or the private sector. It would be possible to find other countries in which the same process happens in the same way, but with most of the public-private relations reversed — for example where public brickworks use private fuel, supply bricks to private entrepreneurs who sell houses and land to public landlords and so on.

Another example: public money funds university research in solid-state physics. Private journals publish it. Private firms which live chiefly on public defence contracts use the research to develop cheaper and better circuits which enable public and private telecommunications companies to commission the development of better machinery from private manufacturers. Uses of the machinery improve the efficiency of a large number of private and public activities. Yet another: public research develops penicillin. Private firms manufacture it, public inspectors control its quality, public and private wholesalers and retailers distribute it. Public and private doctors apply it to public and private patients in public and private hospitals to improve the health and efficiency of workers in public and private industries.<sup>4</sup>

Stretton also makes the point that virtually every product or service produced in an advanced industrial society is dependent on a complex mix of public and private inputs. Attempting to distinguish the private components from the public becomes a virtually meaningless exercise. The distribution of the benefits from these economic activities is, of course, another matter.

In light of this complex interdependence of public and private sectors, Stretton argues that figures on the size of the public sector have very little real meaning. In his words:

So it is not reasonable for our national economic managers to obsess themselves with "the size of the public sector," meaning by that everything which public bodies happen to do or own, as if our public and private sectors were separate and independent, each autonomously producing a different basket of goods. But some of our masters do talk like that and act as if they believe the sectors have that sort of independence. When politicians say "we must restrain the growth of the public sector to allow recovery of the private sector," what does that really imply? It implies that more private gas is to produce less public power. Less public power is to produce more private bricks. More private bricks are to produce less public housing. Less public housing is to shelter more private buyers. Less public research is to produce more private industry innovation and development. More private transistors are to produce fewer public telephone channels which are to carry more private communications. Less public education is to generate more private skills, and fewer public orders for educational materials are somehow to generate more private supplies of educational materials.<sup>5</sup>

The growth in government over the post-war period should also be assessed in light of the actual volume of resources consumed and not merely the amount of money spent. This is because the cost of many of the items purchased by government have risen more quickly than those in the private sector. Government services are labour intensive. They are not readily automated. Indeed, in many cases (such as education), there are limits to the feasibility of substituting technological innovations for labour without seriously undermining the quality of services. Many public services involve high levels of human contact. The quality of service is frequently dependent on the amount of personal attention given by public sector workers to their students, clients or patients.

In contrast, mining, manufacturing, transport and other private sector industries can substitute capital for labour, thus pushing up the average output per worker. More output for less labour input is a basic characteristic of industrial development. The relative cost of what is produced declines accordingly. This substitution of capital and technology for labour cannot be made to the same extent in the public sector; hence the costs for the service do not decline, as in the private sector. This means that over a period of years it requires relatively more money to buy the same volume of service.

Statistics Canada provides comparisons of the costs of providing various goods and services in the economy over time. This data reveals that the costs, to government, of purchasing the various goods and services it uses have gone up significantly faster than overall prices in the economy. The implicit price index for all goods and services averaged 272.5 in 1982 (1971 = 100). However, the implicit price index for government spending on goods and services was 327.3. This figure reflects the fact that public services are not able to substitute capital and technology for human labour. These increases stem largely from the inherent characteristics of the kinds of services provided.

The significance of the faster growth in the costs to government of various goods and services is that over time more funds are required to purchase the same volume of resources. In other words, if the amount of resources bought by government were constant over time, government would still require more funds to purchase them. When this factor is taken into account, the real growth in government over the post-war period is significantly less than the nominal (or money) figures indicate.

There is a final reason why public sector consumption of goods and services has not grown as fast as commonly assumed. This is because of the shift in the composition of public spending from defence to civilian expenditures between 1950 and 1977. In the early 1950s, as a result of the Korean War, as much as 28.0 per cent of total government spending in Canada went to the armed forces. By 1977, the figure had fallen to a low of 4.3 per cent.

The decline in military spending has permitted a shift towards more and more civilian programs, especially at the federal level, without substantially increasing the share of GNE absorbed by the federal government. Thus the relatively small growth in federal spending as a proportion of GNE in the post-war period can, in part, be explained in terms of an expansion of social and public services with resources formerly spent on defence. Unfortunately, the federal government is now intent upon reversing this process by increasing defence spending and cutting support for social programs (see chapter 3).

To summarize the preceding discussion, there is little evidence that government is gobbling up the economy and squeezing out private, productive enterprises, as is often alleged. Considering the relatively modest growth of government consumption in the post-war period, it becomes difficult to see how government expansion can be held responsible for our economic problems.

Moreover, it is by no means obvious that government expansion has had a detrimental effect on the economy. By creating a steady demand for goods and services, government spending has evened out the excesses of the business cycle, kept unemployment lower than it otherwise would have been, and stimulated the overall growth of the economy. As noted earlier, government investments in roads, ports, railways, hydro-electric projects and the like have also provided the infrastructure necessary for the private sector to flourish. But perhaps the most significant point is that government spending on social, educational and medical programs has had an enormous impact in removing economic insecurity and improving the quality of life of working people. Far from being wasteful and non-productive, as its critics claim, government spending has provided ordinary Canadians with a number of vital services which the private sector could not or would not provide.

## CHAPTER 7

# An Alternative Economic Strategy

### The Need for a New Approach to Economic Policy

**T**he growing economic crisis in our economy, along with the increasingly ruthless policies advocated by business to resolve the crisis, have created the need for a new economic strategy to address the real problems faced by ordinary Canadians.

This strategy will have to be more than a series of bandaid proposals to patch up some of the most glaring abuses of the present situation. The crisis is too serious, and too far-reaching, to be resolved by such measures. Indeed, to suggest that minor adjustments in government spending and taxation policies will have any impact on the economic crisis is to strain the credulity of most Canadians.

What is needed is not a grab-bag of *ad hoc* or temporary measures, but a carefully considered, comprehensive plan that will address the root causes of our economic problems. In short, what is needed is an Alternative Economic Strategy.<sup>1</sup>

This strategy must constitute a clear break with past and present economic policies. It must confront the serious structural economic problems in an honest and creative way. It must state what needs to be done, even if the remedies outlined are not popular at present. And it must directly challenge the prevailing argument propounded by business interests (i.e. the only way to resolve the crisis is to give private investors a completely free hand in restructuring the economy according to their priorities).

An Alternative Economic Strategy must create jobs, rather than using unemployment as a means of undermining the wages and job

security of workers. It must promote socially useful investments, rather than speculation in finance, banking, real estate and foreign currency, no matter how profitable these activities are. It must focus on raising real wages and living standards, rather than sacrificing them to provide a more favourable investment climate for private capital. It must seek to improve the scope and quality of public services, which are so essential to providing a decent standard of living for all Canadians. And it must discourage the recent moves to dismantle the social progress that working people have fought so hard for during the past 50 years.

The basic problem with government decision-making has been its subordination to the needs and priorities of the private sector. The desire of investors to increase profits has taken precedence over the real needs of Canadians. Therefore, fundamental to the implementation of an Alternative Economic Strategy is the recognition that it is a mistake to give more say over economic decision-making to private investors. What is needed is to establish genuine public control over economic policy. This will entail new forms of involvement by — and accountability to — ordinary citizens.

A new strategy will also involve a new vision of how the public sector can be managed. The corporate sector has waged a remarkably successful campaign to discredit all forms of public ownership and control. This campaign has been immeasurably assisted by the actions of business-oriented governments, which have made no attempt to explore the very real possibilities that public ownership provides for democratic control by citizens.

Public enterprises have been modelled on the same hierarchical, authoritarian patterns of the private sector, with the understandable result that the rights of workers, consumers, community residents, and other groups of citizens have been largely ignored. All too often, failing industries and bankrupt corporations have been “nationalized” in a last-ditch effort to save them. This nationalization has usually been little more than bailing out private shareholders and the banks and transferring their debts to the public treasury.

When such enterprises fail to recover under public ownership, “government inefficiency and incompetence” are fingered as the culprits. At the same time, the former private investors who have too often been over-compensated for their property are free to place their capital into more promising areas of the economy.

Where public enterprises have been successful, they have frequently been sold to the private sector, or their profits have been channelled back to business by favourable pricing policies. With a few notable exceptions, governments in Canada have not wanted, nor attempted, to create model public enterprises.<sup>2</sup> Such experiments, when and where successful, would pose a very real threat to their business supporters.

The reason government involvement in economic decision-making is viewed with scepticism by many Canadians is precisely because, too frequently, it has *not* been carried out in the interests of citizens and taxpayers. Nor has it provided avenues for genuine de-

mocratic input. Government policies which reflect the priorities of business are unpopular, and quite rightly so.

Continued control of our economy by private investors, many of whom do not even reside in Canada, is inherently undemocratic. This control is also the reason why governments have followed economic policies that have sacrificed the interests of the majority of Canadians. But this does not mean that the public sector cannot be used to implement popular policies. Rather, it means that the subservience to private interests, which has characterized government economic policies until now, must be ended if we are going to use the public sector to rebuild our collapsing economy.

Indeed, the only way the economy can be reorganized to address the interests of working people is through much greater public control. The choice Canadians face is not between a continuation of prosperity (resulting from the successful operation of private market forces) on the one hand, *vs.* stagnation (under greater public control), on the other. Rather, the choice is between: (1) Watching our living standards and job security erode as a result of policies designed to bolster profits at the expense of the majority of Canadians; or (2) Establishing new priorities which place the social and economic needs of working people first. More public ownership and effective, democratic public involvement in shaping economic policy is the only way the latter objective can be achieved.

The practical implications of a commitment to use the public sector as the leading edge of economic development are clear. First, it becomes possible to speak, in a meaningful way, of actually planning our economic development.<sup>3</sup> It makes it possible to come to grips with the very serious structural problems our economy faces. A strategy to revitalize key sectors of manufacturing, as well as to process our raw materials here in Canada, becomes feasible. It also makes it possible to focus public investment in areas where the maximum number of jobs will be created.

Planning would allow us to channel more of our resources into the many unmet social needs of Canadians. A serious attempt to control the development of our economy would enable us to follow policies that are designed to reduce our vulnerability to international economic forces. These forces are continually hindering sustained economic growth in Canada. The creative use of public investment and public planning will only be successful, however, if the process of economic decision-making is made much more democratic and much more responsive to the needs of ordinary Canadians.

When most Canadians hear the term economic planning, they immediately envisage an impersonal, bureaucratic decision-making process by people who are removed from, and insensitive to, the problems and concerns of those affected by their decisions. Planning is viewed as too cumbersome, too top-heavy, and too inefficient. Unfortunately, too much of the planning done by governments has conformed to this view.

What is needed, instead, is a concept of planning which embodies widespread consultation, especially consultation with those who will

actually do the work. We need a concept of planning that involves workers, local communities, popular organizations and all the various constituencies that will be affected. Instead of being secretive and modelled on the hierarchy of business organizations, the planning must be open and accessible to the public at all levels.

Moreover, economic plans must be widely discussed. There is little doubt that one of the principal reasons why public enterprises, Crown corporations and government services are not popular is that they have prevented ordinary citizens (and employees) from participating in decision-making. Too often they have actively deterred popular involvement, viewing it as an obstacle to be overcome rather than an integral part of the way they ought to be operating.

Economic planning at the national, regional, local and enterprise levels must take full account of the knowledge and skills of the people at each level. Planning is not a process where a handful of so-called experts determine the objectives and the means by which these objectives are to be implemented. Planning is a process which attempts to draw on the full resources of the people who will be involved. For example, workers at the level of the enterprise often know far more about certain aspects of the productive process than more senior staff, who are remote from the job site. Competent planning will entail obtaining their views and incorporating them into the plans in a flexible and ongoing manner. It will also entail accepting their proposals for changes and modifications to the plan. Similarly, local communities may be aware of problems or possibilities which would not be obvious to economists and planners who did not live in the area. (Too often local residents watch with disdain as rigidly administered government projects collapse because those in charge are unaware of local conditions. Full and open discussions with people in these communities would ensure that appropriate additions or modifications were made in the plans.)

The concept of planning suggested here does not conform to traditional, bureaucratic patterns. Undoubtedly, it will be criticized on the grounds that such participation would itself generate inefficiencies and delays. However, these sources of inefficiency would be more than overcome by the benefits of being able to tap the resources – and enthusiasm – of those involved. Moreover, the sense of alienation from government and government policies experienced by most Canadians can be overcome by ensuring that they have a real voice in economic decision-making in the communities and enterprises where they live and work.

A commitment to use the public sector as the engine of economic development makes it possible to formulate a coherent investment strategy. The investment priorities of the private sector have not provided a diversified economic base with a strong manufacturing sector. Considerations of short-term profitability have resulted in the allocation of massive amounts of investment capital to the energy and resource sectors and to speculation in real estate, foreign currencies and overseas investment ventures. This is not a blueprint for future economic viability.

There is no shortage of investment funding in Canada. In recent years the ratio of savings to personal income has climbed dramatically. Economic insecurity has led many Canadians to limit their consumption so they will have a nest egg if economic hardship comes. The following table shows the growth of the savings rate since 1974.

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**TABLE 59**

**Growth of Savings  
1974 – 1982**

<b>YEAR</b>	<b>SAVINGS RATE (Per Cent GNE)</b>
1974	9.9
1975	10.9
1976	10.0
1977	9.7
1978	11.1
1979	11.1
1980	11.2
1981	12.4
1982	13.7

**Source:** Department of Finance, *The Economic Outlook for Canada*, Ottawa, April 19, 1983, p. 21.

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Despite the growth in savings, business investment declined in 1982 and is projected to decline further in 1983 and 1984. The problem, then, is not a shortage of capital, but an unwillingness of business to invest. In the face of such evidence, the need for government to take the lead in expanding investment is even more urgent.

Investment is the key to Canada's economic regeneration, but not just *any* type of investment. The capital invested should be targeted to the development of industries that will satisfy the social and economic needs of Canadians. This means that the criteria used to evaluate different investment opportunities must be broader than that of profitability.<sup>4</sup> Such criteria must also take into account the impact on employment, the needs of local communities, the skill development of workers, the impact on our balance of payments, and other considerations, especially of a social nature. Of course, such factors must be weighed carefully — no one wants to pour money into projects that are simply not viable.

Many projects are rejected by the private sector on the grounds that they do not make quite as much profit as other, more speculative ventures. There are investments (such as in the economic infrastructure) which contribute to improving efficiency throughout the

economy. And there are other investments – energy conservation, for example – which make us less dependent on fluctuating world energy prices while contributing positively to our balance of payments. All these factors should be taken into account in determining an investment strategy.

An Alternative Economic Strategy must consist of a set of long-term objectives, and a vehicle for achieving those objectives. It must also encompass a specific program outlining the measures needed for its implementation. Inevitably, any set of proposals for restructuring the economy will suffer from oversights and omissions. It will also be open to the charge of over-simplification.

At the same time, the need for an Alternative Economic Strategy has never been more pressing in Canada. The bankruptcy of conventional explanations for the crisis is everywhere apparent. For this reason it appears justified to attempt to outline the kinds of policies needed to resolve our economic crisis. The purpose of the proposals set out in the following pages is to initiate a wide ranging debate on the contents of a viable Alternative Economic Strategy.<sup>5</sup> These proposals are not carved in stone. They can – and should – be modified as our understanding of the crisis matures.

## **1. Stimulate the Economy**

The business community has defined inflation as the No. 1 economic priority and used this to justify the regressive social and economic policies now being implemented. But inflation is not our No. 1 economic problem. Unemployment, followed closely by economic stagnation, falling living standards and deteriorating public services, are the key problems, and they must now serve as the focus of economic policy.

To foster the objectives of reducing unemployment and increasing output, government must stimulate the economy. More demand, or purchasing power, must be generated to expand markets and raise production.

At this time, business is both unwilling and incapable of expanding. Therefore, governments at both federal and provincial levels should increase spending and expand programs immediately, so that our unused resources — and particularly the more than two million unemployed — can be put to work rebuilding our economy. Economic stimulation should come through lowering interest rates, reversing the current policy of tight money, and expanding public sector programs.

It is important that the economy be stimulated. But the stimulation must be properly focussed. This means it must be designed to provide permanent jobs, not temporary make-work projects designed merely to conceal the growing number of unemployed.<sup>6</sup> It must come to grips with our unmet social needs, such as public housing, public transit, medical care, nursing homes and a wide variety of other social priori-

ties, rather than being designed to put government money in the hands of private firms anxious to improve their profits during a period of stagnation.

Economic stimulation must also focus on providing markets for domestically produced goods and services. Such demand will provide new jobs and ensure that we do not experience a surge in imports which would lead to a deterioration in our balance of payments and a foreign exchange crisis.<sup>7</sup>

For this reason, one of the most common Keynesian techniques — across-the-board tax cuts to business — should not be used to reflate the economy. Such measures provide no guarantee that domestically produced goods and services will be purchased. Nor do they offer any method of stopping a major increase in imports of foreign-made consumer goods, with all the problems that follow.

Tax cuts tend to favour the well-to-do, thus increasing social inequality. They do not foster development in sectors of the economy that deserve priority, or that will contribute significantly to reducing unemployment. Most importantly, tax cuts to business leave the government with less control over economic decision-making in the future. They assume that if business is allowed to operate with less government interference, the economy will gradually improve. Yet, as we have noted earlier, this is exactly what will not take place.

Economic stimulation is vital in putting Canadians back to work, and in using the abundance of resources currently lying idle. But it does not provide a long-term answer to the crisis. It is a necessary but not sufficient condition of economic recovery. The long-term solution lies in basic structural reforms of the economy set out in the remainder of this chapter. If these are not implemented, the economy will gradually fall back into a slump as the business cycle regains its downward momentum.

## 2. Stop Cuts in Public Spending

There is little doubt that the continuation of government cutback policies will result in the destruction of many basic public services. While no one wants to sound unnecessarily alarmist, the fact is that cuts are now so deep and so comprehensive that the very fabric of the welfare state is threatened. It will take many years to repair the damage which has already been done, even if further cuts are not implemented.

Public sector cuts are reducing the real living standards of the majority of Canadians. They are generating more and more hardship and insecurity, especially among the elderly, the disabled, the unemployed, women, ethnic minorities and many other groups. They are also leading to a basic redistribution of resources and income in favour of the affluent. Resources are being channelled away from education, medical care, and other basic services, and toward more luxury goods

for the wealthy investors whose interests now occupy the focus of government decision-makers.

Cuts in public services are also raising unemployment. At a time when over two million Canadians are out of work, it is clear there are no jobs in the private sector that can be filled by unemployed public sector workers. Laid off teachers, social workers, librarians, garbage collectors and hydro workers are simply going to swell the ranks of the jobless. Instead of providing a service to the community, they will become recipients of UIC and welfare. And citizens will be deprived of the important services they provide.

It makes absolutely no sense to turn socially productive workers into welfare recipients simply to fulfill an ideological commitment to cut public spending. Nor does it make any sense to deny those who use and need public services the benefits they are now receiving. Such policies only make sense in the twisted logic of a corporate sector intent upon reducing living standards and labour costs, regardless of the hardship this creates.

### 3. Lower Interest Rates

High interest rates have been one of the key factors choking off investment and throttling economic recovery. Although interest rates have fallen, so has inflation. As a result, *real* interest rates remain, historically, at a high level. Another key measure needed to stimulate the economy, therefore, is to cut interest rates. This, in turn, would reduce the real cost of new investments, raise consumer demand for a wide range of products, and enable potential home buyers to purchase new homes. These activities would then generate more demand in the economy and remove one of the major obstacles to economic growth. A reduction in interest rates would also help the government sector by reducing the cost of borrowing and, in so doing, make the deficit more manageable.

It is worth noting, moreover, that high *real* interest rates result in an enormous transfer of wealth from those who borrow (i.e. lower and middle income earners) to those who lend (i.e. the wealthy). The monetarist policy of high interest rates generates inequality. Lowering interest rates thus has the added benefit of curbing this regressive transfer of income and wealth.

Lower, and (perhaps as important) *stable* interest rates, are not a utopian objective. There are a number of concrete policy measures which could be taken to reduce interest rates by 2 to 3 per cent. One measure would require a change in the *Bank Act* to increase the ratio of foreign currency the banks are required to deposit in non-interest-bearing accounts with the Bank of Canada. At present, the banks are required to have only 3 per cent of their foreign currency holdings in such accounts, while the Canadian currency requirement is 10 per cent. Thus the banks have a major incentive to speculate against the Canadian dollar by encouraging their clients to hold foreign currency.

If the foreign currency ratio were raised above the current level, it would have the effect of keeping Canadian money at home.<sup>8</sup>

Another measure would be to allow the Canadian dollar to float further downwards. One of the key reasons Canadian interest rates are so high is to protect the international value of the Canadian dollar. High interest rates attract, or keep, capital in Canada. However, the price we pay for maintaining the value of the dollar is enormous. A higher dollar makes it more expensive to export manufactured goods and cheaper to import foreign-produced goods. It is thus contributing to the decline of our manufacturing sector and the growth of unemployment.

To this must be added the enormous costs borne by all sectors of the economy because of the higher interest rates which have to be paid to finance new investment. At a time when investment has been plummeting, it makes little sense to keep interest rates so high that they act as an added deterrent. A reduction in the value of the dollar would increase the inflation rate slightly in the short run because the costs of imports would rise. But the increase would be far less significant than the many costs associated with high interest rates.

In addition to lowering interest rates, the tight money policies of Bank of Canada Governor Gerald Bouey must be reversed. After almost a decade of rigid adherence to controlling the money supply (defined as *M-1*, or banknotes and currency in circulation), it is ironic that Bouey recently acknowledged that the value of *M-1* as an indicator of the money supply was problematic. The Bank of Canada, he announced, was considering abandoning it. The fact that he now openly admits the policy was mistaken is an encouraging sign. At the same time, it remains small comfort to the hundreds of thousands of workers who have lost their jobs as a result of his policies. Interest rates have fallen, largely because Bouey, as usual, has followed the U.S. pattern. But there is no guarantee they will not rise again if U.S. rates go up.

Canada cannot isolate itself totally from the international financial system. But Canadians can take steps that would significantly reduce their vulnerability to the whims of foreign bankers. For example, major foreign borrowing by provincial governments, Crown corporations, and larger private firms should be regulated to eliminate erratic fluctuations in the rate of conversion of foreign currency into Canadian dollars. Instead of allowing corporations to convert billions of dollars one week and nothing the next, the overall amount to be converted by all enterprises and governments should be parcelled out in an even fashion, thus reducing the extent to which such conversions produce instability in the value of the Canadian dollar.<sup>9</sup> This would also stabilize the exchange rate. And a more stable exchange rate would reduce the uncertainty that contributes to higher interest rates.

Lowering interest rates and easing tight money policies cannot be done in isolation from other changes in the management of our financial system. They can only be carried out effectively if Canada is able to regulate the flow of currency across our borders by means of exchange controls and effective regulation of the banking system.

## 4. Implement Exchange Controls

One of the key structural problems of the Canadian economy is its vulnerability to pressures from the international economic system. Canada is a trading nation in which exports and imports comprise a large proportion of overall economic activity. Obviously, Canada will continue to be a major exporter, despite the other changes that might be made in our economy.

At the same time, there is a pressing need to reduce our dependence on international capital and to develop mechanisms for ensuring that much more of the capital generated in Canada is actually invested in productive activities here.

A major impediment to implementing policies which deal with the root causes of our economic crisis is that the investment community and the multinational corporations are in a position to bring enormous pressure to bear on governments and wreak havoc on the economy by transferring capital abroad if they disagree with government economic policies. The absence of control over movements of capital imposes a policy straitjacket which restricts the economic options available to federal or provincial governments.

By imposing exchange controls, Canada can break out of this straitjacket. We can have some control over the economic environment in which decisions on investment are made by preventing arbitrary movements of capital and by limiting the export of Canadian funds.

Exchange controls are also necessary if Canada wants to exercise control over the value of the Canadian dollar on the international money markets. Currency speculation can have a very destabilizing effect, not only on the exchange rate, but also on the overall investment climate in a country. It is also a factor in pushing up interest rates because the uncertainty it generates encourages lenders to demand a premium for placing (or keeping) their money in Canadian accounts.

While exchange controls cannot stop currency speculation entirely, they can reduce it substantially and thus contribute to a more stable investment climate and lower interest rates. Exchange controls have been used by many countries over the years to stabilize their currencies and limit the export of capital. Many of our leading trading partners have resorted to such controls when they needed to curb speculation against their currencies. Britain had exchange controls from the mid-1960s to 1979. U.S. President Nixon introduced them in 1971. Our own government also used controls during the Second World War.

At a time when the economy is in a major crisis, there is absolutely no reason why exchange controls should not be used. The argument that it might limit the freedom of investors is hardly persuasive, considering the sacrifices that other members of Canadian society have already made. Most workers have seen a major fall in their real incomes since the mid-1970s, and they will likely lose considerably more in the coming years. Investors should be required to carry their share of the burden as well. They should not be allowed to frustrate the need for measures to control investment and capital flows.

With unemployment skyrocketing, living standards plummeting, and public services deteriorating, it is clear that the economic crisis is severe enough to warrant the imposition of exchange controls. Instead of reducing the living standards of Canadians even further, it is time to clamp down on the activities of bankers, foreign and domestic investors, and currency speculators.

## 5. Nationalize the Banks

One of the most important components of an Alternative Economic Strategy is control of the allocation of investment. By channelling capital into productive industries (and ensuring that it is not diverted into speculative ventures), we can rebuild our manufacturing capacity and give priority to socially needed projects. To do this, however, the key institutions which control investment decisions — namely the banks — must be brought under public control and ownership.

The five largest private banks are at the centre of the entire economic system. They act as a double-ended funnel, channelling money from those who save to those who borrow or invest.

All sectors of the economy rely on banks for capital. Enterprises depend upon the decision of the banks for their investment projects. In determining which projects will (or will not) receive loans, the banks exercise substantial control over the direction of economic development. Moreover, because the recent slump has made it difficult for many companies to meet their loan payments, the banks are often in a position to dictate the investment policies followed by the companies to which they have loaned money.

The banks have ignored the impact of their lending decisions on job creation. They have funded overseas investments. They have speculated in real estate, resource extraction and foreign currencies. Money loaned abroad, in reality, means the export of jobs. Loans that help companies to speculate in property development and real estate divert investment capital from manufacturing or improving the infrastructure of the country. Money loaned to promote resource extraction (especially in the oil and gas industries) reinforces our dependence on the export of raw materials. It also produces only a tiny fraction of the jobs that would be created if the money were invested in the manufacturing or service sectors of the economy.

The banks have demonstrated little commitment to providing jobs for Canadians, and have been indifferent about whether an investment creates one job or a hundred. Indeed, if the rate of return on a project that creates a handful of jobs is even marginally greater than one which creates hundreds of jobs, the banks have consistently opted for the more profitable venture, regardless of the social and economic impact on ordinary Canadians. Similarly, if foreign investments create marginally more profit than investment in Canada, the banks are quite prepared to export capital abroad. Yet such policies are clearly inconsistent with any sensible, long-term strategy for the modernization of the Canadian economy and the provision of jobs for all Canadians.

As shown in a previous chapter, the banks have used their financial power to boost profits at the expense of borrowers and consumers. They have funded many of the speculative financial ventures in energy, real estate and overseas investment, which in turn have contributed to our economy's problems. The banks have also lobbied government to adopt a policy of fiscal restraint, while permitting Bank of Canada Governor Gerald Bouey to throttle the economy with his monetarist policies. In short, the policies followed by the banks in their own operations, and policies advocated by the banks in the sphere of public policy, have been disastrous for ordinary Canadians. The banks are simply not accountable to the public for their activities, notwithstanding the activities of the Inspector General of Banks.

While it may be argued that tougher regulation of the banking system would alleviate many of these problems, the probability of such measures succeeding is minimal.<sup>10</sup> The banks have shown themselves to be opposed to any sort of regulation except that which preserves their monopoly over the Canadian banking system. They have been diligently transforming themselves from Canadian banks to multinational banks based in Canada.

The banking system plays too important a role in our economy to be left to the bankers. The only effective way it can be transformed to meet the needs of Canadians is through public ownership. This may seem a radical proposal, but it is also a necessary one. A publicly owned and controlled banking system, such as now exists in France, makes sense from the viewpoint of ordinary Canadians.

There is every reason to believe that the business community would use all its resources to stop such a measure being implemented. This opposition would not reflect the costs of buying out the shareholders. The actual book value of shareholders' equity in the nation's five largest banks amounted to approximately \$9.8 billion in 1982 (\$10.7 billion if preferred share capital is included).<sup>11</sup> This is less than 15 per cent of total spending each year by the federal government.

In the spring of 1982, over \$2 billion in additional tax concessions were granted to the oil industry by (then) federal Energy Minister Marc Lalonde. An additional \$4.5 billion was given by the Alberta government. These two grants alone would have provided the funds to purchase three of the five major banks. Our defence bill, as mentioned earlier, amounts to approximately \$7 billion annually. If it were cut by \$2 billion, the savings would be sufficient to buy the entire banking system within five years.

Moreover, because the Canadian banking system is already so centralized, with the largest five banks holding 91 per cent of total bank assets, the administrative problems associated with nationalization would not be insurmountable. This contrasts with the U.S., for example, which has literally thousands of small banks.

The major impediment to the nationalization of the banks is not cost or administrative complexity. Nor is it the satisfaction Canadians feel about the service they may have received from the banks. Quite the contrary; the banks are profoundly unpopular. The opposition is, more

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fundamentally, that such a move could signal a major threat to the economic power wielded by private industry. It would create the potential for democratic public planning of the Canadian economy, in which priorities other than those of the corporate sector were allowed to emerge. This is exactly why nationalization is necessary.

The nationalization of the banks would not, in itself, be adequate to ensure public accountability. The banking system must also be radically reorganized to facilitate more local democratic control of banking decisions. Provincial, regional and local boards of directors would need to be established, with representation from depositors, borrowers, local communities, trade unions, bank employees and the public.<sup>12</sup> In this way, decisions about local economic development could be taken by those directly affected. This would also mean that considerations such as job creation, balanced economic growth, environmental issues, affirmative action and the like would be taken into account in making investment decisions.

Nationalizing the banks is not simply a case of transferring ownership to the public, important as this may be from the viewpoint of using their profits for social development. Public ownership will provide the opportunity to develop a totally new kind of banking system responsive to the needs of ordinary Canadians. The hierarchical, bureaucratic, impersonal structures of the existing banking system would be replaced by a much more decentralized, community-based pattern of organization. The details of how local communities would be able to influence investment and economic development will have to be clarified as part of the broader debate over an Alternative Economic Strategy. But the need for such input is clear.

Such a system of decentralized control would also bring a halt to the overseas expansion of the banks. Local communities and workers in local enterprises would be much less likely to permit their savings to flow overseas when they knew that this would result in a shortage of investment capital in their own communities.

Nationalization of the banks would also permit implementation of many of the goals which originally motivated the credit union movement — goals which were largely abandoned because credit unions were forced to operate in an economic framework controlled by the major private banks. Credit unions had to behave like banks to survive. In the process they had to discard many of their original purposes. Yet their basic goal of community participation and support of local economic development remains sound.

Any move toward bank nationalization should be accompanied by a commitment to the unionization of bank employees. The disparity between the enormous profits of the banks and the very low wages of the ordinary bank workers is appalling. Bank workers are subject to an archaic, authoritarian system of discipline which has no place in a society that professes to be democratic. Working conditions in banks are characterized by unnecessary pressure, stress and overwork, and are enforced by a high degree of job insecurity.

The banks are also guilty of institutional discrimination against women. Until recently, Canada's largest bank, the Royal, had no women on its Board of Directors, although the overwhelming majority of its employees were women.<sup>12</sup> (When this became a public issue a few years ago, the bank hurriedly appointed several women to its board.) With a few minor exceptions, women have been excluded from the better-paying, more responsible positions within the banks. Men are consistently promoted in preference to equally qualified women employees.<sup>13</sup> Nothing short of a complete transformation of personnel practices will be sufficient to rectify the long-standing subordination of women. Unionization can be a key factor in promoting this change.

The inability of the labour movement to make significant progress in its attempts to organize bank workers is a reflection of the inordinate power the banks have over their employees. Most bank workers do not have bargaining rights because the banks have the unilateral power to intimidate and dismiss workers who wish to be unionized.<sup>14</sup> The fact that the banks have systematically sought to deny their employees collective bargaining rights is yet another reason why nationalization is necessary.<sup>15</sup>

Bank employees at all levels should be playing a major role in providing the kind of information and advice that would be needed in implementing local development plans. Moreover, the unions representing bank workers should have a central role in ensuring that the perspective of ordinary working Canadians is reflected properly in the organization and administration of the banking system. This role should not be simply that of having token representation on the local boards governing banks. It should involve direct and extensive communication with the many groups and organizations in the community that are affected by the decisions of the banks.

In addition to nationalizing the banks, there is a strong argument for nationalizing the major insurance companies. Although they do not play as central a role as the banks in determining economic development, insurance companies are repositories of very large amounts of pension funds and the personal savings of ordinary Canadians. Table 60 (following page), drawn from the *Financial Post*, shows the assets and premium income of the largest life insurance companies in Canada as of December 31, 1982.

If Canada is going to have an effective investment strategy, the enormous amounts of capital in the form of pensions and life insurance savings must be directed to the rebuilding of the Canadian economy. Like the banks, the insurance companies now provide funds to many corporations, both directly and through the bond market. The same problems with the banks are shared by the insurance companies: the export of capital, the funding of property and real estate ventures, the lack of concern for jobs or the development of the domestic manufacturing sector, and the funding of capital-intensive resource projects which further weaken Canada's economy.<sup>16</sup>

A viable Alternative Economic Strategy thus requires public control and direction of the large amounts of funds currently under the private control of a handful of insurance companies.

**TABLE 60**  
**Assets and Premium Income of Canadian Insurance Companies, 1982**

RANK AS AT DEC. 31, 1982	WORLDWIDE ASSETS CONTROLLED IN CANADA \$ billions	COMPANY	NET WORLDWIDE PREMIUM INCOME \$ millions	NET CANADIAN PREMIUM INCOME \$ millions
1	9.5	Sun Life Assurance Co. of Canada (Toronto)	1,534	1,024
2	7.9	Manufacturers Life Insurance Co. (Toronto)	1,294	486
3	6.7	Great-West Life Assurance Co. (Winnipeg)	1,766	877
4	4.6	London Life Insurance Co. (London, Ont.)	698	698
5	4.5	Mutual Life Assurance Co. of Canada (Waterloo, Ont.)	755	755
6	4.4	Canada Life Assurance Co. (Toronto)	836	644
7	4.2	Confederation Life Insurance Co. (Toronto)	980	644
8	3.2	Crown Life Insurance Co. (Toronto)	997	281
9	3.1	Standard Life Assurance Co. (Montreal) <sup>1</sup>	n.a.	342
10	2.9	Metropolitan Life Insurance Co. (Ottawa) <sup>1</sup>	6,586 <sup>2</sup>	367
11	2.1	Prudential Insurance Co. of America (Toronto) <sup>1</sup>	11,964 <sup>2</sup>	371
12	2.1	North American Life Assurance Co. (Toronto)	313	219
13	1.8	Imperial Life Assurance Co. of Canada (Toronto)	346	213
14	1.2	Dominion Life Assurance Co. (Waterloo, Ont.)	266	186
15	1.2	Prudential Assurance Co. (Montreal)	n.a.	265

Figures include life, annuity, accident and sickness business

<sup>1</sup> Foreign-owned company

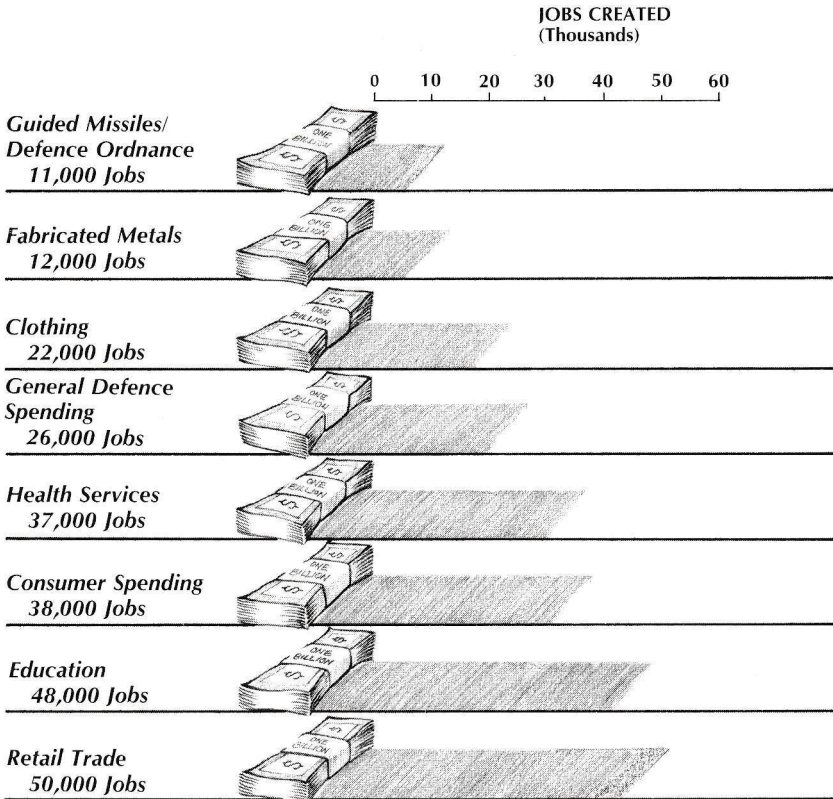
<sup>2</sup> Net worldwide premium income controlled by parent.

n.a. Not available

Source: *The Financial Post* 500, June, 1983.

## 6. Shift Defence Spending into Socially Useful Production

Another measure needed to deal with the present economic crisis is to redirect defence spending into socially useful activities. Expenditure on war preparations is harmful to the economy in a number of ways. It is inflationary. It diverts needed investment capital from civilian to military use at a time when our manufacturing industry desperately needs more investment. It distorts research and development expenditures. It adversely affects Canada's balance of payments because fewer jobs are created for the same expenditure than in virtually any other government program. And the sharp increase in defence spending in recent years is placing a major strain on federal government finances.



**Direct and Indirect Jobs Generated  
By One Billion Dollars** (1981 U.S. Dollars)

High defence expenditures are a millstone on the economy. By shifting resources from defence to civilian programs, Canada can tap a major source of investment capital without placing any additional burden on government budgets.

It will, of course, require considerable thought and planning to convert military production to civilian needs. For example, the skills of the many workers employed in defence plants will have to be partnered with comparable types of work in manufacturing. For some personnel, complete retraining will have to be provided. Regional disruption will have to be dealt with. In some areas of the country, the armed forces base or defence plant is the principal employer. Yet these difficulties are not insurmountable.

In England, union shop stewards in the giant Lucas Aerospace firm have developed an alternate plan for their company to divert its production into socially useful areas.<sup>17</sup> This plan involved using the skills of its engineers, scientists and technicians to build sophisticated artificial limbs for the handicapped; develop new and cheaper kidney machines; improve public transit; develop new ways of conserving energy; and create a wide range of other socially useful products which can also provide employment for the workers concerned. These are but a few examples of the many ways that defence production could be converted to productive peaceful activities.

It is questionable whether Canada's participation in the arms race has resulted in the achievement of any progress towards the intangible concept of "security." If anything, it is increasing the very real danger of nuclear war. And, from an economic point of view, the cost of participating in this luxurious international competition is excessive.

One of the most important measures the federal government could take to deal with the economic crisis is to redirect defence spending. This would provide more money for services which Canadians actually use. It would also release capital for new investment, reduce inflation, lower unemployment, and allow the government to reduce its borrowing requirements.

## **7. Establish A System of Price Controls**

In 1983, the rate of inflation dropped considerably. Although rising prices have been used to justify regressive economic policies, these policies have been maintained despite the decline in the rate of price increases. A key reason for this decline has been the severity of the slump, both domestically and internationally.

While inflation has moderated temporarily, the long-term prospects are less optimistic. There is every reason to believe that inflation will increase once a modest recovery begins. This will result in calls for a further tightening of monetarist policies. Such policies will, in turn, choke off the recovery. Real economic growth without inflation seems an elusive goal in the context of the present economic system.

The fact that inflation has dropped in recent months may suggest that the establishment of mechanisms to control prices is not an immediate priority. However, any significant stimulation of the economy would soon result in major increases in prices. Fear of renewed inflation is one of the key impediments to the adoption of a more expansionary economic policy by governments. A properly thought out system of price controls is thus essential if we are serious about expanding the economy and implementing an Alternative Economic Strategy.

The policies advocated by business, and implemented by governments, have controlled prices only by throttling the economy. This is because monetarism, deflationary economic policies, wage controls, unemployment and cuts in government spending approach the problem *indirectly*. Yet the most obvious — and *direct* — method of dealing with inflation — price controls — has been ignored.

Throughout the debate on how to control Canada's inflation rate, the corporations successfully obscured the simple fact that the only real way to control inflation is to control prices. After all, inflation is, quite simply, rising prices. There are many advantages to imposing controls on prices. First, unlike the indirect methods now being used, price controls actually have a good prospect of success because they address the problem directly. Second, unlike wage controls, they do not involve taking away the basic democratic rights of workers. Prices and money are objects, not persons. In contrast, wage controls deny people's rights by extinguishing collective bargaining. In a society that claims to adhere to democratic principles, the choice between restricting human rights and restricting the price of commodities ought to be very clear.

Wage controls limit the incomes of those who work, but not those who receive unearned income from dividends, interest payments and property. Thus they shift the entire burden of the fight against inflation to the shoulders of those least able to bear the costs. At the same time they leave the large corporations and the well-to-do virtually untouched. Wage controls redistribute income from workers to corporate shareholders. Yet they do not provide any guarantee that prices will stop increasing.<sup>18</sup>

However, if prices are brought down, there is every reason to believe that workers will modify their wage demands. There is no doubt that a lower inflation rate and reasonable guarantees that the prices of basic commodities will not increase dramatically would provide an economic climate in which moderate wage increases became the rule.

Controls on prices also do not have the many adverse and regressive costs associated with indirect measures such as deflating the economy, cutting public spending and raising unemployment. Rather than throttling the economy with high interest rates and throwing hundreds of thousands of people out of work, a policy of price controls would not undermine production and employment.<sup>19</sup>

The logic of price controls gains further support when we examine where the highest increases in prices have occurred in the economy. According to Statistics Canada, energy and mortgage interest rates

have been among the most rapidly increasing components of the Consumer Price Index (CPI). Between 1971, when the energy component was first calculated, and January 1984, it had risen by 368.3 per cent. This contrasts with an increase in the all items CPI of 184.8 per cent. However, it is not all energy prices which have risen so quickly. Hydro-electric price increases have been far less than those of oil, gasoline, and natural gas. The following table shows the increase of selected energy components and the overall CPI.

**TABLE 61**  
**Increases in Energy Prices**  
**1971 – 1984**

ENERGY COMPONENT	1971 (annual)	1984 INDEX NUMBER (January)	PER CENT INCREASE 1971-1984
Gasoline	100	454.0	354.0
Fuel Oil	100	753.5	653.5
Motor Oil	100	283.9	183.9
Natural Gas	100	488.7	388.7
Electricity	100	304.5	204.5
Total Energy Component	100	468.3	368.3
All Items CPI	100	284.8	184.8

**Source:** Statistics Canada, *The Consumer Price Index* Cat. 62-001.

The skyrocketing costs of oil and gas are in turn pushing up the prices of many other items. Energy is a basic component of manufacturing, mining, transportation and other industries. The reason energy prices have risen so quickly stems, in large part, from the monopolistic practices of the major oil companies (documented by the Bertrand Report and discussed in an earlier chapter).

The second major area where prices have risen at a disproportionately rapid rate is mortgage interest costs, which, in January 1984, were about 297.5 per cent above the level of 1971. Interest rates have shot up as a direct result of the Bank of Canada's monetarist economic policies. As is the case with oil prices, the federal government has deliberately chosen not to take action to curb these increases.

High interest rates also affect the price of many other goods and services. This is because interest becomes another cost of production that must be added to the selling price.

Price controls provide an effective method for lowering the rate of price increases. Indirect methods, such as wage controls and monetarist economic policies, provide no similar guarantee. For example, many companies have taken advantage of controls on workers' wages by raising profit margins, rather than passing on lower labour costs to consumers in the form of lower prices.

Price controls also have the beneficial effect of reducing income inequality compared with the regressive methods currently being used (or promoted) as remedies for inflation. They help ordinary consumers. They limit the ability of monopolistic firms (such as the oil companies) to exploit their control of the market to gouge working people. And they place the burden of fighting inflation on those most able to bear it: the large corporations. Indeed, it would be the very corporations which are most strident in their demands for effective anti-inflation measures which would be required to take the initiative.

The reason price controls are not widely discussed as a method of controlling inflation is obvious. Price controls would shift the costs of fighting inflation to the corporate sector. They would also highlight the role that corporate pricing policies and monopolistic practices play in fuelling inflation. This is exactly why they should be imposed.

## **8. Restructure Government Finances**

One of the most important issues which an Alternative Economic Strategy must confront is financing. How can Canada generate the capital needed to implement the many components of the program, especially in a period when government deficits are rising and revenues are falling? The answer to this question is central to a credible Alternative Economic Strategy.

Before looking at what, specifically, needs to be done, it is worthwhile recalling that the regressive economic policies now being followed are contributing to the crisis in government finance. Monetarism does not provide a remedy for curbing the growth of government deficits. Nor, for that matter, does it offer an answer to the question of how to resolve the underlying structural problems of the Canadian economy. Thus to continue with regressive policies is to allow the financial problems of government and the stagnation of the economy to become even worse.

New and fundamentally different policies are necessary. Yet the economic crisis is now so deep that minor tinkering with taxation and spending will not rectify matters. Plugging a few of the more blatant tax loopholes and making modest shifts in spending from one program to another will have little, if any, impact. Only a complete restructuring of both revenues and expenditures will be adequate.

On the expenditure side, the most important single policy change is to reduce the enormous number of corporate subsidies and handouts. These are now so generous that the business community is receiving more from government than it pays in taxes. Aside from the inequitable nature of this corporate assistance, there is a more practical objection: handouts are not working. Subsidies to the corporate sector have not promoted balanced economic development. Nor have they reduced unemployment, even though job creation is one of the most frequent justifications for government assistance to business. By and large, they have simply been another source of revenue used by corporations to boost their profits.

Instead of providing handouts to the corporate sector, federal and provincial governments should use the money to fund their own development projects directly. If even a small percentage of the grants given to the oil companies since 1947 had been channelled into developing Canada's own oil industry, there is every reason to believe we would be self-sufficient in oil and able to control oil prices much more effectively. If Inco had been brought under public ownership, we would not have witnessed the enormous export of capital which occurred as it set up operations in Guatemala, Indonesia and Taiwan. The list goes on and on.

The corporate sector has been so successful in diverting public funds into its private operations that the task of curtailing these subsidies is nothing short of gigantic. At the same time, a number of the more blatant giveaways could be readily halted, while those currently propping up faltering enterprises could be gradually restructured to provide governments with an appropriate ownership share as compensation for the public monies invested in them.

By phasing out corporate handouts, federal and provincial governments would make large amounts of funds available for direct public investment. This would greatly alleviate the financial difficulties of paying for the other components of the Alternative Economic Strategy.

Turning to the revenue side, there is an urgent need to restructure corporate and personal taxation on a much more progressive basis. The principle that those who *can* afford to pay actually *do* pay must once again become the philosophical basis for our system of taxation. In practical terms this means phasing out a wide range of inequitable corporate and personal tax expenditures, exemptions, deductions and other loopholes, which currently enable corporations and the wealthy to reduce or avoid tax. Some of the tax expenditures that have become such a drain on government finance are documented in chapter 5. These can – and should – be phased out.

Looking in more detail at revenues from corporate taxes, there is a strong case for raising taxes in certain sectors of the economy. It is true that the severity of the economic slump, particularly in 1982, led to a sharp reduction in corporate profits. This, in turn, has placed some restrictions on the ability to raise more revenues from the corporate sector. However, corporate profits are now on the rebound, with major increases occurring in many sectors of the economy. Moreover, there are some areas of the economy where a sharp increase in the rate of corporate taxation is long overdue.

Many of the most profitable sectors of the economy, such as banking and resource extraction, pay little or no taxes. It is nothing short of obscene that in 1982 two of Canada's leading banks paid no tax at all. Indeed, they actually received a *tax credit* to offset against future taxation. While it is impossible to know what the real profits of the oil companies are, it is quite clear that the amount they pay in taxes is only a tiny fraction of what they earn.

Companies in banking, petroleum and other sectors of the economy can well afford to pay substantially more, and they should be

required to do so. The details of how corporate taxation should be restructured are beyond the scope of this study, but the basic objective is clear: profitable corporations must be made to carry their fair share of the costs of government services.

Similarly, taxes on individuals must be restructured to ensure that the wealthy actually pay their rightful share. Canada's tax system discriminates against wage and salary earners and favours those who receive income from interest, dividends and capital gains. This is allegedly to encourage the well-to-do to save and invest. However, there are other ways to assure an adequate level of investment rather than providing special tax treatment for these people. It is fundamentally inequitable that those who earn income through their labour should have to pay a much larger share of it in tax than those who receive income from investments.

The following are a few of the changes necessary to eliminate this discrimination: taxes on capital gains should apply to the entire amount, rather than half, which is now the case; the rate of taxation on dividend income should be raised so that it corresponds to that levied on wages and salaries; there should be no inflation indexing of the value of shares for purposes of assessing capital gains tax, as was introduced in the June 1982 budget; and the exemption for the first \$1,000 of interest income should be abolished.

But, more significantly, the entire system of deductions and tax expenditures must be reorganized. At present, the more a taxpayer earns, the more he or she is allowed to shelter from tax as a result of a wide range of deductions. For example, in 1977, the average tax filer earning between \$4,000 and \$5,000 per year and receiving a dividend tax credit, saved \$17. Most tax filers in this income bracket, of course, received no dividends at all. Those earning \$15,000 to \$20,000 who received dividend tax credits saved \$1,394. The average tax filer earning over \$200,000 per year saved \$12,660. As this illustrates, the system of deductions assists high-income earners, while providing little or no benefit to ordinary workers. Yet this is only one example of the way in which so-called "incentives" actually provide more favourable treatment to those who are already wealthy.

While it may not be popular with the affluent, there is every justification for raising the rate of personal income tax on higher incomes back to the level of 1971 (before John Turner and, subsequently, Allan MacEachen reduced it). The reason for such an increase is not simply to raise more revenues. Rather, such a measure is needed to restore a basic element of justice to the tax system. There is little evidence that the wealthy have worked harder since the reduction in their highest marginal tax rates. Arguments that an increase in the higher marginal tax rates would destroy incentives have been, and remain, little more than self-serving justifications by those who would prefer not to pay at all.

At a time when provincial and federal governments require more revenues, it is obvious that every potential source of funding should be fully explored. Yet throughout the public debate on government's

financial difficulties, there has been virtually no discussion of one of the simplest and fairest methods of raising more funds: the wealth tax.

The idea behind the wealth tax is straightforward. Individuals pay tax on the value of the property they own; that is, their total assets. The tax level does not have to be very high: a two or three per cent tax would generate substantial revenues. To make the incidence of the tax progressive, a lower limit would be set, below which individuals would not be required to pay tax. For example, people with assets of less than \$150,000 would be exempt. This would ensure that ordinary home owners and families with small savings would not be affected. The tax would thus fall on a very small, but very wealthy, segment of the population.

Aside from raising much-needed government revenue, the wealth tax should be an important component of any strategy to reduce inequality. Despite "progressive" taxation and the growth in the economy since the Second World War, there has been virtually no progress towards equalizing income or wealth in the past 30 years.<sup>20</sup>

In 1982, the bottom 20 per cent of Canadian families and individuals received 4.5 per cent of net national income. This was virtually the same as they received in 1951, when the figure was 4.4 per cent. At the other end of the income scale, the top 20 per cent of families and individuals received 42.7 per cent of national income in 1982 and 42.8 per cent in 1951. Thus there was almost no change in income distribution during this period. The following table gives the percentage distribution of income among Canadians between 1951 and 1982.

**TABLE 62**  
**Percentage Distribution of Families  
and Unattached Individuals  
by Income Fifths**

YEAR	BOTTOM FIFTH	SECOND FIFTH	MIDDLE FIFTH	SECOND HIGHEST FIFTH	HIGHEST FIFTH
1951	4.4	11.2	18.3	23.3	42.8
1961	4.2	11.9	18.3	24.5	41.1
1971	3.6	10.6	17.6	24.9	43.3
1980	4.1	10.5	17.6	25.3	42.5
1982 (preliminary)	4.5	10.6	17.3	25.0	42.7

**Source:** Statistics Canada, *Income Distribution by Size*, Cat. 13-207. (1982 preliminary figures: cat. 13-206.)

As the table demonstrates, there has been little or no change in income distribution in Canada during the last 30 years. The tax system has *not* resulted in the levelling of income.

When wealth ownership is examined, the situation becomes much more unequal. Data on wealth in Canada is patchy — the rich do not like their affairs investigated too closely. But what has emerged from the few research studies in recent years is that the average Canadian owns very little, while a tiny group owns the lion's share of wealth and property. According to Statistics Canada, the bottom fifth of the population in 1977 had -0.5 per cent of total assets in Canada. In other words, the people in this group were in debt. In contrast, the top fifth of the population owned 68.1 per cent of total assets and the top tenth owned over 50.6 per cent.

Another study, by Lars Osberg, provides more recent estimates of the share of wealth and total assets owned by different groups of Canadians.<sup>21</sup> It reveals that the top one per cent of Canadians have approximately 24 times more assets than the bottom 40 per cent. Moreover, as table 63 illustrates, the bottom 40 per cent have less than one per cent of the total wealth.

Table 63 does not fully reflect the extent of inequality, for it includes personal assets such as houses, automobiles and cottages. Share ownership, which confers power to control the economy, is much more concentrated than overall wealth. Only a tiny fraction of the population (a mere 7 per cent) owns shares, and even within that group a small minority dominates.<sup>22</sup> (See table 64 on page 140.)

A wealth tax would fulfill a dual role. It would provide a substantial source of new revenue for the public sector, thus easing the financial problems now confronting government.<sup>23</sup> And it would constitute a significant step towards a more equal society.

A wealth tax would also provide a means of taxing many of those who now avoid income tax through various loopholes and tax exemptions. If working people are expected to pay a substantial portion of their income to support public and social services, it is neither unreasonable nor unfair to expect those who are already very well off to pay their share as well. It seems most peculiar that we insist on taxing the incomes of those who may own little or nothing, but avoid taxing the wealth of those who clearly can afford to pay.

Aside from initiating a wealth tax, the federal government should also restore the tax on estates abolished in 1972. Estate and succession duties raised approximately \$200 million in 1971. This money was shared with the provinces under a 25 per cent federal, 75 per cent provincial arrangement. At current prices it would add over \$750 million to total government revenues. There is no good reason, either financially or morally, for not taxing inheritances, particularly in light of the clear evidence that disparities in wealth and income in Canada have not diminished over the past 30 years. It is clearly unfair for working people to be taxed heavily on their incomes, while the very rich, who often avoid income tax entirely, are allowed to transfer wealth free of tax.

**TABLE 63**  
**Estimated Wealth per Canadian Adult\* – 1980**

	NUMBER OF ADULTS	TOTAL NET WORTH OF ALL ADULTS IN CATEGORY (\$ millions)	SHARE OF TOTAL ASSETS HELD BY ALL ADULTS IN CATEGORY (Per Cent)	AVERAGE WEALTH PER ADULT (dollars)
TOP 1%	165,000	146,361	18.8	887,040
NEXT 4%	661,000	187,623	24.1	283,847
NEXT 5%	826,000	110,549	14.2	133,837
(TOTAL TOP 10%)				
NEXT 10%	1,653,000	444,534	57.1	268,925
(TOTAL TOP 20%)	1,653,000	126,120	16.2	76,297
NEXT 40%	3,306,000	570,654	73.3	172,611
BOTTOM 40%	6,612,000	200,857	25.8	30,377
TOTALS	6,612,000	6,228	0.8	1,002
	16,530,000	778,519	100.0	47,097

**Note:** Figures on wealth per adult calculated by dividing wealth per household by number of adults in household.

**Source:** Lars Osberg, *Economic Inequality in Canada*, Toronto: Butterworths, 1981, p. 37.

TABLE 64

### Personal Incidence of Stock and Bond Ownership

TYPE OF STOCK OR BOND	ADULT POPULATION OWING SHARES (Per Cent)
Corporate or Government Bonds Other than Canada Savings Bonds	6.4
Stock Savings Plan (Quebec Only)	1.9
RRSP's Involving Money Invested in Stocks	3.0
Mutual Funds Involving Money Invested in Stocks	1.5
Stocks or Options Through an Employee Profit Sharing Plan	2.7
Stock in B.C. Resource Investment Corporation	2.7
Common Stocks in Public Corporations Available through a Stock Exchange or Over-the Counter	7.0
Preferred Stocks in Public Corporations Available through a Stock Exchange or Over-the-Counter	3.0

**Source:** Toronto Stock Exchange, Canadian Shareownership Survey, Fourth quarter 1983.

**Note:** Figures are *not* cumulative. Excludes ownership of Canada Savings Bonds.

Any attempt to tax wealth, whether through wealth taxes or estate duties, can be expected to meet with fierce resistance from the well-to-do. The mainstream political parties are unlikely even to consider the feasibility of such taxes because they constitute a direct attack on the vested interests that dominate the political system. Yet as the Mitterrand government of France has recently shown, it is possible to introduce such a tax.<sup>24</sup>

There are other measures which will provide additional sources of government revenue. The extension of public ownership into the highly profitable banking sector and into the natural resources industries will provide much-needed sources of new capital. And, finally, the implementation of policies designed to stimulate production and lower unemployment will result in an automatic increase in public revenues, while simultaneously decreasing the costs of UIC, welfare, and other income support programs.

## 9. Expand Public Ownership

The growing economic crisis confirms that the private sector is incapable of promoting balanced economic development, rational economic planning, or investment policies which address the real concerns of Canadians. Basic structural changes are needed to turn the economy around. These structural changes can only take place through a major expansion of public ownership in key areas of the economy.

There are many reasons why public ownership should be the central component of an Alternative Economic Strategy. The first, and most important, is that it is necessary to break the stranglehold of the large multinational corporations. Public ownership provides the means to challenge the power of private corporations, limit their monopolistic practices and ensure that profits generated in our economy are used for further investment in socially desirable projects.

As noted earlier, the corporations dominating the Canadian economy are multinational in scope. They have enormous assets spread around the globe. They have the option of locating their operations in the U.S., Western Europe, or various third world countries such as Taiwan, South Korea or Indonesia. Canada is only one of the many countries competing for their capital and technology.

To deter governments from raising taxes or regulating their behaviour, companies can threaten to pull out or to channel their new investment into other parts of the world, thus prejudicing Canada's future development. As the National Energy Program confirms, corporations have shown no hesitation in declaring a "capital strike" when their profits are threatened.

The corporations *are* in a position to inflict enormous social and economic hardship on working people. Plant closures, layoffs and regional underdevelopment are very real occurrences. This is one reason they have been so successful in extracting concessions from governments. Thus it is not adequate to talk simply of raising corporate taxes and regulating business activities more effectively. For as long as private firms are in full control of key investment decisions, they will be able to undermine or sabotage such policies.

There are also practical considerations associated with taxing corporations. In the case of large multinationals, it is extremely difficult to identify the real profit rate in any specific country. This is because transfer pricing arrangements, payments for management services, head office overheads, technology, patent rights and international marketing arrangements can all be manipulated to reduce a corporation's tax liabilities in a high tax country.

Tax increases also have limitations in terms of directing economic development. Where there is a problem associated with underinvestment, or too much investment being channelled into the wrong areas, the tax mechanism is often not sufficiently directive to achieve the desired results.

For these reasons we must take direct measures to counterbalance the very real power that corporations wield. Canada must ensure that corporations are not allowed to frustrate the objective of more balanced

economic development. And the only practical way to do this in many cases is through public ownership.

There are other reasons why increased public ownership must be a central component of any Alternative Economic Strategy. Public ownership opens the door to channelling investment into socially desirable productive activities. For example, the creation of manufacturing facilities to process raw materials into manufactured goods will require substantial sums of investment capital, which the corporations are unwilling to provide. Yet such investments are necessary if the objectives of new jobs and balanced economic development are to be achieved. Similarly, we need to give priority to investment in areas which will address major social needs, create jobs, reduce Canada's dependence on foreign goods and services and improve our ability to control our pattern of economic development.

More importantly, public ownership should be used to foster a more balanced pattern of investment. Instead of concentrating a disproportionate amount of investment capital on resource extraction, at the expense of manufacturing, Canada needs to restrict such investment and divert this capital into other industries. As noted earlier, resource industries absorb huge amounts of capital, but provide few jobs. The benefits from these industries are not widely shared among Canadians. Canada's excessive reliance on so-called "resource development" must be overcome. Public ownership can play a major role in this process.

Public ownership is necessary to give governments an effective voice in the overall planning of our economy. In this respect, the issue is not whether there will be planning or no planning, but whether the planning will be made by government in the interests of working people, or by corporations in the narrow interests of their shareholders. By establishing Crown corporations in key sectors of the economy, public ownership can facilitate a planning process in which the needs of Canadians as a whole are given priority.

An Alternative Economic Strategy at this stage cannot provide a comprehensive blueprint on how public ownership can be used to get Canada out of the economic mess. But there are a number of key economic sectors where it is possible to give a basic outline of what needs to be done. These include: resources, manufacturing, microtechnology, public transport and public housing.

One of the basic weaknesses of the Canadian economy is that far too much investment capital has been injected into resource extraction industries, such as the oil magaprojects. These investments are largely foreign-owned, are highly capital-intensive, and provide few jobs. Profits from the investments are not widely shared among Canadians and have resulted in an enormous expansion of Canada's foreign debt. Despite the huge subsidies and tax write-offs given to the resource companies, they have not been accompanied by the development of processing facilities, because the multinationals concerned are not interested in manufacturing in Canada.

Private control of this country's oil, mineral and forest industries has been accompanied by other major problems including pollution, regional dislocation, poor workplace health and safety, environmental

abuses, and the exploitation of native people. Public ownership would facilitate the adoption of policies designed to take account of the broader social and economic needs of Canadians, and especially those in communities directly affected by such investments.

Public ownership is also the only effective method to ensure that Canada as a whole benefits from the enormous profits being generated from our rich natural resources. The tax returns from this sector over the past decade are only a tiny fraction of what Canadians should be receiving. And they are diminishing as the companies become more and more adept at concealing their real rates of return. The past decade has also seen a growing number of government assistance programs for these companies, resulting in even less of the tax revenues taken by federal and provincial treasuries being available to fund other programs.

Looking more specifically at the energy sector, which is dominated by a handful of multinationals, it is clear that these companies must be brought under public ownership if Canada is going to exercise any meaningful control of the industry's development. Petrocan is a start, but it is not enough. It operates within an economic framework established by the major international oil companies. Without control over the policy direction of the industry itself, there is every reason to believe that public companies such as Petrocan will end up taking the real development risks, while the private sector will profit from its continuing control of the major established oil reserves.<sup>25</sup>

Turning to mineral mining, the need to nationalize companies such as Inco has been recognized for many years. The disaster which has now befallen Sudbury as a result of Inco's failure to build processing facilities or to reinvest its profits in the local community underlines why public control of mineral resources is so vital.<sup>26</sup>

The need for public ownership in forest products is also clear. While forestry, like mining, is now in a slump, this has been made far more severe because the forest companies have failed to develop a wood processing industry. It is incredible that we are importing furniture from Scandinavia, while exporting raw logs to the U.S., Japan and Europe. There is a great deal of disruption facing towns affected by the present slump in export markets for lumber and pulp. The disruption could be alleviated if large numbers of workers were employed in the manufacture of wood products for markets that do not fluctuate so wildly.

Canada desperately needs a coherent manufacturing strategy designed to stop the decline of our basic industries — autos, farm machinery, electrical equipment, aviation components, transportation, metal fabrication, appliances, and the like. At present, we have nothing more than a series of ad hoc, unplanned interventions by governments to bail out, or subsidize, near-bankrupt firms. Not only are these policies not working but they also do nothing to deal with the real structural causes of our manufacturing decline.

What is needed is the development of new Crown corporations in key areas of manufacturing. A new Crown corporation in auto parts, as recommended by the United Auto Workers, is long overdue. Indeed, there is a strong case for the development of a publicly owned auto industry that would produce a Canadian car.

In the transportation sector, the country needs a massive expansion of our capacity to manufacture public transit equipment. Rising energy prices, environmental problems, safety considerations, and the needs of urban residents all point to the urgent need for modernization of public transport across Canada. Rather than waiting for a crisis in urban transit, measures should be taken now to build a viable public transit industry that could supply our cities with Canadian-designed and Canadian-built equipment.

By providing municipalities with financial assistance, federal and provincial governments can guarantee a market for the output of new Crown corporations in the transportation sector. Moreover, the expertise developed might provide opportunities for exports as well.

The benefits of new, publicly owned, publicly controlled transit systems would be enormous. They include lower energy consumption, less reliance on imported oil, savings on the balance of payments, and employment growth in manufacturing, construction and the operation of the service itself. Such an industry would also facilitate reductions in pollution and other environmental hazards, open up the possibility of exporting Canadian technology, provide improved transport safety, and lower health care costs (as the use of accident-prone automobiles declines).

Public expansion in transportation thus provides numerous positive advantages for the economy as a whole. It would not be a make-work project or a means of hiding the unemployment figures. Rather, it would constitute an important step towards creating a more rational and economically viable transport system.

Public broadcasting also needs a major infusion of government resources if it is to do an effective job of satisfying the cultural, social and news requirements of Canadians. Private firms have already taken control of far too large a share of the television industry, to the detriment of Canadian content and the overall quality of service.

The decision by the CRTC denying the CBC the right to establish a second network, CBC-2, constitutes a serious blow to the Canadian industry. The private sector has demonstrated time and again that it is not interested in developing a major, independent Canadian television and film industry. It is therefore up to the public to step in and do the job.

Another industry where public ownership and control is vital is microelectronics. Federal and provincial governments are currently providing generous subsidies for research and development in microelectronics, especially in Ottawa's "Silicon Valley." But they are allowing private companies to reap the entire benefits of this investment.

Increasingly, control over microelectronics means control over the future development of industry and commerce. The decisions now being made will have a profound effect on the lives of all Canadians. Yet the decisions of the corporations guiding this development are not being taken with the needs of ordinary Canadians in mind. Rather, the private sector is guiding its development with the view to reducing employment, cutting labour costs, increasing worker productivity, and tightening management control over the work process, regardless of the social impact and health consequences for workers.<sup>27</sup>

As the Telidon system confirms, Canada can develop, produce and sell new products in this industry. But, if there is no systematic planning, and no attempt by government to ensure that patent rights and production are maintained in Canada, the lead in some of these areas will quickly disappear. Canada will experience all the adverse consequences associated with foreign-controlled branch plant operations in other sectors of the economy.

Indeed, one of the key arguments supporting public ownership in microelectronics is that it will give Canada the opportunity to guide the development of new technology in a manner that will take into account the social and economic needs of Canadian workers. Instead of focusing on tightening work discipline and reducing employment, Canada can ensure that the microelectronics industry is used to expand services and provide workers with more control over their jobs.

Housing is another industry where public expansion is vital. The need for public intervention has never been more obvious: the cost of housing is beyond the reach of young families; there is a critical shortage of new houses; and labour, technology and capital in the construction industry are lying idle. Yet the federal and provincial governments have been running down public housing programs.

In many Western European countries, governments have entered the housing market in a major way, both as owners of public housing and as builders of the housing itself. As West Germany, Scandinavia and the Netherlands illustrate, public housing can be model housing if it is properly built and competently administered.

Aside from fulfilling an important social need, the construction of substantial numbers of public housing units would provide much needed jobs in the construction industry and in related building supply industries. Through the multiplier effect, this new construction would also result in a major increase in spending and employment in other sectors of the economy. It would check profiteering by private landlords, and give tenants an opportunity to rent decent accommodation at affordable prices.

Expansion in the housing sector would also have the beneficial effect of not being dependent upon significant amounts of foreign imports. Almost all the materials used are produced in Canada, while labour is also supplied domestically. Thus it would have little adverse effect on Canada's balance of payments. From the viewpoint of the economy as a whole, investment in domestically built public housing makes a good deal more sense than importing foreign-made consumer goods, which exacerbate Canada's balance of payments and produce no jobs.

Autos, public transport, communications, forest products, microelectronics, and public housing illustrate the kind of public sector expansion required to deal with Canada's economic problems. Conscious public planning, rather than acquiescence to the priorities dictated by multinational business, is vital to overcoming the economic crisis and the growing financial difficulties which the crisis is imposing on governments at federal, provincial and municipal levels.

Unless there is a fundamental change towards public planning of economic development, the downward spiral of falling government

revenues, cutbacks in services, increases in unemployment, declining investment and economic stagnation will continue unabated.

The preceding discussion highlights the central role that an expanded public sector can play in revitalizing Canada's economy. However, public enterprise is currently not very popular. If anything, society's sentiment is in favour of less, rather than more, public enterprise. Why then is public enterprise not widely seen as necessary for overcoming the economic crisis?

Three basic reasons can be cited: the subordination of public enterprise to the needs of the private sector; the skillful campaign by business interests to malign public enterprises; and the failure of public enterprises to operate as models of open, democratic, publicly accountable organizations.

With respect to the first reason, the public sector (and public enterprise in particular) has been subordinated to the needs of business. At the end of the Second World War, the Liberal government sold the major public industries that were developed as part of the war effort – not because they were inefficient, but to give business an opportunity to reap enormous profits from the capital investment built up by government.

Many public sector investments have been used to provide cheap transport, energy or other hidden subsidies to the private sector. It is not accidental, for example, that one of the principal public sector investments has been in hydro-electric systems. Industry needs cheap power. By taking on the enormous capital investment required to build electrical utilities, provincial governments have provided an invaluable service to the private sector. Moreover, as long as the hydro-electric power generated is sold at cost or at a loss (rather than a profit), the corporate sector has been able to enjoy the benefits of this enormous investment without having to shoulder the capital costs.

Public enterprise has not been used as a means of generating revenue for the public treasury or as a way of directing and controlling economic development. Rather, governments have used public ownership as a means of bailing out bankrupt private companies. They have also used public corporations to provide services that are required by the corporate sector but cannot be run at a profit. With a few notable exceptions (such as Air Canada, Saskoil, Petrocan, the Potash Corporation of Saskatchewan, and the Canada Development Corporation), governments have deliberately avoided establishing enterprises which would compete with private enterprise in profitable sectors of the economy. Instead, pro-business governments have consistently followed policies designed to give private enterprise exclusive jurisdiction in all sectors of the economy where profitable investment was feasible. By deliberately restricting the activities of Crown corporations to unprofitable areas of the economy, it became relatively easy to equate inefficiency (i.e. lack of profitability) with public enterprises.

A second reason for the unpopularity of public enterprises has been the very successful campaign by business to discredit them. Although business firms have benefitted enormously from public enterprises, they have been deeply ambivalent in their attitudes. They have recognized that potentially, public ownership could be a threat to

their profit-making activities. Accordingly, they have sought to malign public enterprise at every opportunity, asserting that it is inefficient, badly managed, wasteful and costly to taxpayers. They have claimed that public enterprise would stifle economic development, and they have hinted, more ominously, that public enterprise is a threat to freedom itself.

This attack has been further supported by pro-business governments unwilling to defend the public enterprises they administered for fear of being labelled as socialists. Thus the charges by business went unanswered by the very people who were in the best position to set the record straight.

The case against public ownership is far less conclusive than suggested by these claims from the corporate boardrooms. Considering the main impediments that have been placed in its way by business and governments, public enterprise in Canada and other Western countries has had a relatively good track record.

A third (and perhaps most fundamental) reason that public ownership has not been popular, is that it has been modelled on the same type of hierarchical, secretive, organizational structure that characterizes private industry. Public enterprises have generally operated in a manner no different from other business firms. Decisions on investments have been taken with little regard for their impact on employment, community development, the environment, the health and safety of workers, and a wide range of other legitimate social considerations.

Decisions on the development of new products have been taken strictly according to market criteria, with little or no concern for the social utility of what is being developed. (The hundreds of millions of dollars in subsidies for Canadair – to give one illustration – have been used to produce an executive jet which offers no social benefits whatsoever to the vast majority of Canadians. Taxpayers have every reason to be upset that their money is supporting such ventures.)

Crown corporations have also followed the private sector in labour relations. In too many instances, management practices have been as insensitive to the needs of employees as would be the case under private ownership. More significantly, public enterprises have failed to initiate new approaches to organizing work, which would facilitate much greater control by workers over the process of production. Instead, the subordination of workers has been taken for granted. The concept of self-determination at the workplace is as foreign to Crown corporations as it is to private firms. And it is for this reason that workers in public enterprises are not notably more committed to public ownership than other Canadians.

Crown corporations have also operated with a degree of secrecy that is wholly unwarranted. Far from being models of open decision making, they have deliberately limited the amount of information available to the local communities and their employees. In these and many other ways, the operation of public enterprise in Canada has had little if anything “public” about it — beyond its ownership and nominal reporting requirements to the federal Parliament or the provincial legislatures.

While more public ownership is necessary to rebuild Canada's economy, it cannot be simply more of the kind of Crown corporations and public enterprises we now have. Crown corporations need to be organized in a fundamentally different manner. They can – and should – be models of open, public decision-making that is responsive to the needs of local communities and supportive of a much greater role for workers.

While some degree of confidentiality is required regarding commercial transactions, this must, in future, be balanced against the need to ensure that public enterprises are not subordinated to private interests and that their profits are not used to subsidize private sector firms. Their policies must consider much broader concerns than profit maximization. Conservation, environmental protection, balanced regional development and employment must all be taken into account. In short, Crown corporations should embody the concept of social ownership, rather than being little more than privately structured firms owned by the public treasury.

## 10. Extend Public Services

The expansion of public ownership in the banking, resource, transport, manufacturing and microelectronic sectors of the economy is an essential component of an Alternative Economic Strategy. By using the capital generated in the resource sector to rebuild Canada's manufacturing industries, public enterprise provides the only effective means of rectifying our distorted pattern of investment.

Yet it is a mistake to assume that future growth in these major sectors of the economy, even with significant public ownership, will generate the jobs Canadians so urgently require. If anything, the opposite is true. The number of people employed in industries such as manufacturing will fall because high technology equipment is replacing workers at an accelerating pace.<sup>28</sup>

The percentage of Canada's labour force employed in manufacturing has declined steadily over the past 30 years. In 1952, fully 26.5 per cent of the employed labour force worked in manufacturing industries. In 1961, the percentage was 24.0. By January 1984, it had fallen to 18.0 per cent.

The decline in other sectors of the economy has been even greater. The percentage of the labour force employed in agriculture fell from 18.4 per cent in 1951 to 4.1 per cent in January 1984. Employment in forestry has diminished from 2.3 per cent in 1951 to 0.6 per cent in 1984. Fishing and trapping fell from 0.6 per cent to 0.2 per cent in the same period.

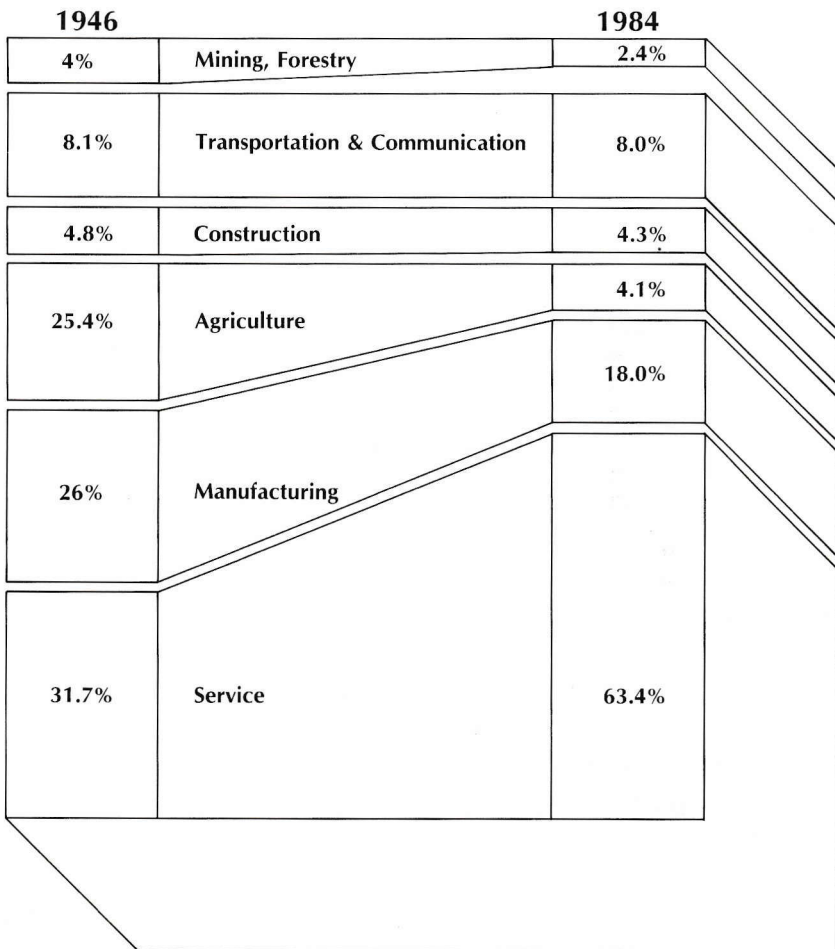
The declining share of employment in these sectors has not been made up by growth in the mining, construction or transportation industries. The employment share in each of those sectors has remained relatively constant over the 1951-1984 period.

The main areas of growth in employment have been in trade, finance, real estate, insurance, public administration, and, most dra-

matically, in community, personal and business services. In 1961, the community, personal and business service sector employed 18.0 per cent of the overall labour force. By 1984, this figure had risen to 32.4 per cent.

Although most of this growth occurred in the decade between 1961 and 1971, the 1970s have witnessed continuing, if less rapid, increases. If those employed in trade, administration, finance, in-

## Percentage of Labour Force by Industry



Source: Statistics Canada. Rounding the percentage amounts is responsible for the numbers not exactly adding to 100.

insurance and real estate are added, the service sector (excluding transportation) is now responsible for over 63.4 per cent of total employment.

The chart on page 149 shows the changes in employment in various sectors of the economy in the 1946-to-1984 period.

The decline in the share of manufacturing employment in Canada's economy has its parallel in most other developed nations. Industry is becoming more capital-intensive. Manufacturing is becoming more technologically sophisticated and requires much less labour than in the past. While some nations have been able to slow the decline more than Canada, no industrialized nation has been able to prevent the gradual reduction in the share of employment in the manufacturing sector.

The preceding facts underline the need to adopt measures beyond reconstruction of the manufacturing sector if Canada is to resolve the problem of unemployment. An improved manufacturing base is obviously a vital component of an Alternative Economic Strategy, but it cannot, by itself, provide the key to full employment. If Canada is going to avoid unemployment levels comparable to those experienced in the Great Depression, the country must not assume that a revitalized manufacturing sector — even taking into account the multiplier effect — will automatically provide the jobs Canadians need.

Service industries are not capital-intensive. They are people-intensive. The cost of creating jobs in the service sector is far less than in manufacturing, and only a tiny fraction of the cost in mining, forestry or oil extraction. Consequently, to expand employment, Canada must expand the service sector. Historically, this has been where jobs have been created during the 1960s and 1970s. It must be the central focus of any long-term strategy to create jobs. At the same time, not just any type of service employment should be expanded. Public rather than private services should be the cornerstone of this expansion, for a number of strong reasons.

Many of the services provided by the public sector are absolutely vital to a decent, civilized existence. They are of far more value in improving the lives of ordinary working people than most alternate private sector spending would be.

For example, the provision of free, universal public education has been of incalculable benefit to millions of Canadians. It also provided the trained labour force that business required. In the process it gave millions of Canadians opportunities they would otherwise not have had. Similarly, hospital insurance and Medicare have also had an enormous — and positive — impact on the lives of most Canadians. Public hospital and medical coverage is cheaper, more comprehensive, and of higher quality than that formerly provided by private enterprise. The problems with our health care system do not stem from the fact that it is publicly funded but that it still has too many vestiges of the private sector encumbering its management and administration. For example, health insurance premiums constitute a source of unnecessary administrative costs. Funding through tax revenues, rather than insurance premiums, would sharply reduce administrative costs

and still ensure that no Canadians fell through the safety net by missing payment of insurance premiums.

Taking the economy as a whole, there can be little doubt that the public sector produces more socially valuable goods and services than the private sector. The problem is not that we have too much public spending, but not enough. Moreover, too much of the public spending is of the wrong kind—that is, its purpose is purely to bolster business development.

Far from necessitating a reduction in the public sector, the present crisis underlines the need to begin a basic restructuring of economic priorities. If the country cannot have more of everything, then we must at least ensure that what we do have is likely to satisfy our basic needs. At a time when the economic pie has stopped expanding, it is more – not less – important to see that resources are allocated in the most socially desirable manner.

Indeed, one of the basic objectives of the Alternative Economic Strategy should be to supplant the values and objectives of the corporate sector with ones which are responsive to the needs of ordinary Canadians. This means challenging the priorities of the market, with its undue emphasis on private consumption at the expense of social needs.

It means establishing new ways of using our resources to advance society as a whole. It means giving priority to public and social services, rather than allowing corporations to dismantle these services to provide more room for private consumerism. Ultimately, it means being prepared to expand public services to the point where they actually do meet the real needs of Canadians.

Thus, in addition to increasing public ownership in finance, manufacturing, resources and transport, Canada also needs a major increase in public spending on social programs. After all, the welfare state in this country is far less developed than in virtually any Western European country. Canada has a lot of catching up to do. This expansion should include a major upgrading of our hospital and medical services, the construction of new hospital facilities, the establishment of community health clinics, and a major program to construct public nursing homes.

The state of nursing homes across the country is abysmal. Virtually every week there is another horror story about inadequate facilities or negligence on the part of nursing home operators. Old people are deprived of decent care because governments have failed to allocate sufficient resources to providing this service. And unscrupulous private operators have been allowed to profit from the needs of the elderly.

Canada's system of preventative medicine still leaves much to be desired. Medicine has been viewed in terms of curing disease rather than promoting good health. Thus, cigarette companies are allowed to claim tax deductions for advertising and promotion, while Canada spends enormous sums on care for patients with lung cancer.

Canada also needs to restore funding to the educational system; we need to provide new programs to satisfy the demand for adult

education, special education for disadvantaged children, language training, technical and vocational upgrading and the many other educational needs of Canadians.

There is a pressing need for universal, high-quality day care. Only a tiny fraction of pre-school children now have access to proper day care centres. Surveys conducted by various provincial governments have repeatedly established that there is a large, unmet need for this service. Yet the development of day care facilities has come to a virtual standstill as a result of restrictions on financing at federal and provincial levels.

We should also be expanding facilities for music, art, dance, the theatre and many other areas of popular culture. If our society can afford an Atari in every home and a video store on every street corner, it can also afford to provide funding for the facilities needed to encourage artistic creativity.

Municipal services in Canada are also in need of major improvements. It is true that Canadian municipalities have not witnessed the same collapse in services that has occurred in many U.S. cities. But continued underfunding is a growing threat. It is very easy to ignore the importance of high-quality municipal services in making communities pleasant, safe and interesting places to live. Parks and other recreational facilities play an important role in making cities liveable. Efficient garbage collection and street cleaning ensure high standards of sanitation. Community centres make an important contribution to local neighbourhoods. All these facilities, which add to the quality of life, are easily taken for granted.

Many municipal services remain inadequate. This is particularly true for social services. Care for the elderly, the disabled and others in need is not provided on a universal or consistent basis. In most cities, social and recreational facilities for the elderly, to give one example, are inadequate or non-existent. Where they are provided, it is normally on the basis of means tests, which attack the dignity of senior citizens and deter many others from applying. The need for greatly expanded municipal social services is clear.

Urban public transit is another area where municipal services need major injections of funds. Compared with public transit in most Western European cities, Canadian facilities are rudimentary. Aside from the obvious benefits of reduced pollution, noise and congestion, public transit provides a vital service to those who do not have the option of owning cars. Moreover, increased use of public transit lowers consumption of gasoline (as car drivers leave their vehicles at home), and reduces dependency on imports of foreign oil, especially in Eastern Canada.

The preceding list of new public services takes into account the one unused resource which Canada now has in great surplus – at least two million unemployed. If public sector service jobs are not created, those now unemployed will have no jobs at all. There is no point in suggesting they would be better off working in the private sector – the private sector has no jobs to offer them. Despite all the rhetoric about private sector expansion leading to job creation, the stark reality is that

Canadians have but two choices: accept an unemployment level of over 2 million into the indefinite future, *or* provide socially valuable public sector jobs. The choice seems perfectly clear.

The expansion of the public sector has other advantages. It changes the pattern of consumption from private sector consumer goods (many of which are imported), to public sector services. It reduces imports and therefore assists the balance of payments. And it also makes the economy less vulnerable to fluctuations in world markets.

The kind of public expansion outlined here does not involve make-work projects. It is not designed merely to conceal the number of unemployed. Rather, it fulfills the pressing social needs that our economy has failed to meet. The establishment of these programs will do far more to improve the real standard of living than any comparable expansion of private consumption.

As Canadians, we must begin to make a choice about the kind of society we want to live in and the way in which the resources generated within our economy are allocated. We must be prepared to assert that, in the future, social needs will take priority over the demands of business. We must be prepared to use public planning, public ownership and the expansion of the public sector as legitimate ways of resolving our present economic crisis. And we must be prepared to take on the vested corporate interests in our determination to make our Alternative Economic Strategy a reality.

# Notes

## Chapter 1

- 1 See, for example, the optimistic predictions by federal Finance Minister Marc Lalonde, *Budget Speech*, Ottawa, June 28, 1983. Also: the Department of Finance, *Annual Economic Review (1982)*, Ottawa, April, 1983.
- 2 For a more pessimistic scenario, see David Wolfe, "State Policy and the Economics of Restructuring," *Studies in Political Economy: A Socialist Review*, No. 11, Summer, 1983, pp. 7-26; and Cy Gonick, "Boom and Bust: State Policy and the Economics of Restructuring," *Studies in Political Economy: A Socialist Review*, No. 11, Summer, 1983, pp. 27-48.
- 3 Statistics Canada, *The Labour Force* cat. 71-001 (monthly). See also: Andre Allentuck, "The Diminishing Joys of Youth," *The Financial Post Magazine*, December 1, 1982, p.8.
- 4 The adverse social and personal impact of high unemployment has been the subject of many books and articles. However, the 1983 New Year's statement on the economy by the Canadian Conference of Catholic Bishops — "Ethical Reflections on the Economic Crisis", Ottawa, 1983 — is perhaps the strongest to be made in recent years. See also: Cy Gonick, *Out of Work*, Toronto, Lorimer, 1978; Paul Gingrich and Michael Chossudovsky, *Is the Canadian Economy Closing Down?*, Montreal, Black Rose Books, 1978; Richard Starks, *Industry in Decline*, Toronto, Lorimer, 1978, chapter 2. Pat Armstrong and High Armstrong, *Women and Jobs: The Canadian Case*, Ottawa, Canadian Centre for Policy Alternatives, Research Report No.6, 1981.
- 5 Department of Employment and Immigration, *Full Employment in the 1980s*, Ottawa, July, 1981. For a brief history of the upward trend in the definition of full employment, see the article by Paul Gingrich cited above, pp. 104, 105. The classic argument put forward to justify full employment was that of the British economist, Lord Beveridge. See: William H. Beveridge, *Full Employment in a Free Society*, London, George Allen and Unwin, 1944.
- 6 Recent statements by federal Finance Minister Marc Lalonde indicate that the federal government does not anticipate a significant fall in the rate of unemployment in the foreseeable future. See the article by Thomas Walkom in the *Globe and Mail*, October 14, 1983, p.1.
- 7 Statistics Canada, *National Income and Expenditure Accounts*, cat. 13-001, quarterly (various issues).
- 8 Economic growth for the first two quarters of 1983 increased in each quarter by 7.2 per cent. However, this increase followed the very depressed levels of 1982.

- 9 James Laxer, *Canada's Economic Crisis*, Toronto, McClelland and Stewart, 1981, pp. 115-146; Fred Caloren, "The Logic of Layoffs and Factory Closures" in F. Caloren, Michael Chossudovsky and Paul Gingrich *Is the Canadian Economy Closing Down?* op. cit.; Science Council of Canada, *Uncertain Prospects: Canadian Manufacturing Industry 1971-1977*, Ottawa, October, 1977. See especially the table on p. 18.
- 10 One of the most detailed and thorough examinations of the problems of Canadian manufacturing is to be found in a study by the Science Council of Canada. See: John N. Britton and Manes M. Gilmour, *The Weakest Link: A Technological Perspective on Canadian Industrial Underdevelopment*, Ottawa, Science Council of Canada, Background Study No. 43, 1978.
- 11 Peter Cook, "Two Year Decline Would be a First" *Globe and Mail*, February 28, 1983.
- 12 In his budget of April 19, 1983, federal Finance Minister Marc Lalonde noted the sharp drop in investment in 1982 and 1983, but blandly asserted that things would get better in the future as a result of his budget measures. Ironically, he reduced the likelihood of this occurring by providing virtually no stimulation to the economy and therefore undermining the market growth which would be essential to justify new investment.
- 13 Lukin Robinson, *Rising Prices*, Toronto, Lorimer, 1978.
- 14 Mel Watkins, "The Economics of the Arms Race," to be published by the Canadian Centre for Policy Alternatives in early 1984. pp. 18-20.
- 15 Source: Statistics Canada. See also: Robert Collison, "Tomorrow's Bail-Outs" *Canadian Business*, Vol. 55, No. 7, July, 1982.
- 16 Tony Wohlfarth, "Cutbacks - Provincial Style: Services Being Slashed When Most Needed," *CUPE Facts*, Vol. 5, No. 8, October, 1983, pp. 12-14; Lesley Silver, "Eroding Ontario's Welfare System," *CUPE Facts*, Vol. 5, No. 8, October, 1983, pp. 23-27; Randy Sykes, "The Threat to Medicare," *CUPE Facts*, Vol. 5, No. 2, March, 1983, pp. 7-9; Lesley Silver, "The Attack on Family Allowances," *CUPE Facts*, Vol. 5, No. 3, April, 1983, pp. 16-19.

## Chapter 2

- 1 Milton Friedman, *Capitalism and Freedom*, Chicago, University of Chicago Press, 1962; Milton and Rose Freidman, *Free to Choose*, New York, Basic Books, 1981. For an analysis of the influence of Friedman and the "Chicago School" in Canada see: David Baugh, "The Fraser Institute and Selling Milton Friedman," *Our Generation*, Vol. 13, No. 3, Summer, 1979.
- 2 See, for example, Carl Beigie, *Inflation is a Social Malady*, Montreal, C.D. Howe Research Institute, 1976; Michael Walker, (ed.) *The Illusion of Wage and Price Controls*, Vancouver, The Fraser Institute, 1976. Michael Walker acted as a key advisor to Bill Bennett, Premier of B.C. after the 1983 election. Influenced by Walker's views, Bennett launched the most comprehensive and ruthless attack on union rights and public services in Canada's history.
- 3 Carl E. Beigie, "Inflation and Budgetary Deficits," *Report of Proceedings of the Thirty-Second Tax Conference*, Montreal, Canadian Tax Foundation, November, 1980, pp. 8-16.
- 4 See also: Paul D. Staudokan, "Effects of Wage and Price Controls in Canada 1975-1978," *Relations Industrielles* Vol. 24, No. 4, 1979, p. 688.
- 5 For an account of the many pieces of back-to-work legislation since the mid-1960s, see the paper by Leo Panitch and Donald Swartz, "From Free Collective Bargaining to Permanent Exceptionalism," Ottawa, Carleton University School of Public Administration, 1983; see also: Doug McDermott, "Governments vs. Unions: No fewer than 17 Anti-Public Employee Laws in the Past Two Years," *CUPE Facts*, Vol. 5, No. 8, October, 1983, pp. 9-11.
- 6 For the details of this re-negotiation see: Report of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements, *Fiscal Federalism in Canada*, Ottawa, August, 1981. This task force was established to placate the public outcry when the (then) federal Finance Minister Allen MacEachen announced in his 1980 budget that he intended to cut federal transfers to the provinces when the agreements were due for their five year renewal on April 1, 1982. Ironically, the task force report recommended

- that MacEachen's cuts not be implemented, even though it was chaired by fellow Liberal M.P. Herb Breau.
- 7 James Laxer, *Canada's Economic Strategy*, *op. cit.*
  - 8 Allan MacEachen, *Budget Speech*, Department of Finance, October, 1980.
  - 9 Department of Finance, *The Budget in More Detail*, Ottawa, November 12, 1981.
  - 10 This policy was reflected in the November 1981 budget proposals affecting federal transfers to the provinces in the five years beginning on April 1, 1982. See: Department of Finance, *Fiscal Arrangements in The Eighties: Proposals of the Government of Canada*, Ottawa, November, 1981. See also the comments by M.P. Herb Breau on this proposal; Statement to the House of Commons, November 13, 1981.
  - 11 John Calvert, "MacEachen's Disastrous Budget: It's A Prescription For Economic Ruination," *CUPE Facts*, Vol. 4, No. 2, Feb., 1982; John Calvert, "What is Really Wrong with the Budget," *Canadian Dimension*, Vol. 16, No. 3, May, 1982, pp.8-11.
  - 12 Department of Finance, *The Budget*, Ottawa, June 28, 1982, pp. 4, 5. See also the analysis of the budget by Duncan Cameron, "Waiting For The Cow to Jump Over The Moon: Wage Earners, The Liberal Budget and the Canadian Economy," University of Ottawa, unpublished paper, July, 1982.
  - 13 *Ibid.*, pp. 6-10. See also Vince Chapin, "Another Disastrous Budget," *CUPE Facts*, Vol. 4, No. 7, Aug.-Sept., 1982, pp. 4-6.
  - 14 Marc Lalonde, *Budget Speech*, Department of Finance, Ottawa, April 19, 1983.
  - 15 Department of Finance, *Research and Development Tax Policies: A Paper for Consultation*, Ottawa, April 19, 1983; See also: John Calvert, "A Budget for Business," *CUPE Facts*, Vol. 5, No. 5, June, 1983, pp. 4-10.
  - 16 Tony Wohlfarth, "Cutbacks - Provincial Style," *CUPE Facts*, Vol. 5, No. 8, Oct., 1983, pp. 12-14; Lesley Silver, "Eroding Ontario's Welfare System," *CUPE Facts* Vol. 5, No. 8, Oct., 1983 pp. 23-27; B.C. Federation of Labour, *Commission on Social and Community Cutbacks, Interim Report*, Nov., 1982.
  - 17 *CUPE Facts*, "Wage Controls Coast to Coast," Vol. 4, No. 10, Dec. 1982/Jan. 1983, pp. 14, 15; *CUPE Facts*, Vol. 4, No. 8, Oct., 1982, pp. 4, 5; "Back Into Controls: Ottawa's 6 and 5 Plague Spreads to Provinces," *CUPE Facts*, Vol. 4, No. 10, January, 1983; "Wage Controls in Ontario," *CUPE Facts*, Vol.5, No.6, July-Aug., 1983; "The Attack on Public Employees: Alberta, P.E.I. Legislation Curtails Workers' Rights," *CUPE Facts* Vol. 5, No. 6, July-Aug., 1983; Gene Errington and Ed Finn, "Bloodbath in B.C.: The Socreds Monstrous Master Plan," *CUPE Facts*, Vol. 5, No. 8, October, 1983, pp. 5-8.
  - 18 Paul Sweezy, "The Global Crisis," *Monthly Review*, Vol. 11, April, 1978.
  - 19 The three major privately owned electric utilities (Newfoundland Light and Power Co. Ltd., Canadian Utilities Ltd., and Calgary Power Ltd.) account for approximately 10 per cent of the total assets of electric utilities in Canada. See: Marsha Gordon, *Government in Business*, Montreal, C.D. Howe Institute, 1981, p. 254, table B.1.
  - 20 *Ibid.*, Appendix B. pp. 253-260. Gordon's examination of the efficiency of public and private electric utilities reveals that those publicly-owned were no less efficient than their private counterparts. In another study of private and public telephone utilities, published as appendix C of the same book, Gordon concluded that: "when operating costs are totalled, the picture that emerges is one in which investor-owned and government-owned telephone companies in Canada displayed very comparable performances, in terms of ability to control costs, over the 1967-76 period." *Ibid.*, p. 267.
  - 21 This, of course was analyzed extensively by Karl Marx over 100 years ago. See: Karl Marx, *Capital*, Vols. I, II and III. In the 1920s, the Russian's economist Kondratieff developed a much more explicit model of short and long periods of capitalist development. See also: Ernest Mandel, *Long Waves of Capitalist Development: A Marxist View* Cambridge, Cambridge University Press, 1980; Cy Gonick, *Out of Work*, Toronto, Lorimer, 1978, Chapter 5.
  - 22 Duncan Cameron, "Order and Disorder in the World Economy," *Studies in Political Economy: A Socialist Review*, No. 11, Summer, 1983, pp. 122-124.
  - 23 Cy Gonick, "Boom and Bust: State Policy and the Economics of Restructuring," *Studies in Political Economy: A Socialist Review*, No. 11, Summer, 1983, pp. 38-40.
  - 24 Michael Chossudovsky, "Is the Canadian Economy Closing Down?" in F. Caloren, P. Gingrich and M. Chossudovsky, *Is the Canadian Economy Closing Down?*, Montreal, Black Rose Books, pp. 150-152.

- 25 For a more extensive discussion of this point, see P. Warrian and D. Wolfe, *Trade Unions and Inflation*, Canadian Centre for Policy Alternatives, Ottawa, 1982.
- 26 Department of Finance, "Discussion Paper on Anti-Inflation Policy Options," Jan. 9, 1981, p. 12. The paper also noted that real wages had declined by approximately six per cent during the previous five years, p.7.
- 27 The impact of Ronald Reagan's policies in undermining the social welfare system in the U.S. have been widely discussed. One of the better accounts is by Frank Ackerman, *Reagonomics: Rhetoric vs. Reality*, London, Pluto Press, 1982. For a similar kind of account of the effects of Margaret Thatcher's policies, see *Thatcher's Britain: A Guide to the Ruins*, London, Pluto Press, 1983.
- 28 For a further discussion of the rationale behind this strategy, see: Cy Gonick, "Boom and Bust: State Policy and the Economics of Restructuring," *Studies in Political Economy: A socialist Review* No. 11, Summer, 1983, pp. 37-40.

### Chapter 3

- 1 Mary Kaldor, *The Disintegrating West*, Harmondsworth, Penguin, 1979 (first published 1978); Willy Brandt, *North-South: A Programme for Survival*, London, Pan Books, 1980; Paul M. Sweezy, *The Theory of Capitalist Development: Principles of Marxian Political Economy*, New York, Monthly Review Books, 1970; Andre Gunder Frank, *Crisis in the World Economy*, New York, 1980.
- 2 Joan Robinson and Frank Wilkinson, "What Has Become of Employment Policy," *Cambridge Journal of Economics*, Vol. 1, No. 1, March, 1977, pp. 12, 13.
- 3 There are many accounts of the reasons for the extended period of growth of the capitalist system in the West since World War II. See, for example: David Wolfe, "The Crisis in Advanced Capitalism: An Introduction," *Studies in Political Economy: A Socialist Review*, No. 11, Summer, 1983, pp. 10-12; Duncan Cameron, "Order and Disorder in the World Economy," *Studies in Political Economy: A Socialist Review*, No. 11, Summer, 1983, pp. 114-116.
- 4 Duncan Cameron, "Order and Disorder in the World Economy," *Op. Cit.*, pp. 110-112.
- 5 See, for example: Cy Gonick, *Inflation or Depression*, Toronto, Lorimer, 1975, pp. 59-85.
- 6 Amy Booth, "Corporate Concentration: Empires – Old Sultanates and New," *Financial Post* 500, June, 1981, p. 8. See also D. Toole, "Olympia and York Takes Aim at Brinco: Reichmanns Into Resources," *si*; *The Financial Times*; *sr*, August 11, 1980; Jorge Niosi, *The Economy of Canada*, Montreal, Black Rose Books, 1982 (orig. pub. 1978), ch.1.
- 7 Canadian Labour Congress, *Economic Policy Statement*, Ottawa, 1982, p. 5. See also the discussion of corporate concentration in C. Marfels, *Concentration Levels and Trends in the Canadian Economy 1965-1973*, Royal Commission on Corporate Concentration, Study No. 31, Ottawa, 1976.
- 8 For a comprehensive list of these interlocking directorships, see: Walter Stewart, *Towers of Gold, Feet of Clay*, Toronto, Collins, 1982; and Peter C. Newmann, *The Canadian Establishment* Toronto, McClelland and Stewart, 1975, pp. 109-114.
- 9 For a further discussion on how the banks have profitted from foreign speculation, see the recent submission by the Canadian Union of Public Employees to the federal government's Finance, Trade and Economic Affairs Committee on Bank Profits, *Bank Profits, Monetary Management and the Canadian Economy* Ottawa, 1982. The committee's own report was essentially a whitewash of the industry's activities. It focussed solely on the question of profits and refused to consider the financial and economic power of the five major banks.
- 10 Of course the international financial power of banks also merits attention. See, for example: Anthony Sampson, *The Moneylenders*, New York, Hadder and Stoughtons, 1980.
- 11 Walter Stewart, *op. cit.* see also: Walter Stewart, "Towers of Gold, Tongues of Silver," *Canadian Business*, September, 1982.

- 12 Robert J. Bertrand, *The State of Competition in the Canadian Petroleum Industry*, Ottawa, Ministry of Corporate and Consumer Affairs, 1981.
- 13 *Ibid.*, p. 13. See also the ongoing reporting of the oil industry produced by Gatt-Fly in its publication *Energy Monitor*, Toronto, (issues 1 to 8).
- 14 Gatt-Fly points out that the degree of concentration in the refining sector has actually increased since the Bertrand Report was published. See: Gatt-Fly, *Energy Monitor*, Vol. 6; Gatt-Fly, *Power to Choose: Canada's Energy Options*, Toronto, Between the Lines, 1981.
- 15 Christopher Waddell, "Our Oil Price Hikes May Test Restraint," *Financial Post*, July 17, 1982.
- 16 W.O. Twaits, *Annual Report of Imperial Oil, 1972* (released in 1973), as cited by James Laxer, *Canada's Economic Strategy* Toronto, McClelland and Stewart, 1981, p. 106.
- 17 See the excellent account of this by Peter Puxley, "Alberta Oil Primer," *This Magazine* Toronto, 1980.
- 18 Christopher Waddell, "Our Oil Price Hikes May Test Restraint," *Financial Post*, July 17, 1982.
- 19 For accounts of the international oil industry, see: John Blair, *The Control of Oil*, New York, Vintage Books, 1976; James Ridgeway, *The Last Play: The Struggle to Monopolize the World's Energy Resources*, New York, Mentor, 1973; Anthony Sampson, *The Seven Sisters*, London, 1975.
- 20 Larry Pratt, "Energy: The Roots of National Policy," *Studies in Political Economy: A Socialist Review*, No. 7, Winter, 1982, pp. 27-59.
- 21 Department of Finance, *Annual Economic Review* (1982), Ottawa, April, 1983, p. 21.
- 22 Gatt-Fly, *Power to Choose: Canada's Energy Options*, op. cit., ch. 5.
- 23 *Ibid.*, ch. 5.
- 24 *Ibid.*, p. 105. These figures are 1980 estimates and 1980 costs.
- 25 Julian Sher, "Ottawa's Energy Programme: Who Gains, Who Loses," *October*, No. 11, Summer, 1981, pp. 18-27.
- 26 See, for example: John W. Warnock, "Oligopoly: The Food Industry," *Our Generation* Vol. 11, No. 4, Winter, 1977; Tom Kent, (Chairman) *Royal Commission on Newspapers*, Ottawa, 1981, pp. 87-103; Lars Osberg, *Economic Inequality in Canada*, Toronto, Butterworths, 1981, pp. 27-29.
- 27 Although written over a decade ago, Kari Levitt's *Silent Surrender*, Toronto, MacMillan, 1970 remains highly relevant. See also Robert Laxer (ed.) *Canada Ltd.: The Political Economy of Dependency*, Toronto, Lorimer, 1978, ch. 6; John N. Britton and James M. Gilmour, *The Weakest Link: A Technological Perspective on Canadian Industrial Underdevelopment*, Ottawa: Science Council of Canada, Background Study No. 43, 1978, ch.4.
- 28 Cy Gonick, *Inflation or Depression*, Toronto, Lorimer, 1975, pp.81-94; James Laxer, *The Energy Poker Game: The Politics of the Continental Resources Deal*, Toronto, New Press, 1970; James Laxer, *The Energy Crisis*, Toronto, Lorimer, 1975; Wayne Cheveldayoff, *The Business Page*, Ottawa, Deneau and Greenberg, 1977, pp. 277-287.
- 29 This is doubly ironic because the tax situation facing firms in Canada is more favourable than virtually all our competitors. In the words of Donald G. McFetridge and Jacek P. Warda of the Canadian Tax Foundation: "Insofar as the system itself is concerned, the R & D incentives offered by Canada are superior to those in all but one of the 20 countries examined. The one country with more generous incentives is Singapore." (p.78) Not only are tax incentives better in Canada: subsidies and government contracts are also better in all but one of our competitors as well. In short, with the sole exception of Singapore, Canada has the most favourable overall environment for R & D among the top 20 industrial countries. Yet its R & D expenditures are still among the lowest. See: Donald F. McFetridge and Jacek P. Warda, *Canadian R & D Incentives: Their Adequacy and Impact* Canadian Tax Foundation, Tax Paper No. 70, Toronto, Feb., 1983.
- 30 James Laxer, *Canada's Economic Strategy*, op. cit., pp. 127-128.
- 31 For a good discussion of this problem see: Duncan Cameron, "Public Credit and Private Profit: The Politics of the Canadian Current Account Deficit," *Our Generation*, Vol. 14, No. 3, pp.35-45.
- 32 Statistics Canada, *Canadian Statistical Review*, Cat. 11-003E, May, 1983, p. 32.
- 33 Department of Finance, *Annual Economic Review 1980*, Ottawa, April, 1981, p. 103.

- 34 See Larry Pratt, "Petro-Canada: Tool For Energy Security or Investment in Economic Development?" in G. Bruce Doern (ed.), *How Ottawa Spends Your Tax Dollars*, Toronto, Lorimer, 1982, pp. 87-114.
- 35 Science Council of Canada, *Uncertain Prospects: Canadian Manufacturing Industry 1971-1977*, Ottawa, Oct., 1977, p.20. Of course, the situation now is much worse.
- 36 Science Council of Canada, *Hard Times, Hard Choices: Technology and the Balance of Payments*, Ottawa, November, 1981, pp. 35-37.
- 37 *Ibid.*, pp.72,73. In the words of the same Science Council report: "Unfortunately, recent projections indicate that, except for energy-related projects, capital investment in the 1980s is likely to be a continuing problem". The primary energy sector accounted for 25.3 per cent of total capital formation in 1980. By 1990 it will probably account for as much as 33.0 per cent, if the large energy projects go ahead. Massive energy investments could crowd out of the capital market those sectors of high technology that are not directly related to energy development."
- 38 Treasury of Ontario, "Report on Canadian Research and Development Expenditures," as cited by James Laxer, *Canada's Economic Strategy*, op. cit., p. 90.
- 39 I am indebted on this point to Richard Hyman's article "The Labour Movement and the Employment Crisis," published as the *Sixth Countess Markievicz Lecture*, London, 1981. See also: Alain Liepitz, "Towards Global Fordism," *New Left Review*, No. 132, March-April, 1982.
- 40 For a useful discussion of this question, see: Peter Warrian, "Trade Unions and the New International Division of Labour," The Boag Foundation Conference, Vancouver, Oct, 20-22, 1983, pp. 6-10.
- 41 The notorious "Michelin Bill" of Nova Scotia is a good example of this type of lobbying by multinational companies.
- 42 James Laxer, *Canada's Economic Strategy*, op. cit., pp. 115-146.
- 43 OECD, *Economic Outlook*, Paris, July, 1983, p. 45, table 13.
- 44 For a detailed treatment of the economics of the arms race, see the articles in: Ernie Regehr and Simon Rosenblum (eds.), *Canada and The Nuclear Arms Race*, Toronto, Lorimer, 1983.
- 45 Many supporters of the disarmament movement have argued this point. Perhaps the most persuasive in recent years has been E.P. Thompson. See, for example: E.P. Thompson and Dan Smith (eds.), *Protest and Survive*, Harmondsworth, Penquin, 1980; E.P. Thompson, *Beyond the Cold War*, Harmondsworth, Penquin, 1982.
- 46 See the U.S. Studies by: James R. Anderson, *Bankrupting American Cities*, Lansing, Michigan, Employment Research Associates, 1983; Marion Anderson, *The Price of the Pentagon*, Lansing, Michigan, Employment Research Associates, 1981; Marion Anderson, *The Empty Pork Barrel: Unemployment and the Pentagon Budget*, Lansing, Michigan, National Education Association, 1978 (revised, 1982).
- 47 Sam Gindin, "Military Expenditures: Their Harmful Effects on the Economy," *CUPE Facts*, Vol. 4, No. 2, Feb., 1982, p.7.
- 48 Marion Anderson, *The Empty Pork Barrel*, op. cit.; Marion Anderson, *Converting the Work Force: Where the Jobs Would Be*, Lansing, Michigan, Employment Research Associates, 1982.
- 49 See the excellent article by Mel Watkins entitled "The Economics of the Arms Race," to be published by the Canadian Centre for Policy Alternatives in 1984.
- 50 For a more extensive discussion of this arms purchase, see: Jane Stinson, "Fighter Planes: Shooting Down Canada's Social Services," *CUPE Facts*, Vol. 2, No. 9, June-July, 1980, pp. 156-157.
- 51 It is true that under the 1958 Defence Production Sharing Agreement, Canada is supposed to maintain a balance in its arms trade with the U.S. However, given the dominance of U.S. firms in the Canadian defence industry and the numerous ways in which costs and profits can be shifted through pricing arrangements, management fees and the like, there is every reason to doubt that such parity exists.
- 52 Sam Gindin, op. cit., p. 8. See also: Mel Watkins, *The Economics of the Arms Race*, op. cit., for a detailed discussion of the adverse impact on productivity resulting from defence spending.
- 53 Seymour Melman, *The Permanent War Economy and The Decline of U.S. Capitalism*, Simon and Schuster, New York, 1975; Mary Kaldor, *The Baroque Arsenal*, London, Andre Deutsch, 1981.

- 54 As Mary Kaldor points out, R & D spent on defence technology produces a very specific kind of technology which is not easily adapted or converted to other civilian uses. In other words, as the technology becomes increasingly sophisticated, the spinoffs for civilian use diminish sharply. Mary Kaldor, *The Baroque Arsenal*, *op. cit.*
- 55 Mel Watkins, "The Economics of the Arms Race," *op. cit.*, and also, Mel Watkins, "An Economist Looks at the Arms Race," *This Magazine*, July, 1982.
- 56 See Luken Robinson, "The Arms Race, Inflation and Recession," *Canadian Forum*, August, 1981.
- 57 A detailed account of the changes to the federal government's transfer payments is to be found in: David B. Perry, "The Federal-Provincial Fiscal Arrangements for 1982-87," *Canadian Tax Journal*, Vol. 31, No. 1, Jan.-Feb., 1983, pp. 30-47.
- 58 In some cases, the business ideology of small entrepreneurs may also cloud their perception of what is in their self-interest. For example, the Ottawa-Carleton Board of Trade, which represents local business interests (including retailers), enthusiastically endorsed the federal government's "6 and 5" public sector wage guidelines. The fact that the major consumers in the Ottawa area are public employees who would have much less to spend eluded the Board.

## Chapter 4

- 1 For a detailed assessment of the impact of low growth and high unemployment on the federal government's deficit, see: John Bossens and David P. Dungan, "The Government Deficit: Too High or Too Low?," *Canadian Tax Journal*, Vol. 31, No. 1, Jan.-Feb., 1983, pp. 1-29. These authors argue that a 7.5 per cent rate of unemployment would wipe out the federal deficit and a 6 per cent rate would result in a substantial government surplus. See also: Department of Finance, *The Federal Deficit in Perspective*, Ottawa, April 19, 1983.
- 2 Cy Gonick, "Lessons from Canada," *Monthly Review*, Jan., 1981.
- 3 Department of Finance, *Annual Economic Review, 1980*, Ottawa, April, 1981, p. 11.
- 4 *Ibid.*, p. 111.
- 5 Department of Finance, *The Federal Deficit in Perspective*, Ottawa, April 19, 1983, p. 8.
- 6 *Ibid.*
- 7 Organization of Economic Cooperation and Development (OECD) *Observer*, Paris, Jan., 1983, p.32.
- 8 Department of Finance, *Government of Canada Tax Expenditure Account*, Ottawa, Dec., 1979.
- 9 Department of Finance, *Analysis of Tax Expenditures for Individuals*, Ottawa, 1981.
- 10 Cy Gonick, "Lessons from Canada," *op. cit.*, p. 17. Gonick argues that the deficit would be totally wiped out if the loopholes had not been opened for business.
- 11 Department of Finance, *The Federal Deficit in Perspective*, *op. cit.*, p. 15.
- 12 Department of Finance, *The Federal Deficit in Perspective*, *op. cit.*, p. iii (Preface).
- 13 Gatt-Fly, *Power to Choose: Canada's Energy Options*, *op. cit.*, ch. 1-3.
- 14 Petroleum Monitoring Agency, *Canadian Petroleum Industry 1982 Monitoring Survey*, Ottawa, July 20, 1983, Table 3.
- 15 Gatt-Fly, *Power to Choose: Canada's Energy Options*, *op. cit.*, ch. 9, p. 1.
- 16 Department of Finance, *Annual Economic Review 1982*, Ottawa, April, 1983, reference table 18, pp. 146, 147.

## Chapter 5

- 1 These numbers are slightly different from the *National Income and Expenditure Accounts* figures cited earlier in the chapter because they refer to budgetary years rather than calendar years. Moreover, they deal only with federal taxes and exclude the Canada and Quebec Pension Plan contributions.
- 2 Department of Finance, *The Tax Systems of Canada and the United States*, Ottawa, Nov., 1978, p. 59.

- 3 Department of Finance, *Government of Canada Tax Expenditure Account*, Ottawa, Dec., 1979, p.1.
- 4 Ministry of State for Economic Development, *Assistance to Business in Canada*, Ottawa, 1979. See also the more recent editions of 1980 and 1981.
- 5 *Ibid.*, 1981 edition.
- 6 Kate Cary, "Government Gold," *Canadian Business*, October, 1982, pp. 111-135.
- 7 Guy A. Lavigne, *Federal Business Development Bank Annual Report*, Montreal, June 22, 1983, p.3.
- 8 Petroleum Monitoring Agency of Canada, *Petroleum Industry Monitoring Survey 1982*, Ottawa, 1983.
- 9 Department of Finance, *Analysis of Federal Tax Expenditures for Individuals*, Ottawa, November, 1981, p.1.
- 10 Department of Finance, *Analysis of Federal Tax Expenditures for Individuals*, *op. cit.*, p. 17. See also Alan M. Maslove, "Tax Expenditures, Tax Credits and Equity," in Bruce Doern (ed.) *How Ottawa Spends Your Tax Dollars*, Toronto, Lorimer, 1981, pp. 232-254.
- 11 What actually happened is that the federal government turned over the right to impose estate and succession duties to the provinces. Alberta promptly moved to abolish the tax and within a few years every other province except Quebec followed.
- 12 Department of Finance, *Analysis of Federal Tax Expenditures for Individuals*, *op. cit.*
- 13 John Calvert, "MacEachen's Disastrous Budget: It's a Prescription for Economic Ruination," *CUPE Facts*, Vol. 4, No.2, Feb., 1982.
- 14 Department of Finance, *The Federal Deficit in Perspective*, *op. cit.*, p. 52.
- 15 John Calvert, "MacEachen's Disastrous Budget: It's a Prescription for Economic Ruination," *op. cit.* Estimates are based on Department of Finance calculations presented in the 1981 budget.

## Chapter 6

- 1 Richard Bird, *Financing Canadian Government*, Toronto, The Canadian Tax Foundation, 1979, p.20. See also pp.87, 88.
- 2 See, for example, the work of the Australian economist Hugh Stretton for many examples illustrating this point. Hugh Stretton, "Business and Government," *Australian Journal of Public Administration*, Vol. XXXVI, No. 1, March, 1977.
- 3 One of the most insightful analyses of the inherent problems of private enterprise medicine was written over a decade ago by Richard Titmus. *The Gift Relationship: From Human Blood to Social Policy*, London, George Allen and Unwin, 1970. Although somewhat dated, the social policy issues it raises are as valid today as when it was first written.
- 4 Hugh Stretton, "Business and Government," *Australian Journal of Public Administration*, *op. cit.*, p. 2.
- 5 *Ibid.*, p. 2.

## Chapter 7

- 1 In developing this chapter, I am indebted to the Conference of Socialist Economists (CSE), London Working Group, for many of the key ideas. See: CSE, *The Alternate Economic Strategy*, London, CSE Books, 1980.
- 2 One only needs to recall how after World War II the federal government sold off the many public industries created to promote the war effort. The reason for the sale was clearly ideological: the government of the day did not want to compete with private enterprise.
- 3 Hugh Stretton, "Background of Economic Planning," unpublished paper presented to the CLE Sessions, June 29, 1980.
- 4 See the exercise in social accounting in: Bob Rowthorn and Terry Ward, "How to Run a Company and Run Down an Economy: The Effects of Closing Down Steel Making in Corby," *Cambridge Journal of Economics*, Vol. 3, No. 4, Dec., 1979, pp. 327-340.

- 5 An earlier version of the 10 points was published in a special issue of the *CUPE Facts*. See: John Calvert, "A Ten-Point Recovery Programme," *CUPE Facts*, Vol. 5, No. 1, Feb., 1983.
- 6 The much-touted New Employment Expansion and Development Program (NEED) is precisely this type of inadequate stopgap measure. For a discussion of its weaknesses, see: Tony Wohlfarth, "Living With Need: Job Creation Has Many Pitfalls," *CUPE Facts*, Vol. 5, No.4, May, 1983, pp. 10-14.
- 7 This problem has been more widely discussed in the U.K., where attempts at reflation (such as Edward Heath's push for growth in the early 1970s), resulted in a surge of imports and, ultimately, a reversion to deflationary policies to curb the skyrocketing balance of payments deficit. See: Conference of Socialist Economists, *The Alternate Economic Strategy*, *op. cit.*, pp. 87-102.
- 8 I am indebted to Duncan Cameron of the University of Ottawa for the preceding ideas.
- 9 Duncan Cameron, "Public Credit and Private Profit: The Politics of the Canadian Current Account Deficit," *Our Generation*, Vol. 14, No.3, pp. 35-45.
- 10 Richard Minns, *Take Over the City: The Case for Public Ownership of Financial Institutions*, London, Pluto Press, 1982, pp. 54-56.
- 11 Richard Minns has done estimates for the purchase of the U.K. banking system, which he calculates would cost approximately 8 billion pounds sterling, or roughly twice the estimate of the cost of purchasing the Canadian banking system. Given that the U.K. system is slightly more than twice the size of Canada's, the estimate is in line with what we have calculated. See Richard Minns, *Take Over the City: The Case for Public Ownership of Financial Institutions*, *op. cit.*, p. 76.
- 12 I am indebted to Duncan Cameron of the University of Ottawa for the ideas in this paragraph.
- 13 Marianne Bossen, *Employment in Chartered Banks 1969-1975*, Ottawa Canadian Advisory Council on the Status of Women, 1976.
- 14 Jackie Ainsworth, *An Account to Settle*, Vancouver, Press Gang Publishers, 1979.
- 15 Rosemary Warskett, *Trade Unions and the Canadian State: A Case Study of Bank Worker Unionization 1976-1980*, Ottawa, Carleton University M.A. Thesis, August, 1981.
- 16 Richard Minns makes this argument in respect of British insurance companies. See Richard Minns, *Take Over the City: The Case for Public Ownership of Financial Institutions*, *op. cit.*, pp. 11-13, 76.
- 17 Dave Elliott and Hilary Wainwright, *The Lucas Plan: A New Trade Unionism in the Making?*, London, Allison and Busby, 1982. The literature on conversion projects is expanding rapidly, especially in the U.S. and Great Britain. The Greater London Council in London, England has officially sponsored the establishment of a city-wide committee to develop plans for the conversion of the 70 arms production factories in the greater London area.
- 18 Leo Panitch, "Price Controls Can Work," unpublished paper, Ottawa, 1982.
- 19 *Ibid.*
- 20 David P. Ross, *The Canadian Fact Book on Income Distribution*, Ottawa, Canadian Council on Social Development, 1980; Lars Osberg, *Economic Inequality In Canada*, Toronto, Butterworths, 1981, pp. 7-25.
- 21 Lars Osberg, *Economic Inequality in Canada*, *op. cit.*, pp. 35-40.
- 22 *Ibid.*, pp.27-32.
- 23 Ironically, support for a wealth tax has also come from unexpected sources. For example, John Bossens, "The Effect of Inflation Induced Hidden Wealth Taxes," *Report of the Proceedings of the Thirty Second Tax Conference*, Toronto, Canadian Tax Foundation, p. 40. Bossens argues that current corporate taxes do not take into consideration the impact of inflation in eroding the real value of profits and assets. Hence companies are frequently over-taxed. His solution is to advocate a 1 per cent tax on all wealth over \$500,000 held by individuals or trusts.
- 24 I am not suggesting that the Mitterand government has done as much as should be done in this regard or that its policies are without loopholes. Nevertheless, a clear start has been made in the attempt to tax wealth.
- 25 On this point, see the article by Larry Pratt, "Petro Canada: Tool for Energy Security or Instrument of Economic Development?" in G. Bruce Doern (ed.), *How Ottawa Spends Your Tax Dollars*, Toronto, 1982, pp. 87-114.

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- 26 Val Ross, "The Arrogance of Inco," *Canadian Business*, May, 1979. Although writing in a business publication, Ross actually suggests that nationalization is a logical solution to the problems generated by Inco.
  - 27 Marc Belanger, "The New Electronic Canada," *CUPE Facts*, Vol. 5, No. 7, September, 1983.
  - 28 This is exacerbated by the kind of skills distribution that is characteristic of high technology industries. High technology requires large numbers of unskilled assembly workers, a relatively small number of semi-skilled and skilled workers, and a significant number of professional engineers and scientists. This is exactly the opposite to the skills distribution in traditional manufacturing industry, where the bulk of the jobs are semi-skilled and skilled. The high-tech skills distribution results in growing disparities in income within firms and also facilitates the transfer of unskilled jobs to low wage third world countries, thus aggravating the unemployment situation in Canada. See Bob Kuttner, "The Declining Middle," *Atlantic Monthly* July, 1983, pp. 60-72; Barry Bluestone and Bennett Harrison, *The Deindustrialization of America*, New York, Basic Books, 1982.

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## About *Government Limited*

*Government Limited* challenges the view that big government is responsible for Canada's economic crisis.

The fundamental problem with government, according to author John Calvert, has been its subordination to business interests. This has resulted in the adoption of regressive social and economic policies which have sacrificed the interests of ordinary Canadians to placate the insatiable demands of the corporate sector.

Calvert is no apologist for existing governments. He holds that the mismanagement of the public sector by pro-business governments has resulted in widespread alienation among citizens towards public programs. Excessive secrecy and lack of accountability are logical characteristics of governments which promote corporate interests at the expense of the needs of ordinary Canadians.

The solution to Canada's economic crisis and to the deteriorating financial situation of governments lies in the adoption of a fundamentally different approach to economic policy. Calvert puts forward a controversial 10-point Alternative Economic Strategy which he believes can form the basis of this approach.



*"...I recommend it highly. We have here a book that is forcefully written, cautiously argued and carefully documented." From the introduction by Mel Watkins, professor of economics, University of Toronto.*

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