
Research



LIBR-00330

for the Commission
on Canada's
Future

R

esearch
for the Commission
on Canada's
Future



A progress report

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

© Minister of Supply & Services Canada 1984
Cat. No. Z1-1983/1-31-2
ISBN 0-662-53035-7

Contents

Foreword

I	Introduction	1
II	Economics Research Area	9
	Macroeconomics	12
	Federalism and the Economic Union	14
	Industrial Structure	16
	International Trade	18
	Income Distribution and Economic Security	21
	Labour Markets and Labour Relations	22
	Social and Economic Ideas and Issues	24
III	Politics and Political Institutions Research Area	27
	Canada and the International Political Economy	30
	The Politics of Canadian Federalism	31
	Representative Institutions	34
	State and Society in the Modern Era	35
	Constitutionalism, Citizenship, and Society	36
	The Politics of Economic Policy Making	38
	Industrial Policy	39
IV	Legal and Constitutional Research Area	41
	The Role of Law in Society	44
	The International Legal Environment	45
	The Canadian Economic Union	47
	Harmonization of Provincial Legislation	49
	Institutional and Constitutional Arrangements	51
V	Conclusion	53
	Appendix A: The Terms of Reference	55
	Appendix B: The Research Organization	58

Foreword

In the course of fulfilling the responsibilities outlined in its mandate, the Royal Commission on the Economic Union and Development Prospects for Canada has undertaken an extensive program of public consultation and research. The consultation program is described in the Commission's earlier Guidebook and in *Challenges and Choices*, a companion document to the present volume. This volume, *Research for the Commission on Canada's Future: A Progress Report*, is a description of the research dimension of its work.

The research program described here is under the joint direction of three prominent and widely respected Canadian scholars. Dr. Ivan Bernier, Director of Research – Legal and Constitutional, is Dean of the Faculty of Law at Laval University. Dr. Alan Cairns, a former Head of the Political Science Department at the University of British Columbia, was William Lyon Mackenzie King Visiting Professor of Canadian Studies at Harvard University immediately before joining the Commission as Director of Research – Politics and Political Institutions. Dr. David C. Smith, a former Head of the Department of Economics at Queen's University and recently named the next Principal of that University, is the Director of Research – Economics.

The Research Directors have developed a research program that is ambitious and wide-ranging. The very nature of the subject matter described in the *Progress Report* demonstrates the scope of the research commissioned and points to the need for vigorous efforts to bridge the research disciplines and for integration.

Since the time of the Rowell-Sirois Commission and particularly since the Gordon Commission, there has been extensive work in the social sciences in Canada. In addition to university-based research, numerous publications have been produced by publicly sponsored organizations such as the Economic Council of Canada and the provincial Economic Councils as well as by a number of private research institutes. Many significant studies have also been carried out by both federal and provincial governments.

The Commission has sought to avoid duplication of work that has been – in the judgment of the research community – well done. In that sense, many of the Commission's studies will perform an important role as survey papers synthesizing work in specialized fields.

In addition to extensive research in political institutions and economics, this is perhaps the most comprehensive examination yet undertaken of the Canadian legal system. This reflects our concern that the way in which legal instruments have been used in the past and may be used in the future should be better understood. As the Research Directors note in their introduction, creative linkages and new insights will emerge from the nature and scope of the collective enterprise.

It is important to note that the studies being prepared in the Commission's research program have not been available to Commissioners during the preparation of their discussion document, *Challenges and Choices*. Of necessity, the majority of the research studies will not become available until the latter part of 1984. Thereafter, the contribution of the research program and

its members will play a very vital role in informing deliberations and decisions as Commissioners approach the Final Report.

Traditionally, the research of Royal Commissions has not only been important for its primary purpose of direct assistance to the sponsoring Commission, but has also served to enhance the understanding of contemporary scholars, students, other interested readers, and policy makers generally. I am confident that under the guidance of the Research Directors, the efforts of the Research Coordinators and individual researchers whose work is described below will produce the quality of scholarship that will be recognized by future generations as a milestone in professional attainment.

I would like to take this opportunity to extend my personal thanks and that of my fellow Commissioners to the Research Directors and those directly associated with them in the Commission's Research program as well as to the many members of research advisory groups who have generously agreed to assist in this undertaking.

A handwritten signature in cursive script, reading "Donald S. Macdonald". The signature is written in dark ink and is positioned above the printed name and title.

Donald S. Macdonald
Chairman

Introduction

I. Introduction

Research Directors: Ivan Bernier, Université Laval
Alan Cairns, University of British Columbia
David C. Smith, Queen's University

The purpose of this introductory chapter is to set the stage for the more detailed description of the research program in the chapters that follow. It is intended to bring together the organizing assumptions of the research effort and to make clear the integrating framework for the many individual studies.

Royal Commissions and Research

Governments are inevitably caught up in the daily pressures of governing. They have difficulty distancing themselves from the demands of today and taking a long view. Therefore, when a shifting world throws into question policies that were designed for yesterday's problems, when the understandings and knowledge on which those policies are based no longer appear to be relevant for generating effective new policies, then a resort to supplementary external advice and analysis is one possible response.

In the last half century the Rowell-Sirois Commission, the Gordon Commission, the Glassco Commission, the Porter Commission, the Carter Commission, the Bilingualism and Biculturalism Commission, and others have undertaken exhaustive analyses of aspects of life in Canada to fulfil their particular terms of reference. In each case a large and elaborate research effort has contributed to the commission's task. The Royal Commission on the Economic Union and Development Prospects for Canada, like many of its predecessors, has also mounted a comprehensive and ambitious research program in response to its own Terms of Reference.

The Mandate and the Research Response

The mandate of this Commission is unusually broad. It encompasses many of the fundamental policy issues expected to confront the governments and peoples of Canada in the coming decades.

The research program, jointly worked out by the Commissioners and senior research staff, is the Commission's attempt to respond to the mandate with a manageable research effort. The following excerpt from the November 5, 1982, Order-in-Council of the Committee of the Privy Council establishing the Commission contains the key aspects of the mandate for the research program: The Commission is required by its terms of reference to inquire into and report upon the long-term economic potential, prospects and challenges facing the Canada federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and governmental institutions and for the management of Canada's economic affairs.

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

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

The research studies are intended to fulfil several requirements in responding to these Terms of Reference. They will look at our past and give us retrospective views on the economic, political, legal, institutional, and constitutional developments since the end of the Second World War. This historical orientation will help us to understand the sources of our present discontents and to assess our future possibilities against our past performance. More generally, by providing a frame of reference in which the interplay of social forces and institutional arrangements can be analysed over time, such a perspective should enhance the quality of policy recommendations the Commission will make.

The studies are also charged with the task of identifying the factors that are likely to have a critical influence on developments over the next several decades. They are to examine possible institutional changes and policy options that might offer prospects of improved economic performance, of a more sensitive and responsive political system, and of a more legitimate constitutional order. They are to consider ways of blending an evolving system of federalism and parliamentary government into an adaptable and effective arrangement for governing Canadians.

These objectives are all interrelated. Further, they have to be pursued in

full recognition of our nature as a country of two official languages and many cultures.

Canadians, as became apparent in the Commission's hearings, are concerned about their social contract with each other and with their governments. There is the fear that without improving the social contract we will occupy the same space but will lack that widespread acceptance of a common citizenship that is essential if we are to respond successfully to the interrelated economic, political, and constitutional problems that will confront future generations. Analysis of this concern is part of our research agenda.

The Domestic Context

The mandate and the research studies that flow from it were influenced by a pervasive sense of malaise about the functioning of the economy, of the political, legal, and constitutional systems, and of the relations between them.

The current failures of the economic system are generating worries about economic development prospects in the coming decades. The severity of the recent recession has increased anxiety about the capacity of the system to create sufficient employment opportunities in the future. The persistence of inflation and the costs encountered in its control have raised longer-term questions about how effectively inflation will be controlled; the slowing of productivity growth in the past decade has prompted fears of future economic stagnation; the country's industrial structure, it is often suggested, is not adapting as well as it should adapt, or as well as that of some other countries. Finally, concerns are widespread about failures in the mechanisms for resolving disputes in the labour market and for providing an appropriate sharing of income and wealth.

Much of the blame for these deficiencies is often attributed to the shortcomings of political and economic institutions and policies. Against these pessimistic assessments it will be useful to provide some perspective, by examining the evidence of and explanations for previous longer term successes in the capacity of the economy to adapt, to create major expansions of employment opportunities, to control inflation in relation to inflation rates abroad, and to generate impressive economic growth.

Views are also widely expressed that the political system has become increasingly conflict-ridden and has a diminishing capacity for effective policy making on economic issues and in other problem areas. The political system today is viewed by many as less stable and secure than its earlier post-Second World War predecessor. Some indications that these apprehensions are not without cause are: the debate in Quebec about its role in Confederation; regional dissatisfaction in western Canada; the decline of the party system as an instrument of national integration; the coexistence of competing and contradictory definitions of Canada; aggressive and hostile rhetoric in intergovernmental relations; and, most strikingly, the recent constitutional struggle, which produced a challenge to almost every major institution by some influential actor and revealed almost insuperable obstacles to change.

But against these examples of conflict can be set some important qualifications. Canada is not the only country experiencing serious political,

constitutional, economic, and regional problems. Further, the system has considerable successes to its credit in surviving tremendous shocks and in displaying considerable political and economic flexibility. These past successes as well as our more recent difficulties merit examination.

The legal system, too, has come under growing criticism in recent years for its complexity and for its tendency to increase conflict and rivalry rather than to foster collaboration and compromise. Extensive government regulation in particular, with the attendant high costs of compliance, is said to impede businesses' ability to respond quickly to changing market conditions. At the same time, disadvantaged and unorganized minorities are held to have only limited access to the legal system and limited ability to influence its evolution. Such problems as well as some of the virtues of the existing legal system must be considered.

In brief, we have recently been experiencing severe economic and political problems, and the future holds no guarantee of lessening pressures to which Canada must respond with wise and effective policy. However, we are not alone. Other peoples and governments are equally caught up in the pressures of an interdependent competitive world. As in the past, Canadians will undoubtedly respond to the demands for adaptability posed by future conditions not by repudiating our past but by working within our economic, political, and constitutional heritage.

The Global and Comparative Context

Inflation, unemployment, and low growth rates, although differing in their incidence from country to country, perplex governments everywhere. The technological revolution, the challenge of international economic competition, the skill requirements of the computer era, and the challenge of humanely providing for a burgeoning world population concern all peoples, not just Canadians. Regional assertiveness and ethnic and nationalist challenges to the authority of contemporary governments are widespread. The goals of women's movements, the aspirations of aboriginal peoples, and the concerns of environmental groups all reflect fundamental changes in the consciousness, identity, and values that transcend national boundaries.

The contemporary democratic state is subject to economic trends and social forces that flow back and forth across political boundaries. The internationalization of economic activity evident in the multinational corporation, the movement of capital, the new international division of labour and the global economic interdependence to which it leads, and the international economic institutions such as the GATT and the IMF illustrate an increasingly international dimension to which the economic managers in the modern state must respond.

Although these trends are inescapably part of the modern condition, their incidence, their precise nature, and the ways in which they interact differ from state to state. Further, the problems and opportunities they create are products of their interaction with institutional arrangements, political and legal traditions, resource endowments, the relations between management and labour, and other phenomena that differ from country to country.

For this Commission the task is to examine, analyse, and make recommendations for the Canadian situation. In doing so we must recognize the uniquely Canadian and universal characteristics that together shape and constrain the opportunities for Canadians in future decades.

The Goal of an Adaptive Political Economy

At the most general level the focus of the research effort is to examine how the Canadian political economy can better adapt to change. The selection of this broad goal as the desired direction in which the country should move reflects the fundamental belief that the future, no matter how highly developed our predictive powers, will take us partly by surprise. The world we live in was not foretold by our predecessors, and the world of our successors cannot be anticipated in detail by this generation. Therefore, the appropriate policy stance for the unknown element in our future is a flexible capacity to respond.

What we do know about the future leads us in the same direction. Technological change and the impact of scientific discovery, economic competition from newly industrializing countries, demographic changes in the Canadian and world populations, and the evolution of the information society are all components of our future environment. Thus both what we know and what is uncertain about the future lead in the same direction to the need for political and economic institutions that do not leave us with institutional arrangements and policies that were designed for yesterday and are inappropriate for future decades. Implicit in the notion of an adaptive political economy is the assumption that flexibility is not exclusively an attribute of the economic or of the political and constitutional systems. Adaptability must be found in both, as well as in the network of linkages that, particularly in our era of the positive state, binds them together.

The theme of an adaptive political economy pulls the research effort in an interdisciplinary direction. Such a theme links, for example, the pursuit of a more representative political system with the search for more effective economic policy-making structures; it also links the need for relevant international economic policies with the pursuit of more harmonious federal-provincial relations in economic matters.

The goal of a more adaptive political economy does not presuppose a clean slate on which we can write as we wish. We prefer to seek movement in directions that are consistent with those of our past and with what we know about the future, rather than in a convulsive transformation to turn us into a different people trying to employ a completely new set of economic and political arrangements. The latter is not only undesirable but unattainable. The heritage of parliamentary government, federalism, a mixed economy, and the Canadian version of a bilingual and multicultural society is not an irrelevant accident of history but an achievement to be preserved and enriched. The research task, therefore, is to enhance the area of manoeuvrability and to do so in the context of our heritage of institutions in which many of our basic values reside.

The Research Program

The realities to which this Commission must respond are interdependent. Its mandate and the general theme of an adaptive political economy to which it

leads give research priority to economic, political, legal, and constitutional concerns. Accordingly, the researchers are primarily, but not exclusively, drawn from among those who specialize in the study of economics, political science, and law. They bring to the collective research enterprise of the Commission the specialized knowledge built up by the massive expansion of research in Canada and elsewhere in recent decades.

Knowledge has been advanced by an ever more refined division of labour. It is not as easy for researchers in the 1980s as it was for the scholarly generation of the 1930s, which produced the landmark Rowell-Sirois Report, to move comfortably back and forth across the boundaries of knowledge. The contemporary requirements for mastering a subfield and for keeping up with the burgeoning literature and abreast of new research tools do not, in the first instance, readily contribute to the broad overarching perspective appropriate to the sweeping mandate confronting this Commission.

The strategy for transforming increasingly specialized knowledge into an integrated analysis for the Commission is intended to maximise the unquestioned benefits from specialization and simultaneously to transcend specialization within and across disciplinary boundaries. Initially issues are being studied individually. The research findings are then to be brought together and integrated, drawing out their connections across the range of interdependencies and linking them around the overriding themes emerging from the mandate.

The initial organization of the research effort is based on three broad areas of research, Economics, Politics and Political Institutions, and Legal and Constitutional. This organization reflects the institutional structuring of scholarship in universities, from which most of the researchers are drawn. Within each of the three research areas, as the subsequent chapters of this report indicate, coordinators are responsible for organizing separate projects. Each coordinator has a major responsibility for drawing together the more specialized papers into an integrated overview paper that will be published along with the supporting studies.

There is deliberate overlap between the three research areas on the issues and problems under analysis, and various joint projects draw researchers together from two or more research areas. Special arrangements exist and are planned for the research on common problems underway in the three research areas. For example, the research on Canada's role in the international political economy, which is being extensively studied in each research area from different perspectives, will be brought together in seminars and conferences in the summer of 1984. Different orientations to the state of the economic union in Canada will be handled similarly in the coming months. The multifaceted issues involved in the economic, political, and constitutional development of Yukon and the Northwest Territories will be approached by a collaborative effort now being developed among the research areas. Studies on federalism are closely coordinated. Research on industrial strategy also involves and brings together the perspectives of law, economics, and political science.

The processes leading up to the Commission's final report will cap the integrative effort. The findings of the separate research projects dealing with various big issues and basic concerns that pervade the overall research effort

will be brought to bear on the task of writing the report. These big issues and basic concerns, which are being studied both directly and indirectly in the research program, include: the role of the state; the relations between law and society; the rights and welfare of individuals; the desired mix of public and private decision making in the economy; the relative powers of governments in the federal system and the relations between them; the appropriate balance between nationalism and internationalism in the economy; the relations between business, labour, and the state; economic relations with the United States; and many others. These and other issues are being examined in over 200 research projects ranging from survey papers to major studies.

The simultaneous preparation and subsequent publication of so much analysis across such a broad range of subjects can scarcely avoid generating creative linkages between hitherto separately studied phenomena. Much integration and many leaps of understanding will develop from the unpredictable interactions between researchers and from the extensive exposure to unfamiliar disciplinary perspectives that will develop from our common intellectual task.

Although well underway, the research program outlined in succeeding pages is not final. A few projects are still tentative. Some, which are not listed, are still being developed. Others will emerge as gaps appear in the coming months.

With these exceptions the research described below comprises the overall research program of the Royal Commission on the Economic Union and Development Prospects for Canada. In quantitative terms the research program represents one of the largest focused collective research efforts ever undertaken in Canadian history. We believe that the program will make a significant contribution to improving the capacity of Canadians to respond to the future that awaits them.

Economics

II. Economics Research Area

Research Director: David C. Smith, Queen's University

Fundamental questions about the Canadian economic system are central to the mandate of the Commission. Are the institutions that link Canada's provinces and regions together into an economic union fostering the economic gains that our national integration should produce? What determines how those gains are shared among Canadians? Is our system sufficiently adaptable to respond appropriately to the externally and internally generated forces for economic change that affect economic development prospects? And can we steer along that development course with less inflation and unemployment than have plagued us in recent years?

Economic analysis is an essential, though not sufficient, basis on which to try to develop answers to broad questions such as these. The tools of the economic analyst can give insights into influences on the allocation of the country's human and other resources, on the distribution of gains from their use, and on the nature of our economic development. They should help us to understand better, even if incompletely, the way individual and collective decisions affect both the supply of resources and the demands on them, the forces shaping our regional and industrial structure, and the significance of our economic interdependence with other countries.

Economists explore not only how a country's resources are allocated to various uses, but also whether government and non-government institutions and policies lead to a more or less wasteful allocation of these resources. They analyse not only the direct generation of incomes from economic activity but also the effects of various measures to alter the distribution of income to satisfy social and political objectives.

Our mandate's call for an inquiry into how well the Canadian economic union is functioning requires us to study the process of allocating and distributing our economic resources in the light of the country's distinctive political and legal institutions. The task is reminiscent of that embodied nearly fifty years ago in the mandate of the Rowell-Sirois Commission on Dominion-Provincial Relations, which was also established at a time of particular unease about the appropriateness of the country's economic union, given the economic problems besetting it. Economists of the day helped produce the Commission's report and supporting studies. Their work has had lasting effects on policies and on the way Canadians think about their country.

This Commission's mandate — as its title makes clear — is even broader. It calls for study of economic development prospects, as well as for study of the economic union. Here, too, the tools of the economic analyst are needed to increase our comprehension of what determines a country's future economic potential and of how instruments of economic policy may move us closer or farther away from where we collectively want to be decades hence. This aspect of the Commission's mandate is similar to the charge to the Gordon Royal Commission on Canada's Economic Prospects nearly thirty years ago to investigate Canada's long-term economic prospects. Then, as now, the help of

the economic research community was sought, and the response was impressive.

The task of carrying out a Commission's economic research today is both easier and more difficult than it was thirty or fifty years ago. The quantity and quality of the available research has expanded substantially through work in the universities and in other organizations in the private and public sectors, such as the private research foundations and the economic councils at the federal and provincial levels. But although there is much more to draw on than in earlier times, the results of the work are not simply lying in the public domain to be scooped up easily and brought to bear conclusively on the issues of the mandate. The research varies widely in its relevance, quality, and complexity, so that much attention must be directed to the sifting process. Important debates continue not only over esoteric, mathematical niceties on the frontiers of theoretical advance, but also over the core policy issues with which the Commission is wrestling. Thus it is essential to develop an awareness and appreciation of competing views where genuine differences in research results persist. In addition, despite the extensive advances there are still large, vital, uncultivated, and usually less easy to cultivate gaps that are important to the Commission's concerns and require further research efforts.

Three basic characteristics of our task are being emphasized in the Economics Research Area, as they are in the other two areas that constitute the overall research program. First, as already emphasized in the Introduction to this report, it bears repeating that our work is proceeding in close collaboration with research in the Politics and Political Institutions and the Legal and Constitutional Research Areas. A greater merging of the three areas is being attempted on a larger scale than heretofore. Second, because of the breadth of the mandate and the more extensive research already existing than in earlier times, less emphasis is being placed on major "gap-filling" projects and more on papers that draw together the state of knowledge on chosen topics. Third, in the selection of studies, a key criterion has been their importance to the general theme of identifying and studying factors that influence the long-run adaptability of the economy and of the impact of economic, political, and legal institutions on the degree of adaptability.

Studies for the Economics Research Area are currently underway in seven major sections, which are described in the following pages. These seven sections were developed as a useful way of classifying and organizing the work. From a consideration of the economic forces affecting economic performance at the aggregate — the macroeconomic — level, we turn to a section on federalism and the economic union, which incorporates studies of regional aspects of economic activity. Our studies then move on to the industrial structure and the adaptability of the Canadian industrial system and, then, to international trade and other international forces shaping Canadian economic development. The distribution of income and the provision of economic security among Canadians are examined before attention is next focused on the study of labour markets and salient features of labour-management relations. The final section ranges more widely over social and economic ideas and issues in order to pick up topics not easily incorporated into other sections and to help provide a broader perspective and integration.

The coordinators in each area will write overview papers that relate the studies in their section to the Commission's mandate. In this task, they will also work in association with the coordinators supervising research on related topics in the Politics and Political Institutions and in the Legal and Constitutional Research Areas.

Macroeconomics

Research Coordinator: John Sargent, Royal Commission on the Economic Union and Development Prospects for Canada
Associate Coordinator: Pierre Fortin, Université Laval

One of the direct concerns of the Commission is the behaviour of macroeconomic phenomena in the Canadian economy. These generally include developments in income, productivity, private and public expenditures, inflation, unemployment, exchange rates, and the balance of payments, among others. Government policies respond to and influence such macroeconomic developments.

Studies in this Macroeconomics research section are organized into three groups. The first reviews the macroeconomic performance of the Canadian economy and the conduct of macroeconomic policy over the postwar period; the second explores a number of factors expected to influence the future development of the economy; and the third examines particular institutional features of the economy that may offer potential for adjustments that could lead to improvements in the economy's performance.

The review of the evolution of macroeconomic performance and policies since 1945 places particular emphasis on the period since the mid-1960s. Some attention is given to the international economic environment in order to place Canadian trends in a comparative international context. In addition to emphasis on past short- to medium-term macroeconomic developments, major structural changes are covered, including the upward trends in unemployment and inflation since the late 1960s, the decline in productivity growth since 1973, and the unprecedented severity of the recent recession. Also being studied are the growth in the relative size of government, the change in the importance of automatic stabilizers, the changing sources of labour force growth, the evolution of the savings rate, and the increase in the openness of the economy to international trade and capital movements.

As well as describing macroeconomic developments, the research outlines the changing perception of performance expected from the economy, as reflected in contemporary medium- and long-term projections and statements about the performance goals achievable through macroeconomic policy. The individual research surveys and studies in this area will no doubt express views on the "big issues" of policy: the weight to be attached to the inflation goal, and the appropriateness of pursuing macroeconomic goals through active manipulation of policies versus a 'rules-based' approach.

Research studies undertaken in this area include:

- Developments in the international monetary system
- International capital mobility: The implications for the economy and for policy
- Retrospective on Canadian postwar growth in an international comparative context
- Price behaviour in Canada
- Wage inflation in Canada
- Retrospective on financing economic growth: Developments in forms of financial wealth-holding and in business financing
- Adjustment to inflation: Extent, adequacy, and implications
- Monetary control in Canada
- Theory and practice of monetary policy in Canada since the Second World War
- Theory and practice of fiscal policy in Canada since the Second World War

A key concern of the studies on the macroeconomic prospects of the economy is to provide some idea of the limits to our ability to foretell the future. Revisiting the Gordon Commission and early Economic Council of Canada projections provides one means, though a somewhat informal one, of illustrating the potential margins of error likely to attach to any projection.

We are not attempting to build a long-term econometric model or otherwise develop a single "official" growth projection as part of the research program. But we are analysing the factors likely to be important in determining overall growth and prospects for regions and industrial sectors – factors such as demographics, productivity, savings and investment, the world environment, and domestic "adaptability." We are using long-term projections already available from other research bodies – the Economic Council of Canada, the University of Toronto Institute for Policy Analysis, Data Resources of Canada, and Informetrica – to give a rough "quantitative illustration" of some possible scenarios for the future development of the economy.

For example, the most recent "base case" projections by these groups tend to show only a rather slow decline in unemployment through the 1980s and usually little, if any, further progress in reducing the rate of inflation. By the 1990s, some of the projections show a return of the unemployment rate to the 6-8 per cent range. The rather prolonged period of high unemployment may well be one of the more important characteristics of the economic environment facing the Commission as it considers various institutional issues.

Studies also consider the ways in which various types of government policy may affect growth prospects. In particular, we are attempting a rough quantification of the impact of higher investment and savings on growth.

Research studies in this group are:

- Review of currently available long-term economic projections of the Canadian economy
- Review of available general analyses of world growth and development prospects

- Productivity performance and prospects
- Savings and capital formation
- Economic growth and policy
- The size of government and economic growth (jointly with the Politics and Political Institutions Area)

The third group of studies in this section, on the institutional issues, considers the implications of our review of past experience with macro-economic policies. In particular, they explore two broad questions: Has the Canadian economy developed especially strong tendencies for persistent inflation as a result of inflationary supply shocks and stubborn resistance to a reduction in cost and price increases in the face of economic slack? And are there possible institutional changes that appear to offer promise of improving these "adverse" characteristics, while remaining consistent with our political system, the general characteristics of our economic system, and in particular the decentralized nature of labour and business power?

The areas for possible institutional change include temporary and permanent incomes policies, such as tax-based incomes policies; changes to the length and dispersion in starting dates of unionized wage contracts; and other possible institutional changes in the wage and/or price determination area. The general issue of relations among labour, business, and government, including experience with various types of consultative mechanisms, is one of the topics also examined in the Labour Markets and Labour Relations section of the Economics Research Area and in the other two areas.

A further particular set of issues considered in this section is the formulation and implementation of stabilization policy in a federal and regionally diverse state. Here we are attempting to assess whether, and if so to what extent, the existing allocation of responsibilities by level of government inhibits effective stabilization policy from a national point of view. Several questions are being examined: Is lack of formal procedures for harmonization of policy a significant problem? Is there a mismatch between responsibility for expenditure and for tax areas that are of particular importance as instruments of stabilization policy? And how adequate is the overall fiscal capacity to make use of these instruments? Four studies look at these topics:

- Anti-inflation policies: Options and their consequences
- Incentive-based incomes policies: Survey and assessment
- Public sector wage policy (jointly with the Labour Markets and Labour Relations Section)
- Regional stabilization in Canada

Federalism and the Economic Union

Research Coordinator: Kenneth Norrie, University of Alberta

The central question underlying research in this section is how to capture, and fairly distribute, the gains from the economic integration of the provinces in

Canada and still accommodate regional diversity and the associated decentralized political authority. The research studies naturally divide into three main groups: the functioning of the Canadian economic union; the nature and extent of regionalism; and the design and operation of federal institutions and policies.

In the first group, we consider the functioning of the Canadian economy from the perspective of its parts; that is, from a view of the economy as a set of distinct regional economies. Our research focuses on how each of the constituent regional parts fares in real income terms and on the nature and degree of the links among the regions. Important questions are whether the benefits from trade and factor flows are larger in the economic union than they would be if each region were to operate independently, and whether there are further gains from less readily quantifiable aspects such as information flows or the insurance provided by interregional transfer programs. If the answer to these questions is yes, we will want to know how the size of this gain is affected by obstacles to full economic integration that federal and provincial government policies can create, how any gain that does exist is shared among regions, and how this distribution is affected by various federal and provincial government policies.

In this initial step in our research it is useful to assume that population is grouped territorially only because economic activity is. The objective here is to learn as much as possible about the functioning of the Canadian economic union. At issue is the size and distribution of the gain, if any, from the integration of the several distinct regional economies. Alternatively, what would the loss amount to, and how would it be borne, if this integration were compromised in any way? Five studies are attempting to answer these questions:

- A quantitative analysis of the Canadian economic union
- A general perspective on the nature of regional economic integration
- Barriers to interprovincial trade: The case of agricultural products
- An analysis of the efficiency of the interregional adjustment process
- Regional economic disparities: Why we have them and what we might do about them

The second group of studies looks at regionalism from the perspective of theories of federalism. It asks why attitudes, beliefs, and tastes for government services might vary by region. For what types of issues are regional taste differences likely to occur? What are the ranges of these taste differences, and how do they relate to existing political boundaries?

Regional tastes for government policies may vary for two basic reasons. Individuals may be grouped along linguistic or cultural lines – for historical or other reasons – or economic structures may vary across regions. Either of these distinctions means different types of government policies will typically be sought. The object of this group of studies is to understand the nature of regional preferences, since the assumption they exist is one of the classic reasons for decentralizing political authority. Two studies are underway:

- The popular basis of policy in the federation (jointly with the Politics and Political Institutions Area)
- An economic perspective on regional preferences

The final group of studies analyses the existing institutions and policies of our federal structure of government and looks at some possible reforms. There are two analytically distinct steps in the approach to this group: the first is to determine the appropriate division of powers and responsibilities among the various levels of government; the second is to design a system of intergovernmental institutions and fiscal transfers, given this distinct division.

A number of points should be stressed here. One is that we do not presume that the division of powers and responsibilities that would maximize economic output per person is also necessarily the one that would create the most benefit to society. Nor are all variations in regional standards or policies inefficient, even from the standpoint of the gains to an economic union. Finally, there is also no presumption that gains from economic integration are necessarily associated with strong central government, or alternatively that linguistic or cultural groups are best served by the decentralization of power. Institutional choices, in other words, range from a highly centralized federation along a continuum to a highly decentralized one, with a variety of specific policy measures possible at each point along the spectrum.

A first group of studies is intended to evaluate the existing institutions and policies, and to attempt to predict any problems that might emerge if no major constitutional or institutional revisions were made.

- The political economy of Canadian federalism, 1940-84 (jointly with the Politics and Political Institutions Area)
- An evaluation of federal government regional economic development strategies and policies
- Regional economic alienation: The case of Quebec
- Regional economic alienation: The West and the Maritimes
- An evaluation of intergovernmental fiscal arrangements
- Municipalities and Canadian federalism

The final three studies represent attempts to explore possible new constitutional and other arrangements for economic policy formulation.

- Economic policy formulation in a federal state: Must interprovincial rivalry always be nationally inefficient?
- An economic perspective on the division of powers and authority in a federal state such as Canada
- Centralization versus decentralization: A study of economic management in Canada

Industrial Structure

Research Coordinator: Donald G. McFetridge, Carleton University

The research on industrial structure is directed towards the adaptability of the Canadian industrial system to economic change. Specifically, we are examining the facility with which both the industrial sector as a whole and various

components of it have been able to respond to changes in technology and international competition. We are also considering both the extent and nature of the adjustments that might be required in the future and the role of government in the adjustment process.

The purpose of the research is to deal with the apparently widespread public perception that the Canadian industrial system is threatened in an unprecedented manner by major changes in technology – by, for example, the microchip; the emergence of new international competitors, largely in the Far East; and the decline in natural and artificial barriers to trade. There are a number of ways of evaluating the argument that our industrial system, and hence our future standard of living, is threatened. Our research approach is to examine and assess the adjustment record, to investigate the possibility of “structural flaws” inhibiting adjustment within industry, and to evaluate the extent to which industrial policy has facilitated or hindered adjustment.

Our study begins by reviewing the evolution of the industrial system itself and attempting to infer whether observed changes in it are consistent with a successful response to past changes in the economic and technological environment. Evidence of successful responses would imply that unless the speed or magnitude of changes confronting us in the future is dramatically different than in the past, there is no need to be apprehensive about future changes.

The problem with this approach is that there is no obvious standard of successful adjustment. We do not know the rate at which resources “should” flow from declining to growing sectors. We do not know the categories of goods or services in which Canada “should” have an increasing share of world trade. What we do know is that in many sectors our rate of productivity growth has been well below that of other countries.

We then go on to examine the structure of various Canadian industries for “structural flaws” that would impede adjustment to changes in the economic environment. The usual argument here is that in many industries Canadian firms will be incapable of adjusting to significant environmental changes because they are too small, too poorly financed, have too wide a variety of products, and are “truncated” in the sense that they have no capacity to carry out product development functions or are restricted in the markets in which they can participate. The research approach here is to document structural flaws and, on occasion, to attempt to demonstrate their relationship with some observed adjustment or performance “failure.”

Our third and complementary approach is then to examine the broader institutional environment, including the public policy environment. Observed or potential failures of industry to adjust may be due, for example, to labour market institutions or to macroeconomic or microeconomic mismanagement.

Microeconomic mismanagement – or the mismanagement of industrial policy – may take the form of excessive regulation, which may inhibit adjustment, or the allocation of excessive resources either to crown corporations or to government departments. As a consequence of their incentive systems, these institutions may be less capable both of choosing “good” investments and of extricating themselves from “bad” investments. Industrial policy mismanagement may also retard the growth of “opportunity”

sectors either because of insufficient support of activities essential to their growth – such as training, education, and R&D – or because the support of declining firms or sectors increases the price of the resources required by expanding sectors.

Following this comprehensive approach, the projects in this Industrial Structure section are organized into two broad groups, one examining industrial structure, the other considering public policy in relation to the structure of Canadian industry. Seven studies on industrial structure in Canada are underway:

- Factors associated with productivity differences between individual U.S. and Canadian manufacturing industries
- Productivity issues in Canada
- The changing sectoral composition of output and employment since 1960
- The evolution of market concentration and economic regulation
- The impact of technological change, international factors, and Canadian public policy on the evolution of the aluminum and steel industries
- Factors associated with, and benefits derived from, successful industrial rationalization
- The evolution of market boundaries of major Canadian firms

The following group of studies concentrates on public policy and industrial structure and includes:

- Industrial decline and industrial renewal: A summary of the literature on the alleged “deindustrialization” of the United States and its implications for Canada
- Industrial policies in other OECD countries
- Canadian industrial strategy: A review of the forces that have shaped it and their consequences
- The political economy of industrial adjustment
- CAMCO (Canadian Appliance Manufacturing Company): A case study in industrial rationalization
- Vertical restrictions: Territorial restrictions, tying, forcing, and resale price maintenance
- The consequences and determinants of R&D and their implications for public policy
- The performance of commercial crown corporations
- Issues in financial regulation
- Regulation, over-regulation, and economic efficiency

International Trade

Research Coordinator: John Whalley, University of Western Ontario

The research in this International Trade section is centred around a number of themes. We consider our trade links with the United States, Canada's role in the changing world trade environment, whether Canada should continue to pursue

multilateral trade negotiations, and our policy on trade with and aid to Third World countries. We also reflect on the question of foreign ownership of Canadian industry and some of the regional implications of foreign trade.

Rapid changes in the global economy are affecting Canadian trade. For example, high rates of growth in some countries of the Pacific Rim have led to unease over competition from cheap imports and threats to job security. One possible approach is to try to insulate ourselves from these developments. The alternative is to adapt and try to turn these developments to our own advantage. With respect to the latter, should we attempt to follow an active industrial policy of selecting particular industries to be protected and subsidized in their growth years or should we allow market forces to determine emerging areas of Canadian comparative advantage? Should we facilitate adjustment of labour and other resources out of declining industries into "sunrise" industries? What policies best achieve this? Studies to answer these questions include:

- Canadian trade policy in a changing world economy
- Canadian comparative advantage and industrial strategy
- Export financing programs
- Domestic adjustment to external shocks and trade policy changes

Another important question of Canadian trade policy is whether or not it makes sense to rely heavily on a multilateral approach to trade policy through the General Agreement on Tariffs and Trade (GATT), when 70 per cent of our trade is with the United States. Should we more actively seek out a special bilateral trading arrangement with our largest trading partner? Or should we work to strengthen the role of GATT? Freer trade with the United States would increase our access to a large and important market, but bilateral initiatives on our part may undermine the GATT and harm our interests. A stronger GATT would maintain and increase our access to many foreign markets. We need, therefore, to explore whether the loss from decreased access to world markets would offset gains from increased access to the U.S. market.

Many small countries have already joined some regional trade grouping despite the GATT, and studies have indicated that Canada would reap large gains from free trade with the United States. But are the gains as large as these studies have found? How would non-tariff measures be controlled in such a relationship? How would one evaluate any possible impairment of national sovereignty that might accompany freer trade with the United States? A related issue concerns the effect on exchange rates of such changes in trade policies. For example, what would be the impact of a U.S.-Canadian free trade arrangement on capital flows and on foreign firms, particularly those that have been induced to enter Canada to establish production behind tariff barriers?

Alternatively, we must assess the prospects for further trade liberalization under the GATT. It is well-known that key protective trade policies no longer rely exclusively on tariffs; they also depend upon non-tariff measures such as quotas, government regulations, voluntary export restraints, and the like. What are the reasons for the proliferation of these barriers? Do we use these measures as extensively as other countries? Is there any link between their increased use and the restrictions on tariffs that have resulted from negotiated

agreements under the GATT; and if so what does this imply for our future approach to the GATT?

Several papers on these topics are being prepared:

- A summary of the proceedings of a research symposium on a possible Canada-U.S. free trade arrangement
- A summary of some recent work on Canadian trade policy
- The GATT and Canadian interests
- Non-tariff barriers in Canadian trade policy
- Issues in trade in services
- Exchange rates, financial markets, and trade liberalization
- Canadian gains from trade in the presence of scale economies and imperfect competition

As part of our examination of trade policy, we must discover the areas in which Canadian interests coincide with those of developing countries in the Third World. Where are the major areas of conflicting interests and needs? Canadian aid performance and our trade policies towards the Third World continue to be scrutinized critically. Can Canadian interests in these matters be subdivided into specific regional or other domestic group interests and, if so, what are the implications for Canadian policy? The paper on this topic is titled

- Canadian international economic policy and the developing countries.

The large degree of foreign ownership in our manufacturing and resource industries lends importance to an examination of government policies towards the inflow of direct investment and foreign-owned multinationals. Given concerns about such investment, what are the objectives of government and how effective are existing policies? Can more effective policies be designed? One study examines this set of questions:

- Government control of foreign business investment

Finally, we weigh the implications of our federal system for trade policy. Regional interests in trade policies conflict and interact in confusing and poorly understood ways. It is often asserted that Ontario and Quebec have gained from the existence of the federal tariff policy at the expense of the Western and Maritime provinces, which have to pay more for Central Canadian manufactured goods sold behind the tariff wall. How accurate is this view? Quebec supposedly gains from textile quotas, Ontario from the Auto Pact, and Western Canada from agricultural protection. With so many policies affecting so many regions in such diverse ways is a national consensus on trade policy possible? One study is analysing these issues.

- Regional interests and national policies towards foreign trade

Income Distribution and Economic Security

Research Coordinator: François Vaillancourt, Université de Montréal

Our research program in this section is organized around the topics in the title. The research on income distribution includes an examination of the income of Canadians in general and of the situation of selected groups in particular. That on economic security reviews the effect of transfer schemes, such as unemployment insurance, welfare payments, and in-kind transfers.

The research on income distribution will provide an overview of average real and nominal income in Canada during the 1951-81 period, disaggregated by region, age group, and sex. The results will be compared with those of other developed countries. An assessment will also be made of the distribution of family and individual income in Canada during this period and of whether it is more or less unequal than in other industrialized countries.

Other issues that we are examining are how the growth of the underground economy affects the distribution of income; whether changes in the distribution of real income have resulted from in-kind transfers, such as medicare; if demographic changes have affected the distribution of income; how government policies, such as transfer payments, have affected the distribution of income in Canada; and, finally, the issue of disparities in earnings between men and women. Four studies on these subjects are in progress:

- The recent evolution of the distribution of income in Canada
- The incidence of taxes in Canada and how they affect the distribution of income
- The importance of the underground economy in Canada
- The labour market behaviour and conditions of women in Canada (jointly with the Labour Markets and Labour Relations Section)

Under the second topic, the effect of programs such as unemployment insurance and welfare measures on decisions affecting the supply of labour and the mobility of workers is under study. Taking into account the behaviour of the labour force, possible reform to income transfer mechanisms in Canada is being examined. In addition, the existing pension system is being reviewed and proposed reforms evaluated. Six studies are currently underway:

- The welfare system in Canada: A general overview of its importance and effects
- Unemployment insurance and labour market adjustment (jointly with the Labour Markets and Labour Relations Section)
- The pension system in Canada: Its effects on incomes and some proposals for its reform
- The health system in Canada: Its redistributive effects and the evolution of its costs
- Income security in Canada: Some alternative mechanisms
- Economic policy and uncertainty: An application to labour markets

Labour Markets and Labour Relations

Research Coordinator: Craig Riddell, University of British Columbia

The studies on labour issues are organized into two main groups: one that focuses on labour markets and their ability to adjust to change; the other that centres on labour-management relations. The macroeconomic consequences of wage determination and labour relations are treated in the Macroeconomics Section of the Economics Research Area.

The central issue explored first is the ability of labour markets to adjust in future to changes in technology, demography, and the international economy. As well, labour markets will need to adjust to shifts in industrial structure and in the regional location of economic activity. Labour market adjustment is desired not for its own sake but because it leads to growth in employment opportunities and higher living standards for working Canadians.

Here we explore the substantial changes that have occurred in the Canadian labour market since 1945. For example, average unemployment rates have increased and the composition of unemployment has changed. The age, sex, and educational composition of the labour force have altered as have the occupational, regional, and industrial distribution of employment. Women and multi-earner families are more important today than ever before, and part-time work and other forms of flexible work arrangements are becoming more significant. The structure of wages, benefits, and labour costs is dramatically changed.

Our research focuses on several key issues. One is the high level of unemployment, both current and projected. Are there ways of improving future prospects without causing a resurgence in inflation or other undesirable effects? Another is the effect of technological change on prospects for employment and income growth. The issues of training and skill development are important here. What demands will be placed on educational institutions and will these institutions respond to these demands? How should training be financed? Further issues are the regional distribution of unemployment and the efficiency of regional labour market adjustment. A final key question is the appropriate role of adjustments in working time, such as reductions in hours, work sharing, job sharing, or other forms of flexible work arrangements.

Our research also examines the role of government in the labour market. What should the role of government be, and how does the actual role of government compare with this proper role? What federal-provincial arrangements would facilitate labour market adjustment? What are the effects of policies designed to provide economic security and minimum levels of living standards on labour market performance? And how do regulations affecting the terms of employment — for example, severance pay — affect market performance?

One of the salient trends in the postwar period has been the increased role of women in the labour force. The causes and consequences of this trend are being examined, as are issues relating to equality of opportunity and pay.

The research studies underway currently are:

-
- Unemployment and the Canadian labour market
 - Training and skill development
 - Education and technical change
 - Flexible work arrangements: Work sharing, job sharing, and related schemes
 - Public sector wage policy (jointly with the Macroeconomics Section)
 - Unemployment insurance and labour market adjustment (jointly with the Income Distribution and Economic Security Section)
 - An analysis of the efficiency of the interregional adjustment process (jointly with the Federalism and Economic Union Section)
 - The labour market behaviour and conditions of women in Canada (jointly with the Income Distribution and Economic Security Section)
 - Regulation of the terms of employment: The case of industrial change
 - Studies of the structure of the employment and unemployment experience of individuals

Turning to the subject of labour management relations, the research focuses primarily on relations at the microeconomic level, considering collective bargaining between firms and unions and personnel relations in non-union organizations. The issues associated with the more general, overall relations between business, labour, and government are examined mainly in the Politics and Political Institutions Research Area.

The period after the Second World War has seen significant growth in the importance of collective bargaining in Canada. Our research considers the factors that account for this growth and assesses future prospects. The nature of public policy towards collective bargaining is important to these prospects. Do we want to move towards a society in which significantly more or significantly less of the labour force is unionized? Or is the current Canadian situation "just right"?

There is a widespread belief that Canadian labour-management relations are unnecessarily discordant and that institutional reform to encourage more cooperation is needed. To a considerable extent this belief appears to be based on the fact that our strike and lockout record has worsened relative to that in earlier periods and to that in other countries. Our research is attempting to determine the reasons for this performance and to suggest what can or should be done to improve the Canadian situation.

While part of the objective of research is to assess the view that there is a need for reform, another part involves the examination of proposed changes. Two frequently suggested directions of reform involve compensation arrangements – for example, more emphasis on merit pay, profit sharing, and bonus systems – and mechanisms for increased communication or cooperation between employers and employees – for example, more extensive use of labour-management committees. Combinations of the two are, of course, possible. The purpose here is to assess the claim that these changes would improve labour-management relations, increase productivity, or facilitate the control of inflation.

Another set of reform proposals involves changes to the structure of collective bargaining. The research is reviewing the evolution of collective

bargaining structures in the postwar period and assessing the probable economic effects of a less decentralized structure.

The rapid growth of collective bargaining in the public and quasi-public – including education and health care – sectors since the mid-1960s has been an important development. The economic consequences of this growth and the issue of how to determine public sector wages are being investigated.

Provision for a third-party intervention in collective bargaining has long been a feature of Canadian law with respect to industrial relations, and most jurisdictions now have reasonably elaborate procedures for conciliation, mediation, and arbitration. Is this intervention worth while? Does it really reduce the incidence of disputes? Should we rely more on arbitration than we do? Our research seeks answers to these and other questions.

The overall relations between labour, business, and government are another subject that provides scope for analysis. Although this topic is examined more fully in the Politics and Political Institutions Research Area, here we look at what forms of consultative processes have been used in Canada and how successful they have been. In addition, some attention is given to assessing the costs and benefits of having labour and management representatives more involved in the formation of economic policy.

The research studies now under way on labour-management relations are:

- Union growth and development in Canada: Retrospect and prospect
- Labour-government consultation on economic policy in Canada
- Collective-bargaining disputes: Strikes and lockouts in Canada
- The structure of collective bargaining in Canada
- Public sector wage policy (jointly with the Macroeconomics Section)
- A research symposium on labour-management cooperation in Canada

Social and Economic Ideas and Issues

Research Coordinator: David Laidler, University of Western Ontario

This research section has a broader scope than the others and serves somewhat different purposes. Its major role is to ensure that we do not lose sight of the broad ideas and issues that are simultaneously important to many aspects of the Commission's work given the many detailed studies underway. Moreover, important ideas and issues that arise from the Commission's hearings and consultations or from research in other areas are to be addressed under this research program when they do not fall naturally into the other areas, as are questions that seem to span several areas of specialization. Finally, and closely related to its major purpose, this section has a special responsibility, from an economics perspective, to contribute to the overall task of linking the results of studies in the three major research areas.

The very nature of this section has dictated a rather slow start to the endeavours of those involved in it. It seemed wise to allow other research to get going, and the Commission to undertake its first extensive set of hearings, before settling on more than one or two topics for investigation here. However,

work is now underway on a number of issues of general, but vital, importance to the design and understanding of economic policy.

The mandate of the Commission takes it for granted that government has an important role to play in determining the future course of Canadian economic life. Nevertheless, the size and growth of government in the western world are factors that economic analysis can help to explain and assess, rather than simply accept. A study is devoted to this subject.

A closely related feature is that much, but by no means all, growth in the public sector has been associated with the expansion of the "welfare state." In fact, the state has taken over many activities, such as the provision of health care and pensions, either totally or partially from the private sector. The welfare state has grown piecemeal, and the current balance between public and private activities in some areas may not necessarily be the best to meet criteria of economic efficiency and equity. The issues involved here will form the basis of one of our research papers.

An awkward interface between public policy and private economic activity lies at the very heart of debates about environmental issues. Here economic theory has much of general interest to say about why and when market mechanisms break down in dealing with such problems and the case for state intervention arises. An essay on this topic is now being prepared.

It is well known that Malthus raised fears about the effects of a finite supply of land on the ability of economies to generate sustained growth. Though Malthus' specific concerns about land were long ago seen to be misplaced, the general thrust of his thought has made a lasting impact upon the way in which we think about economic growth. The fears of the Club of Rome about the finiteness of energy supplies and Lester Thurow's notion of the "zero-sum society" are only two of the more recent manifestations of this influence. Such notions have played an important role, usually implicit, in Canadian policy discussions, not least about the role of natural resources in our development. They will receive explicit discussion in one of our research studies.

All the above topics have to do in one way or another with the way in which government and the private sector can work together to provide for the growing welfare of Canadians. Yet it is well known that measuring such well-being is far from straightforward. For example, national income statistics have their uses, but they do not measure such factors as a pollution-free environment or economic security, which many think contribute to what is generally called "the quality of life." Nor do national income statistics provide any clue to the extent to which the equitable distribution of benefits contributes to social welfare. What economic theory has to say about these matters will form the subject of one of our studies.

Given that economic theory generally leaves an important role for government policy in economic life, there remains the question of what rules of conduct should guide policy makers. Should they be free to tackle problems piecemeal as they arise? Should they be subject to rules that will make their conduct more predictable to private agents? Or indeed is it possible to lay down lasting rules to guide policy in an environment where problems are constantly changing and knowledge is growing? Such questions naturally fall into this section and a study of them is underway.

The following research papers, together with an overview essay, are intended to form a coherent group of studies of the theory of economic policy in a mixed economy.

- The size and causes of the growth of government
- The welfare state in Canada: Questions for the future
- Economic theory and the environment
- Malthusian ideas and economic development in historical perspective
- The measurement of economic welfare
- Rules versus discretion in the conduct of economic policy
- The theory and history of Canadian immigration policy
- The role of government in promoting a national cultural identity through, for example, its policy towards the arts.

Political Institutions

III. Politics and Political Institutions Research Area

Research Director: Alan Cairns, University of British Columbia

Political institutions tell us a great deal about the principles and aspirations of a country. They embody some of the highest ideals of a political community. The institutions of our political system express such basic values as citizen control of government, majority rule tempered by respect for minorities, the rule of law, and federalism's sensitivity for provincial diversities. And one of Canada's newest political institutions, the Charter of Rights and Freedoms, reflects our respect for civil and human rights.

But political institutions do more than reflect ideals; they provide a framework within which political decisions are made and a process through which political differences are resolved. In addition, political institutions often influence the substance of policies. For example, in Canada the federal system, with its division of powers between the federal and provincial governments, explains many of the unique features of the Canadian welfare state. Political institutions may also impede the realization of policy objectives. For example, attempts to achieve a fully integrated Canadian economic union have been frustrated by the division of powers because this goal conflicts with some of the economic pursuits of provincial governments.

Canada has always had an active state. Historians tell us that even while the rest of the industrialized world experienced a "golden age of liberalism," Canada's governments were actively involved in guiding, directing, and structuring the Canadian economy. Today, facing the impact of new restraints, new technology, and a more matured domestic and international political economy, this Commission has the heavy charge of taking a close look at whether and how our political institutions should be rearranged or modified to provide us with an institutional framework appropriate for our second century.

To study political institutions we need to consider not just the forms and structures, but also the values they represent; to know the people who put the institutions to work and how they achieve various goals; to consider the goals of the community and the role of government in achieving these goals; and to understand the relationship of governments to other actors both in Canada and in other countries. We must also examine the interconnections between the economy, society, and the political system. The study of political institutions thus becomes a study of the appropriate goals and means for achieving a better and more secure community.

Our research has been organized into seven major sections: Canada in the international economy, the Canadian federal system, our parliamentary democracy, the relations between government and the major organized economic interests of business and labour, the relations between government and the broader and constantly changing Canadian society, and the world of executive-Cabinet-bureaucratic structures. The seventh section explores

government efforts to design and implement industrial policies and highlights the complexities and difficulties that confront policy makers in an area of significant contemporary concern. The research coordinator in each section is responsible for preparing an overview paper to integrate and synthesize the research studies that have been commissioned.

Our seven research sections share the common focus of examining the reciprocal linkages between the Canadian federal state and the society and economy of Canada in an increasingly interdependent world society and economy. They all explore our historical experience and look ahead in an effort to enhance our collective capacity to respond to the demands of the future.

Many of the issues addressed in this Politics and Political Institutions Research Area are also examined in the other two research areas. For example, complementary studies are underway on the international environment and on federalism and the economic union in both the Economics and the Legal and Constitutional Research Areas.

Shared with the Economics Area is a focus on industrial strategy, on labour-business-government relations, and on the mechanisms and politics of economic policy making. Similarly, the strengths, weaknesses, and possible reform of national institutions are also being studied in the Legal and Constitutional Area. The reader will notice that other research interests are also shared with the other areas.

Canada and the International Political Economy

Research Coordinators: Denis Stairs and Gilbert R. Winham,
Dalhousie University

Canada's integration into a world economy characterized by interdependence is one of the factors that must be taken into account in any effort to assess and make recommendations about "Canada's economic potential over the long-term." The range and diversity of the issues involved in modern international politics have increased to such an extent that almost no agency of government is free of external influences, and those who are formally responsible for the conduct of foreign affairs are now compelled to coordinate their activities with a host of other government departments. They are required as well to take into account domestic political forces that in turn are profoundly affected by foreign linkages in the private sector. In addition, government action to improve the well-being of Canadians, as opposed to relying on independent initiatives in the private sector, must be balanced against the efforts of other governments to do the same for their own citizens.

Research in this section is intended to shed light on precisely these international dimensions of the Commission's mandate from a political, institutional, and administrative as well as economic perspective. This survey of Canada's foreign economic policy is conducted in the context of the objectives of government policy. In the broadest terms these include goals such as economic growth, full employment, and minimal inflation, as well as other concerns such as the diversification of trade patterns and a lessening of dependency on primary exports. Careful consideration is given to the scope and limitations, both internal and external, of government action to achieve its objectives in the domain of foreign economic policy. Our studies are divided among four groups.

The first group undertakes a general survey of Canada's role as an actor in the international economy, with special reference to both the internal and external factors that affect the making of government policy. Studies on this topic include:

- An analysis of Canada and the international political economy
- Global constraints on the making of international economic policy for Canada
- Internal constraints on the making of international economic policy for Canada.

In the second group, studies are directed towards Canada's relationship with the United States, which is by every measure the most important foreign actor in the determination of our economic welfare. The politics of the U.S.-Canadian relationship on both sides of the border is especially important to Canadian policy makers, and close attention is therefore being paid not only to the analysis of Canadian reactions to such matters as the prominence of the

United States as a trading partner and source of foreign investment, but also to the probable response in Congress and elsewhere to potential Canadian initiatives. Some of the policy-oriented material is being placed in a historical as well as contemporary and future context. Four studies on this topic are in progress:

- Economic nationalism in Canada: The arguments, evidence, and implications
- U.S. receptivity to bilateralism in Canadian-American economic relations
- Canada, the U.S. Congress, and commercial policy
- Reciprocity debates: Lessons from the past

The third group of studies concentrates on the institutions and politics of the policy-making process in the Canadian foreign economic policy community. The analysis is being conducted against a backdrop of comparisons with corresponding arrangements in other countries. Two studies focus on this topic:

- The Canadian foreign service and the organization of the Canadian foreign policy community
- Bureaucratic politics and economic foreign policy in Canada

A final study addresses the fact that the federal government now spends over \$8 billion a year – or some 40 per cent of its discretionary funds – on the armed forces. Since these expenditures are the direct result of political conditions in the international community and are used as instruments of economic management as well as of diplomacy, attention is given to the problem of military procurement and to the opportunities and constraints that it may pose for future government policy. The paper underway is entitled:

- Potential security threats to Canada and the economic implications of defence procurement

The Politics of Canadian Federalism

Research Coordinator: Richard Simeon, Queen's University

Federalism is a central characteristic of the Canadian political economy. The Commission itself was born after a long period of conflict and division in the federal system and in a time of doubt about the effectiveness of the institutions both of the central government and of intergovernmental relations. The studies in this section address how political and economic goals for our federal union should be set and how the ability of governing institutions to meet those goals can be improved.

As in other parts of the research program, this section has past, present, and future dimensions. For the past, we want to understand the forces that have shaped our federal system – forces as diverse as the international economic setting in which Canada is found, the loyalties and identities of citizens, the

goals and aspirations of leaders, the changing regional patterns of economic development, and the constraints of constitutional and legal forms. For the present, we assess the current challenges to the institutions and processes of federalism, especially in light of changing political and policy agendas. For the future, we try to imagine the challenges to come and how institutions might be better designed to meet them. The new amendment procedures and the Charter of Rights and Freedoms in the Constitution Act of 1982, for example, will have important implications for the future development of the system.

Collectively, the studies in this research section address three overlapping sets of questions about Canadian federalism from interrelated perspectives; functional, conflict management, and democratic. Our first set of questions is: how effective is federalism as a system of policy making in meeting the concerns of Canadians? Here we explore how major responsibilities are divided among governments and how federal and provincial policies relate to each other. To what extent are they conflicting or overlapping, contradictory or complementary, divisive or cooperative? Has the existing sharing of responsibilities inhibited our ability to adapt to new needs and would clarification of or change in the division of powers improve flexibility in some areas? We also explore the mechanisms, both federal-provincial and interprovincial, to harmonize the activities of governments and balance regional and national interests. How can governments, naturally pursuing the interests of their own electorates, ensure that in so doing they do not erect dangerous barriers to the economic union or frustrate interests who see their goals in other than regional terms?

Our second set of questions asks how effective are the institutions of federalism in promoting what we might call the political union – with managing Canadian diversity, building a Canadian identity that balances provincial and national loyalties, and resolving the conflicts inevitable in a regionally and linguistically divided society? Conflict over the Constitution and other issues has led many Canadians to believe that federal-provincial conferences have become arenas more for confrontation than for reconciliation. Can the incentives be changed? What are the competing models of the Canadian political community, and can they be integrated?

Our third set of questions is: how effective are the institutions of federalism in meeting the expectations of citizens for responsive, representative, accountable governments. Federalism serves democracy by providing governments close to the people and opening up alternative channels of access. But at the same time tensions arise from the secrecy and inaccessibility of intergovernmental negotiations, from the inability of citizens to hold governments accountable when finances and responsibilities are shared, and from the difficulty of reconciling majority rule with the requirement of respecting minorities. How do we balance the respect for diversity in federalism with the desire for national standards, harmonized policies, rights held by virtue of citizenship in the Canadian community, enhancement of the economic union, and interregional sharing? Can modifications in the processes of inter-governmental relations or in central institutions overcome such problems?

These three perspectives on federalism – that is, its functional, conflict management, and democratic features – offer criteria against which we can

judge the effectiveness of the present federal system. Much recent commentary has found the institutions of federalism wanting from each of these vantage points. The research assesses whether and why these criticisms are valid and helps us to evaluate proposals for change, whether they are in formal amendments to the Constitution or in more informal relationships among governments.

In seeking answers to the questions posed above, we examine three dimensions of the interrelations of Canadians and their governments under the federal system. First, we examine the division of powers – that is, the way responsibilities, fiscal resources, and policy instruments are shared among governments. One study examines this topic:

- The division of powers and Canadian federalism

Second, we explore the mechanisms and processes of intergovernmental relations, ranging from first ministers conferences to the day-to-day coordination among civil servants at all levels. Five studies concentrate on this theme:

- The machinery, process, and politics of intergovernmental relations
- Interprovincial relations
- Bilateral relations
- Federalism and crown corporations (jointly with the Legal and Constitutional Research Area)
- Federal-provincial relations and public policy making in Canada: A review of case studies

Third, we look at the relationships between the politics of the intergovernmental network, and the interests, perceptions, and goals of citizens, organized groups, and political leaders. The studies that examine these relationships are:

- Political elite opinion and federalism
- Economic interest groups and federalism
- The popular basis of policy in the federation (jointly with the Economics Research Area and the section on Industrial Development Policy)

A final two studies explore the evolution of the federal system from a broader perspective. They examine the relations between Canada's federal institutions, society, and economy within the context of larger developments in the domestic and international setting. They will bring the lessons of the past to our proposals for the future. The first of these studies focuses on a history of the political economy of Canadian federalism in the postwar period and is undertaken jointly with the Economics Research Area. The second analyses Quebec's role in Confederation, building on past experience to consider alternative frameworks for French-English and Quebec-Canada relationships in the future.

- The political economy of Canadian federalism, 1939-84 (jointly with the Economics Research Area)
- Quebec in Confederation

In Canada, there is a federal-provincial dimension to almost every policy issue. That is equally true, therefore, of the research program: the work in the federalism section will draw from, and contribute directly to, the analyses found in the representative institutions, industrial policy, and other sections described elsewhere.

Representative Institutions

Research Coordinator: Peter Aucoin, Dalhousie University

The research program for this section concentrates on the capacities of national government institutions to provide the desired representation of all Canadians and regions. This focus includes a consideration of the structures and processes of parliamentary government – the House of Commons, Cabinet, and Senate, the federal electoral system, the organization and roles of political parties, and the federal public service. We are also examining the use of referenda in the Canadian political system.

The challenge to our national institutions to represent all Canadians and regions relates to fundamental principles of representative government as well as to very practical considerations of public confidence in our system of government. All Canadians and all regions must be effectively represented in our national institutions of government and must be seen to be represented. Our research program in this area is thus concerned with both the institutional arrangements of our national government and the actual operation of these institutions.

Practice, as well as principle, is addressed in the research projects. They examine and assess our institutional arrangements and practices over time, in some cases beginning at or even before the founding of Canada. Our examination of political parties, for example, begins with their initial development in the mid-nineteenth century. We consider it especially important that the historical evolution of national institutions and practices be well understood, so that we can locate contemporary concerns within the currents and forces that have shaped and continue to shape our systems of politics and government. At the same time, these studies assess the legitimacy and credibility of our institutional arrangements and practices both for individual Canadians and regional populations, and for their contribution to the promotion of consensus and cooperation.

These analyses are undertaken in order to assess the strengths and weaknesses of our institutional arrangements and practices. The ultimate task for our research section is to identify institutional changes that will build on the present strengths of our institutions of national government and will overcome present weaknesses. Proposals for change in all of these areas require careful consideration of possible negative consequences that might outweigh the benefits we are seeking.

Among the questions to be asked of our institutions, in no particular order of priority, are: Can and should our electoral system be changed to ensure better representation of all Canadians and regions in the composition of government and opposition parties in the House of Commons as well as the Cabinet? Can our tradition of responsible government be modified to allow greater opportunity for members of the House of Commons to fulfil their several legislative and representative functions? Should the ways the Senate is selected and functions be changed so that it can better represent the regions in Canada? Can and should the structures and processes of Parliament be changed to allow legislators increased opportunities to receive the views of interested individuals and groups and to engage in consultations and discussions with them? Should the use of referenda be encouraged in order to provide our representatives an additional mechanism to assess public views on matters of public policy? Can and should the ways in which we organize the federal public service and its procedures be changed to provide increased responsiveness to regional needs and opportunities?

These are but some of the major questions considered in our research projects. They cover changes that have been demanded by some and opposed by others. But since they raise other questions, our agenda is not limited to them. Nine studies are underway in this section:

- Electoral system reform
- The national party system
- The role of caucus and regional caucuses in Parliament
- The size of the House of Commons
- Regional representation in central institutions: Intrastate federalism in Canada
- Use of referenda
- Representation and the federal public service
- Regional responsiveness in the federal public service
- Some aspects of parliamentary reform

State and Society in the Modern Era

Research Coordinator: Keith Banting, University of British Columbia

The studies in this section seek to illuminate the unique mixture of public and private sector activity that supports economic enterprise in Canada. They focus on the relationships between the two sectors in the contemporary era of activist government.

The studies ally a careful analysis of Canadian experience with a comparative perspective. Comparative analysis is helpful in identifying the general forces shaping the activities of governments in western nations, as well as highlighting those aspects of Canadian experience that flow primarily from particular features of our economy and political system. Moreover, the comparative focus enriches the Canadian debate about the prospects for reform. Examining what other countries do can suggest alternative ways of

conducting relations between the public and private sectors, as long as we remain sensitive to the problems of transferring institutions and practices between countries.

At the heart of this section of the research program is a series of questions: What is the role of government in Canada, and how does it compare with that in other western industrial nations? Why has the scope of public activity expanded, particularly in the management of our economic affairs? What are the consequences for the private sector of a larger role for government? What is the nature of the linkages between the public and private sectors, and do they function as well as they might? Our studies examine these issues at two levels.

The first group of papers looks in broad terms at the general role of government. Four studies measure the expansion of the public sector, examine its role in economic management, trace the implications of the politicization of many economic and social relations, and assess the challenges to government authority in the modern period.

- The expansion of the public sector: A comparative view
- The economic role of the state: A comparative view
- State and society in Canada: Contemporary developments
- Political authority and challenges to the contemporary state

The second group of papers narrows the focus and examines in detail the relationships between government, business, and labour. This reflects the concern with finding ways to improve relations between governments, business, labour, and other groups in Canadian society. Three studies look at the linkages between government and major economic groups, both in Canada and in other western nations, and explore the scope for developing more effective channels for consultation between the public and private sectors. This research will also benefit from studies on labour unions and their relations with other economic actors that are underway elsewhere in the research program.

- The tripartism experience in western Europe
- Canadian business and the state
- The scope for consensus-building mechanisms

Constitutionalism, Citizenship, and Society

Research Coordinator: Alan Cairns, University of British Columbia

Assistant Coordinator: Cynthia Williams, Royal Commission on the Economic Union and Development Prospects for Canada

The research in this section focuses on continuity and change in citizen-government relations. In recent decades an unprecedented array of citizen groups has emerged on the Canadian political scene with demands ranging from equal treatment and full participation in the political system to special status and affirmative action. Many of these groups are part of international movements that began in other countries. In each case, however, they have adjusted to the

Canadian environment and called upon the political community to redefine individual and collective rights in response to the ever-changing values and aspirations of its citizens.

Governments in Canada have responded to the new politics of citizen groups in various ways. They have implemented legislation such as the new Charter of Rights and Freedoms, provincial civil rights acts, and changes to labour codes. They have created new ministries and agencies in their bureaucracies, such as the new Ministry of State for Youth, the older Ministry of State for Multiculturalism, and such advisory bodies as the Canadian Advisory Council on the Status of Women.

In short, governments recognize that they must constantly respond to evolving identities among their citizens, as the age, ethnic, religious, class, and sex composition of the population either change or acquire new significance. With such changes, the accommodations and definitions adequate to contain the diversities and tensions of yesterday's body politic become obsolete. The growing flexibility of political and group identities and the internationalization of the environment from which they are drawn are hostile to unchanging national identities and static conceptions of citizenship. Potential new identities, social movements, and political fashions now wash over national boundaries and undermine historic understandings of how a people should view itself. Contemporary governments, therefore, confront recurring centrifugal tendencies in society. These cannot be ignored or else governments risk endangering their delicately balanced legitimacy in their citizens' eyes.

But there is also another side to this "new politics." Citizen-government linkages can also represent deliberate attempts by government to strengthen citizen allegiance and foster positive civic identification. In support of their various tasks as manager of the economy and maestro of the welfare state, governments act directly, reshaping identities, altering the boundaries of community, changing the public definition of a people, and moulding the symbolic and ritual structure of the state in order to refashion and regenerate the allegiance they seek from their citizens.

Four survey papers explore the changing aspects of contemporary citizen-government relations that attend modern political development. The first paper examines these changes from a comparative perspective. The other three survey papers have a Canadian focus and examine the impact of evolving legal, political, and social environments on citizen-government relations in Canada.

- Contemporary developments in liberal constitutionalism
- Evolving principles of constitutionalism in Canada
- The extension of citizen rights in Canada
- Value changes and citizen-state relations in Canada since the Second World War

A second group of studies examines citizenship and nation-building in Canada by focusing on some contemporary citizens rights movements as well as various government programs and policies. Studies that look at two of these movements are:

- Canada's aboriginal peoples and the political community
- The women's movement in Canada since 1970

Several studies are examining recent Canadian government programs and policies and assessing their impact on changing the rights of citizenship and reshaping citizen identities. The policies and programs studied in this area focus on:

- Multiculturalism
- Linguistic policy
- The economic union
- The social policies of the welfare state
- The Charter of Rights and Freedoms

The Politics of Economic Policy Making

Research Coordinator: Bruce Doern, Carleton University

Our research on the politics and structures of economic policy and policy formulation addresses the concern with the appropriate national goals and policies for economic development. The choice of, and the balance among, such goals are central features of political life. To choose among them requires an understanding of past political ideas and goal-setting mechanisms and of the future importance of these and other emerging ideas for Canada and the world.

Every aspect of economic development has profound political dimensions. Politics is not just a phenomenon of electoral activity and the gaining of office and power; rather, it is the process through which goals and ideas are chosen and melded in a democratically acceptable way. Politics also determines the structure and organization of power. Accordingly, politics assumes that there is no tidy separation between ends and means, since the means of organizing power, like ends, are themselves value laden.

Our research in this section deals directly with practical ways to reform the institutions of public policy. It addresses the need to identify means for improving relations between governments, business, labour, and other groups in Canadian society. The research examines the feasibility of changes in the structures and processes of economic policy formulation, including budget reform. The focus is on the executive-Cabinet-bureaucratic structures through which policy is made and political power is both mobilized and restrained.

Our research here is concerned specifically with the issues and questions raised by the Commission on the overall role and growth of government, the rigidities and protections inherent in growing bureaucracies, and in issues such as the role of crown corporations and the use of taxes, expenditures, and regulations as tools of economic management. Six studies explore these topics:

- The growth of government in Canada
- Economic development and the economic union: A profile of ideas in action
- The federal and provincial budget processes, 1968-82

- Regulation, economic management, and the federal system
- Bureaucracies as political and economic institutions
- Provincial Cabinet structures and priorities in western provinces

Politics also permeates the ideas and structures in the main economic policy fields: fiscal and macroeconomic policy including monetary and incomes policy; labour markets and industrial relations; social policy, resource policy; and industrial and trade policy. An understanding of the successes and failures of any particular policy requires an awareness of the political priorities at any given time. We cannot assume that precise objectives are set and then policies are implemented in some serenely routine and technical fashion by simply "getting the systems of incentives right." There are contradictions in political life and in political decisions not because politicians are somehow less rational than the rest of us but because there is a rationality about politics that arises precisely out of its need to deal with multiple and conflicting goals, ideas, and concepts. From the main economic policy fields we have commissioned studies on the following four:

- The politics of deficits
- The politics of labour markets
- The politics of resource policy
- The politics of social policy

Industrial Policy

Research Coordinator: André Blais, Université de Montréal

The overall concern of research studies in this section is the role of government in industrial policy and, more specifically, the mix of public and private sector activity in the advanced industrial countries in general and in Canada in particular. This investigation is closely related to the research on industrial structure in the Economics Research Area.

The basic theme of our research is that any attempt to identify the principles defining the appropriate role of government must pay serious attention to political considerations, both in a given country as well as at the international level. The studies consider how certain specifically political concerns have a major influence on the choices that are made. These concerns must be taken into account in order to understand and evaluate industrial policies. The studies also examine how the evolution of industrial policies has been affected by the dominance of certain ideologies or symbols as well as by the changing balance of power among business, unions, and the state. Finally, they investigate the interrelationship between industrial policy and other aspects of government intervention.

An overview study discusses the basic characteristics of public assistance to industries in Canada as well as in other advanced industrial countries. The analysis focuses on the choice between the market and state intervention, the choice of different instruments of intervention, and the selection of particular industries or firms as targets of policies. The study identifies the factors that cause governments to take one position rather than another, with a particular emphasis on the political considerations involved.

- A political sociology of public assistance to industry

Several studies focus on the actors involved in the formulation and implementation of industrial policies. They analyse the positions and strategies of business, unions, bureaucrats, and politicians, as well as their capacity or incapacity to influence the actual outcomes. The interaction between the federal and the provincial governments on industrial policy is also discussed. The five studies on this topic are:

- Industrial policy: The political calculus of political elites
- Industrial policies and the bureaucracy
- Industrial policies and the business community
- Industrial policies and labour unions
- Industrial policies and intergovernmental relations

Industrial policies are essentially discriminatory measures taken by the state to affect the development of industry. It is thus important to determine which regions, sectors, or types of firms benefit the most and the least from these policies and to explain why. These questions will be addressed in the following four studies:

- The state and industrial decline
- The state and corporate concentration
- The state and foreign investment
- Industrial policy and regional disparity

Another set of studies puts industrial policies into a broader context. Some of these policies attempt to influence the flow of private investment, and they raise an important question about the degree of dependence of governments on private investment. The creation of public enterprises can be used as a substitute for industrial policies aimed at the private sector. Thus, our discussion of the politics of industrial policy also considers the political advantages and disadvantages of public enterprise. At a broader level still, the debate on industrial policy depends in many ways on the ability or inability of the state to facilitate economic growth. It is thus useful to determine the relationship between the size of the state and economic growth. How the objectives of industrial policies compare with the expectations of the public is a further consideration in looking at the broader context. Finally, any analysis of industrial policies must take into account the evolving international political economy, which has a major impact on a government's capacity to articulate and implement an industrial policy. The five papers on these topics are:

- The politics of private investment
- The politics of public enterprise
- The size of government and economic growth (jointly with the Economics Research Area)
- The popular basis of policy in the federation (jointly with the Economics Research Area and the section, The Politics of Canadian Federalism)
- Canadian industrial policy and the international political economy.

Legal and Constitutional

IV. The Legal and Constitutional Research Area

Research Director: Ivan Bernier

While the mandate of the Commission explicitly encompasses the economic and political problems facing Canada, it makes no mention of the legal issues that exist in the country. Rather, the mandate suggests the need for a distinct area of legal research only to the extent that it refers in broad terms to the Constitution and to the division of powers. Yet implicit in the mandate is an underlying assumption that important changes will have to take place in the law-making activity of the state. Such an assumption acknowledges that law, in its numerous manifestations, is the most fundamental instrument of state action. And, whether more or less state intervention is proposed, the suggestions for changes affecting the economic union and our political system and institutions are bound to have an impact on our legal system.

In this Legal and Constitutional Research Area we begin our inquiry by looking at the role of law in our society. In particular, we address criticisms that focus on the multiplication of laws, regulations, and tribunals as instruments of state intervention; on the complexity of our legal system and its essentially conflictual nature; and on the confusing character of the law and its apparent incapacity to respond to the needs of all Canadians. Before the Commission considers recommending legal and constitutional changes, we must analyse these concerns so we may better understand how and when law can be mobilized most effectively in order to address the problems raised by the mandate. At the same time, we examine how law has evolved under the pressure of social and economic changes, and how in turn it has brought about changes in our social and economic conduct.

Moving from this fundamental exploration of the role of law in our society – and implicitly of the role of the state – we then situate Canada's legal system in its international economic environment. Like other sovereign states, this country is bound by a wide network of multilateral and bilateral agreements. Although Canada can opt out of these agreements, just as it can negotiate new ones, the room for manoeuvre is limited in practice.

Our investigation of this subject begins with a broad look at the opportunities and constraints facing Canada at the international level. We consider in turn the existing multilateral trade arrangements, with their alleged weaknesses; various existing and proposed bilateral trading arrangements with the United States, including the much debated idea of a free trade zone; and our relations with the developing countries, which are too often neglected as trading partners.

We then investigate in greater detail how the law affects our trade in professional services, investments, and technology, where opportunities for

improvement are alleged to exist. We also look at the institutional arrangements we employ in determining our foreign economic policy, and at important problems that centre on the role of provincial governments and relevant economic interests in the making of foreign economic policy for Canada.

In the last resort, however, our capacity to face international competition will depend heavily on the smooth functioning of the Canadian economic union. To consider this central focus of the Commission, we distinguish two distinct fields of inquiry where a legal perspective offers some insights.

The first encompasses the whole question of barriers to the free movement of goods, labour, and capital. Recent studies have argued that Canada lags not only behind other federal states, but also behind the European Economic Community in lowering internal trade barriers. Whether or not this is so, certain restrictions on the circulation of goods, capital, and labour clearly exist in Canada, and their proliferation could pose a serious problem for our future trade and economic prospects. Before considering ways of reducing these restrictions, it is essential to identify them carefully and above all to understand why they exist and their consequences.

The second field of our inquiry into the economic union examines the problem of coordinating federal and provincial intervention in the economy, bearing in mind the legal division of powers between these levels of government. The inevitable conflicts that arise between these governments in the economic arena have led many to argue that the fiscal and economic powers should be reallocated in order to alleviate such conflicts and to facilitate the more efficient functioning of the economic union. A more functional division of powers would not, however, be easy to achieve. A large degree of consensus on the criteria to be used would be difficult to reach. Even if improved economic efficiency may appear an obvious criterion, the social and political preoccupations reflected in our federal Constitution would make it hard to reach a consensus, particularly if a major renegotiation of powers and responsibilities were considered. Here again, then, it is necessary to examine the nature and source of the problems, to assess their importance, and to find out how they can be solved.

Beyond these problems of federal-provincial relations, difficulties also derive from the very existence of ten provinces, each legislating independently and very often differently. Whether one thinks of the problem of selling goods in ten provinces, each having its own health and safety requirements and consumer protection legislation, or of the problem of changing schools from one province to another in Canada, the fact is that in most areas little progress has been made in harmonizing provincial legislation since Confederation. To some extent, this diversity promotes healthy competition among the provinces. In some cases, however, serious problems are created, and then harmonization of provincial legislation may become a desirable goal. But when is harmonization appropriate and how can it be achieved? In order to answer such questions, we will develop an analytical framework to deal with these complex issues.

Finally, in the concluding section of our research in the law area, we examine some important institutional and constitutional problems. In the mandate of the Commission the reform of our national institutions is considered

as one way to create a more efficient Canadian economic union. But it is also clear from the mandate that national institutional reform has the broader goal of promoting the liberty and well-being of individual Canadians. Keeping in mind that the Politics and Political Institutions Research Area will deal extensively with such institutions as the federal executive, the House of Commons, and the Senate, in the Legal and Constitutional Research Area, we emphasize institutional and constitutional arrangements, such as the judicial system and the Canadian Charter of Rights and Freedoms, which themselves affect the legislative and executive powers.

Following a broad look at those arrangements, more specific issues are then examined. We review linguistic and equality rights, whose implementation seems to bring about serious political opposition, particularly when state intervention is involved. This obviously is a subject for concern. Another important aspect of our institutions, linked to the executive, is the power over foreign affairs with particular reference to the treaty-making power. In recent years, the provinces have become more involved in international affairs, apparently because they believe that their interests were not adequately represented by the federal government. This last issue, which has always been of special interest to Quebec, brings us to the study of the status of Quebec in the Confederation, in light of our recent history.

Our last study, on the new amending formula, complements our consideration of the foregoing issues. The implications of the formula for effecting formal constitutional change are considered by taking examples of proposals from the three research areas and considering what would happen to them under the formula. Such a feasibility test will help us decide if the present formula is a stumbling block or a lever for constitutional adaptation.

For each section of this research area, the coordinator will write an overview paper. In all of our work close attention will be given to the insights gained from the other areas of the research program.

Law, Society, and the Economy

Research Coordinator: Andrée Lajoie, Université de Montréal

This section serves as both an introduction and background to the Legal and Constitutional Research Area. Our objective is to highlight law's relationship to the state, society, and the economy. Ultimately, we hope to show how law affects Canadian society and to reveal its potential and limitations as an instrument for implementing government policy.

To achieve this objective, an initial study develops an analytical framework for looking at law as an instrument of state intervention. This is followed by a series of papers that examines the evolution of law in various sectors since 1945. In each case, the key developments are identified and the law is situated in its social, economic, and political context.

We consider that the evolution of law, the development of the state, and the changes taking place in society are mutually dependent. Law is the product of a

confrontation among conflicting forces, and law modifies these forces even as it is enacted. In addition, law serves as ammunition for opposing sides, as confrontation persists after a law is implemented. Thus we should assess not only the effects of new methods of state intervention on the production of law, but also the impact that the new law subsequently has on the state's activity and on society.

We expect that the conclusions in this area of research will give us useful insight into one of the most fundamental issues confronting the Commission, the role of the state in Canadian society. By asking what is the role of the state, we are in a sense, asking what is the role of law.

The studies underway in this section are:

- Law as an instrument in state intervention
- Constitutional ideology and legal language: A comparative study of constitutional proposals in Canada since 1960
- The development of administrative tribunals
- The development of crown corporations
- The development of regulations
- The Supreme Court of Canada as final arbiter in economic conflicts
- The Supreme Court of Canada as final arbiter in social conflicts
- The Supreme Court of Canada as final arbiter in political conflicts
- The development of labour law
- The evolution of collective bargaining
- The development of social legislation in Canada
- The development of family law
- The development of consumer protection legislation
- The development of urban law
- Environmental protection as a recent legislative preoccupation
- Law and technological change
- Private corporations and the public interest
- Fundamental values and the Canadian legal system
- The state, the law, and society

The International Legal Environment

Research Coordinator: John J. Quinn, Osgoode Hall Law School, York University

Canada's economic future will be shaped by the openness, stability, and dynamism of international markets. International trade and investment flows are determined not only by cost and demand conditions, but also by national policies regulating, directly or indirectly, the import and export of goods, services, and capital.

During the past three and one-half decades, the major developed countries have constructed a legal framework of substantial scope and complexity to harmonize and coordinate national policies that affect trade and investment.

This framework, embodied principally in the General Agreement on Tariffs and Trade (GATT), first evolved in the late 1940s to facilitate negotiated tariff reductions. It was expanded in the 1960s and 1970s to govern certain "non-tariff" barriers to trade. The international legal framework encompasses several institutions in addition to the GATT, such as the International Monetary Fund and the World Bank, and more specialized arrangements designed to deal with a broad range of transactions and activities with transnational consequences, such as foreign direct investment, marine resource extraction, and the transfer of technology.

The broad purpose of our research is to examine how the international legal framework for international economic relations is likely to shape Canada's future economic development. This legal framework will establish Canada's terms of access to foreign markets; it will also impose constraints on Canada's choice of future commercial and industrial policies.

Within this framework the first group of studies analyses the constitutional structure of the present international legal system and how its rules and processes are likely to evolve in future years. Then the second group focuses on a number of specific aspects of international economic activity that are likely to be of particular importance for Canadian economic development. The legal rules and institutions governing these various aspects of economic activity are examined and their implications for Canadian economic policies are assessed. Finally, in the last group we analyse the present legal structures for foreign economic policy making in Canada, in order to trace the basic choices for the design of domestic institutions and to see how these choices will be shaped by the evolving international legal framework.

In our first group of studies in this section we look at constitutional structures for Canada's international economic relations. Since the late 1940s, the legal framework for international trade in goods has evolved under the GATT. The constitutional structure of the GATT is based on the fundamental legal principle of non-discrimination that has promoted the multilateral approach to the formulation and implementation of international economic law. While the GATT system has contributed to the significant reduction of trade protection in the postwar era, its performance has been criticized and its future utility for Canada's economic development has been questioned.

Our research assesses the GATT approach from a Canadian perspective. It also examines alternative international legal frameworks for the conduct of Canada's foreign economic relations. For example, one alternative would be to create a North American free trade zone; another would be to pursue special bilateral arrangements with developing countries. Whatever the decision, an important issue will be the legal and economic compatibility of these alternative trading arrangements with the GATT system. Thus the basic question is whether Canadian interests will best be served by renewed efforts to reform the GATT or by the pursuit of other international arrangements. Four studies address these issues:

- Canada and the GATT: Prospects after the Tokyo Round
- Canada-U.S. relations: An analysis of free trade arrangements
- Canada-U.S. relations: Developing bilateral relations

- Canada and the new international economic order

Our research also analyses the international legal framework from a sectoral perspective. The GATT purports to regulate national policies affecting trade in goods, but it has exerted only negligible influence on trade in primary products. The GATT does not apply to many other sectors of transnational economic activity that will be of increasing importance to Canada's economic future, such as trade in services broadly defined to include the transmission of various types of information; the international circulation of capital, including the regulation of foreign direct investment and the conduct of multinational enterprises; the extraction of marine resources; and the transfer of technology.

Our research centres on several questions: What rules and procedures have evolved to regulate economic activity in both those sectors governed by the GATT and those organized under less formal and less inclusive legal arrangements? What opportunities and constraints for Canadian economic development can be inferred from an analysis of rules and institutions specific to each sector? What new legal initiatives for each sector should be pursued by Canadian policy makers? The studies in this section focus on:

- International trade in services
- Foreign direct investment in Canada and international law
- Trade in goods: The internal and external legal aspects of protectionist measures
- The transfer of technology and patent rights: International aspects
- Canada and the new international law of the sea

The evolution of the GATT and complementary legal frameworks organized along sectoral or regional lines will have significant implications for the design of Canadian institutions that make and implement economic policies. International norms for the conduct of foreign economic relations will exert a major influence on Canadian policy choices. The coordinator's synthesis of the research findings in this area will include an examination of the basic choices for the design of Canada's domestic institutions that have an impact on Canada's international economic relations. In analysing these issues of institutional design, the coordinator will collaborate closely with researchers in the Economics and Politics and Political Institutions Research Areas.

- The international legal environment

The Canadian Economic Union

Research Coordinator: Mark Krasnick, Victoria, British Columbia

The current debate on the economic union raises once again the questions about our nation that have long needed to be answered. The Terms of Reference ask the Commissioners to take account not only of the functioning of the Constitution but also its spirit. In this section of the research program, two

parts of the Constitution are considered: the part that establishes the economic union, and the part that defines the division of powers. The economic union could be looked at in purely economic terms with an analysis of current barriers imposed by governments and their financial impact on the nation. But current barriers are only part of the story. We also require an exploration of what obstacles governments might create under existing constitutional arrangements. After we have established what is, and what might be, we then turn our attention to what should be.

The Commission's research in this section addresses a variety of questions that have emerged in the debate on the economic union. What is the present economic union in Canada? How does the Canadian economic union compare with others? Are there serious problems with the current union? What is the nature of these problems? How do we judge their seriousness? What reforms are possible and desirable?

Each of these questions requires refinement, and each has a legal dimension. The results of this legal analysis will be useful in providing a guide for policy makers.

The studies also reflect on several additional questions about the division of powers: Can the division of powers be circumvented by the use of non-legislative instruments such as the executive power, the spending power, the tax power, and the purchasing power? How and to what extent are these non-legislative means being employed to circumvent the division of powers?

The research in this section is divided into two parts. The first provides an overview of the legal concept of an economic union; the second examines issues in the Canadian economic union.

The overview for the project examines the economic union in a number of different jurisdictions. Two types of unions are being scrutinized: federal economic unions, such as those in Canada, the United States, Australia, and Germany that are protected in state constitutions to varying degrees; and supranational economic unions, expressed in a treaty, such as the EEC. The results will be conveyed in one paper:

- The concept of an economic union

A group of papers will undertake a detailed legal analysis of the contemporary Canadian economic union. It has been suggested that there are various forms of economic integration. One is the freeing of trade barriers. Another is the liberalization in the movement of labour and capital. And yet another is harmonization of policies. Methods of achieving harmonization (or a GATT type arrangement based on provincial agreements) is also under review. The organization of the studies reflects this classification.

- Legal issues and the circulation of goods
- Legal issues and the movement of persons and services
- Legal issues and the circulation of capital
- External trade policy
- Social policy

-
- Fiscal policy
 - Energy and natural resource policy
 - Taxation policy
 - Transportation and telecommunications policy
 - Manpower and labour policy
 - Industrial and regional development policy
 - Fisheries policy
 - Municipal policy
 - A feasibility study on the means of realizing harmonization

The Harmonization of Provincial Legislation

Research Coordinator: Ronald C.C. Cuming, University of Saskatchewan

At the outset in this research section we recognized that the term "harmonization" has more than a single meaning. Accordingly, we believe it is important for us to identify the range of definitions of harmonization.

Harmonization can involve nothing more than a set of rules or practices designed to remove conflict over which of two or more systems of law is to apply in the resolution of disputes. In this respect, the laws of Canadian provinces function in harmony since a system of rules exists that deals specifically with conflicts and, for the most part, eliminates confrontations between the legal systems of Canadian jurisdictions. However, this does not mean that legal rights recognized under the laws of one province will in all cases be enforced in another province.

The goal of harmonization of provincial law may also be seen as the elimination of fundamental differences in approach to the regulation of the same type of activity in different jurisdictions. In this context, success can be claimed if the laws of Canadian provinces embody the same general approach to the regulation of an activity. Persons who must conduct their activities within the framework of the applicable laws of more than one jurisdiction are assured that the conceptual basis of the law in each jurisdiction is the same.

Further along the spectrum, harmonization implies legislative uniformity. Under this definition, uniformity may entail that each province enact legislation identical or substantially identical to that enacted in the other provinces. The purist's view of harmonization through uniformity would involve more than legislative uniformity; it would include institutional uniformity as well. In other words, not only would the provincial laws themselves be uniform, but also the provincial statutory bodies and agencies that administer the laws would function uniformly throughout the country.

For the purpose of our research, harmonization is considered to mean more than merely having an effective set of rules dealing with conflicts. In some situations harmonization may attain the purist's objective, particularly if it is effected through federal legislation. However, because of the political and social structure of Canada, the goal of harmonization will largely be possible only so long as it is viewed as something less than complete uniformity.

Another aspect of harmonization should not be overlooked. While the title of this section, "The Harmonization of Provincial Legislation," suggests that attention is focused exclusively on provincial law, at least some papers would be incomplete if there were no reference to the harmonization of federal and provincial law.

It is also necessary to describe the degree to which harmonization exists in each area of the law. In addition, it is important to identify existing efforts to achieve harmonization that are likely to be successful in the near future. Trends or efforts inimical to harmonization are also an important part of the analysis.

The extent to which the laws of the various Canadian jurisdictions have been in harmony during the various stages in Canadian development, is also important. Perhaps more critical is to identify the social and economic forces that historically have directed and now direct each area of law towards or away from uniformity.

The proponents of uniformity see Canadian provincial and federal law makers as the modern equivalent of the builders of the Tower of Babel. However, the realities of Canada cannot be ignored. Canada is a legal and social confederation, and strict uniformity has not been an important theme in Canadian legal history. For this reason, anyone proposing a high degree of harmonization carries the onus of proving that it is desirable in the Canadian context. Clearly not every aspect of every area of law can be harmonized, but there may well be situations in which the negative features of harmonization are an acceptable price to pay in order to have the advantage that it yields.

Further, each area of the law must be assessed in order to determine whether its historical background, structure, and function make it suitable for harmonization or dictate that it be left to develop primarily under the influence of local conditions. If either total or partial harmonization of a particular area of law is desirable and possible, it will be important to explore the ways in which harmonization can be realized. The efficacy of the various approaches need not be a matter of pure speculation. Uniformity of law is not a new idea; nor is there a lack of examples of various measures being employed to attain uniformity in many areas of Canadian law. It is also important to assess each of the available instruments of harmonization and to come to some conclusion about which are likely to be the most effective in the context of each area of law under examination.

Although there are many areas of law, each with its own peculiarities, it is beyond the scope of this study to examine each area in the manner proposed in the preceding paragraphs. It has been necessary to select a few areas of law, each of which has different characteristics. We hope that in the content of these areas a wide range of issues relating to harmonization and approaches for achieving an optimal level of harmonization can be explored. It is assumed that the conclusions reached in the study of these areas of the law will also be instructive to policy makers seeking harmonization in other areas of law in Canada.

The areas chosen for examination are:

- The difficulties of harmonization in Canada
- The business of transferable securities

- Personal property security
- Consumer protection
- Education

Institutional and Constitutional Arrangements

Research Coordinator: Clare F. Beckton, Dalhousie University

Assistant Coordinator: A. Wayne MacKay Dalhousie University

This section arises from the Terms of Reference of the Commission requiring a study of appropriate institutional and constitutional arrangements to promote the liberty and well-being of individual Canadians and is a companion to the research undertaken in the Politics and Political Institutions Area. In order to avoid duplication, the emphasis here is less on political institutions such as the Senate and the House of Commons and more on the judicial system, the Canadian Charter of Rights and Freedoms, the treaty-making power, the amending formula, and other arrangements designed to promote a sense of equality among all Canadians.

The judiciary plays a central role in the functioning of our institutions and has a substantial impact on the liberty of individual Canadians. Not surprisingly, in a context where accountability has become an important subject of concern, the independence of the judiciary has brought about renewed interest in the procedures for appointing judges. Our first study in this area examines the representative nature of the Supreme Court, and a second reexamines the relationship between the federally appointed superior courts and bodies, created by the provinces, that exercise quasi-judicial or judicial powers.

The Canadian Charter of Rights and Freedoms places restraints upon parliamentary supremacy by imposing powers on the courts to ascertain whether policy choices made by the legislature infringe any of the guaranteed rights. The Charter also necessarily requires legislators to examine existing legislation and programs to ensure compliance with these guarantees. Equality guarantees necessitate an assessment of the structure of many programs such as pension schemes and the interaction of the administration with individual Canadians. Charter linguistic guarantees now require that all our national institutions be prepared to meet the needs of Canadians in the official language of their choice and oblige the provinces to provide education in the language of the minority where a sufficient number justifies it. Not only does the Charter prohibit infringing guaranteed rights, but in some cases it requires positive measures to promote them.

Related to the problem of language, the question of the status of Quebec in Confederation raises broader issues concerning the role of this province as the main focus of the Canada-wide francophone community and the protection of its special interests in cultural and linguistic matters. The issues to be addressed on the Constitutional level range from recognizing a veto power for Quebec regarding constitutional amendments in the areas of culture and education, to proposals that special arrangements be made in specific fields,

such as in immigration and external affairs.

One study will examine Canada's ability to participate fully in international affairs as well as the desire of the provinces to participate in international activities. Finally, a concluding paper will focus on constitutional amendment as a mechanism to achieve those policy goals suggested elsewhere in the research program. The specific papers in this section are:

- The Charter of Rights and Freedoms
- The treaty-making power in Canada
- The judicial system: Section 96 of the Constitution Act, 1867
- The Supreme Court of Canada
- Affirmative action programs: Section 15 of the Canadian Charter of Rights and Freedoms
- Linguistic rights
- Quebec's status in Confederation
- The amending formula

Conclusion

V. Conclusion

Our research program, one of the largest ever undertaken in Canada, is now in place. As this progress report indicates, studies are underway on all of the major issues in the Commission's mandate. As the work of the Commission proceeds, a few additional studies may still be commissioned to fill small gaps that become evident in the research and to respond to Commissioners' requests as the outline of the final report emerges.

The first round of public hearings has now been completed, and the extensive information and analyses contained in the briefs to the Commissioners are available to aid our researchers in the preparation of their studies. The breadth and depth of the research and the consultative process will provide the foundation for the Commissioners' thorough examination of the troubling issues facing Canada.

As we have emphasized, although the research program is divided among three areas, the interdependence of the economic, political, and constitutional aspects of the mandate is of primary concern to the collective research effort. The tempo of integration across the three research areas will increase in the summer and autumn of 1984. Through symposia, seminars, and other less formal contacts, researchers studying a single issue or problem from different perspectives will react to each others' findings and recommendations.

The overall research program is directed to two interdependent tasks: the preparation of the final report and the production of the research studies that will supplement the report. The results of the research will become available to the Commissioners in the coming months and will contribute information and analyses to the writing of the final report. Researchers, the editorial team, and others will work with the Commissioners in drafting that report.

Individual studies in the three research areas will be rigorously assessed by the author's peers before they are published. In addition to a process of external evaluation, the research papers will be critically reviewed at research advisory group meetings. Affiliated with each of the nineteen sections within the three research areas, these advisory groups are composed of experts from the research community and of practitioners from the public and private sectors. Most research papers will undergo one or more revisions in response to suggestions emerging from the assessment process. Papers not meeting high standards will not be recommended for publication. All papers written for the Commission will be deposited in the Public Archives of Canada.

Research studies that are recommended and accepted for publication are to appear in a series of research volumes. These volumes are directed not only to policy makers and to other researchers, but also to the interested public. A major effort is being made to ensure that researchers write as clearly as possible, minimising professional and academic jargon while still doing justice to the complexity of their subject matter.

Our goal is to produce analytical and policy-oriented studies that will continue to inform Canadians in the years ahead. The issues we are examining are not mere passing concerns; rather, they are fundamental and ongoing, affecting the future of generations of Canadians. Our hope is that our

publication program will be comprehensive and of lasting value – a part of the Commission's legacy to all Canadians.

Appendix A

Terms of Reference

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

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

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

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

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

Therefore, the Committee of the Privy Council, on the recommendation of the Prime Minister, advise that the Honourable Donald Stovel Macdonald together with such other persons as may be named from time to time be appointed Commissioners under Part I of the Inquiries Act to inquire into and report upon the long-term economic potential, prospects and challenges facing the Canadian federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and governmental institutions and for the management of Canada's economic affairs.

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

- (a) the appropriate national goals and policies for economic development, including consideration of the following:
 - trends in labour market requirements and conditions;
 - developments in the supply of raw materials, including energy sources;
 - capital requirements and the cost structure in a highly competitive, technologically-sophisticated and interdependent world environment;
 - trends in productivity, standards of living and social progress;
 - industrial adjustment and growth;
 - regional economic development opportunities and constraints in a national economic framework;
 - the integrity of the Canadian economic union as it relates to the unity of

- Canada and the ability of all Canadians to participate in increased economic prosperity;
- (b) the appropriate institutional and constitutional arrangements to promote the liberty and well-being of individual Canadians and the maintenance of a strong and competitive economy including consideration of the following:
 - means for improving relations between governments, business, labour and other groups in Canadian society;
 - the appropriate allocation of fiscal and economic powers, instruments and resources as between the different levels of governments and administrations;
 - changes in the institutions of national government so as to take better account of the views and needs of all Canadians and regions, and to encourage the further development of the Canadian economic union.

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

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

The Committee also advise that the Commissioners:

1. be directed, within the ambit of their work, to seek the views of all provincial and territorial governments as well as interested Canadians from all walks of life and all regions of the country;
2. be authorized to establish such advisory bodies of prominent Canadians as they deem desirable to assist them in the examination of any aspect of their terms of reference;
3. be authorized to adopt such procedure and methods as they deem appropriate for the proper conduct of the inquiry;
4. be assisted by the officers and employees of the departments and agencies of the Government of Canada as may be required for the conduct of the inquiry, particularly in having access to written material;
5. be authorized to sit at such times and in such places in Canada as may be required;

6. be authorized to exercise all of the powers conferred upon them by section 11 of the Inquiries Act;
7. be authorized to engage the services of such staff and technical advisers, including counsel, as they consider necessary or advisable to aid them in the conduct of the inquiry at rates of remuneration and reimbursement as may be approved by Treasury Board;
8. be authorized to rent office space and space and facilities for public hearings in co-operation with the federal Department of Public Works as they may deem necessary at such rental rates as are consistent with the policies of the Department of Public Works;
9. be authorized to publish special studies as may be appropriate from time to time;
10. be directed to submit their report to the Governor in Council with all reasonable dispatch but not more than three years from now;
11. be directed to file with the Dominion Archivist the records of the inquiry as soon as reasonably may be after the conclusion of the inquiry.

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

5 November, 1982

Appendix B

Research Program Organization

Chairman

Honourable Donald S. Macdonald

Commissioners

Clarence Barber
Albert A. Breton
E. Gérard Docquier
Hon. William M. Hamilton
John R. Messer
Angela Cantwell Peters

Laurent Picard
Michel Robert
Daryl Kenneth Seaman
Thomas Shoyama
Jean Casselman-Wadds
Catherine T. Wallace

Executive Director of the Commission

J. Gerald Godsoe

Economics Research Director

David C. Smith

Executive Assistant & Assistant Director (Research Services)

I. Lilla Connidis

Coordinators

Pierre Fortin
David Laidler
Donald G. McFetridge
Kenneth Norrie
Craig Riddell
John Sargent
François Vaillancourt
John Whalley

Research Analysts

Mireille Éthier
Roderick Hill
Douglas S. Green

Office Administration

Donna Stebbing

Politics and Political Institutions

Research Director

Alan C. Cairns

Executive Assistant

Karen Jackson

Coordinators

Peter Aucoin
Keith Banting
André Blais
Bruce Doern
Richard Simeon
Denis Stairs
Gilbert R. Winham

Assistant Coordinator

Cynthia Williams

Legal and Constitutional Research Director

Ivan Bernier

Executive Assistant & Research Program Administrator

Jacques J.M. Shore

Coordinators

Clare F. Beckton
Ronald C.C. Cuming
Mark Krasnick
Andrée Lajoie
John J. Quinn

Assistant Coordinator

A. Wayne MacKay

Administrative and Research Assistant

Nicolas Roy