

Summary of Conclusions and Recommendations

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*Royal Commission on the
Economic Union and
Development Prospects for Canada*

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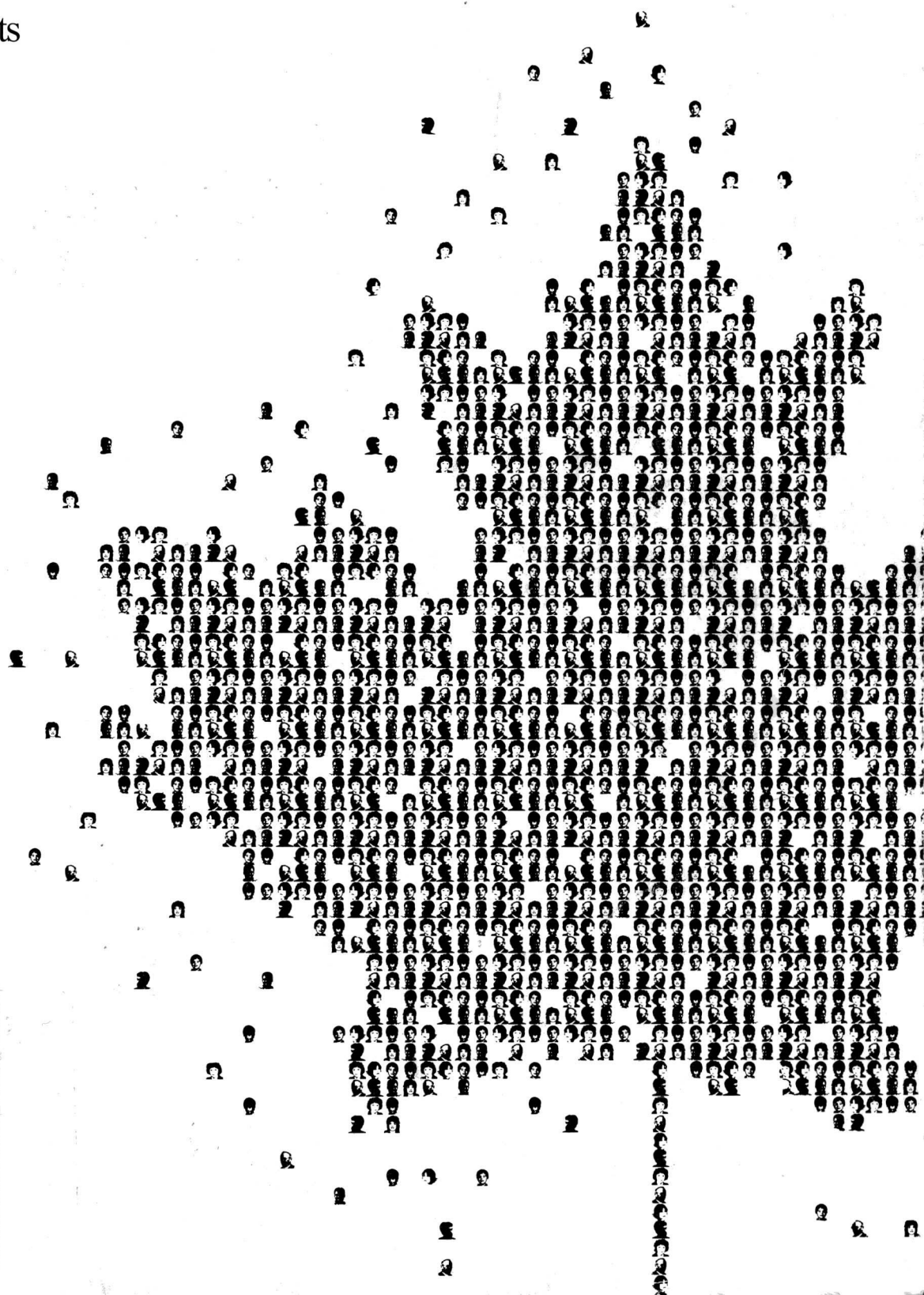
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Chairman's Foreword

The Royal Commission on the Economic Union and Development Prospects for Canada was established in the fall of 1982, in the aftermath of one of the most turbulent periods of Canadian history. On the economic side, Canada was just emerging from the worst recession since the 1930s. For much of the previous decade, the country had endured unprecedented levels of inflation. But other countries, too, struggled as we did with those economic problems. In addition, however, we conducted intensive, often divisive, domestic debates over enormously complicated and difficult issues such as energy policy, our new Constitution and, especially, the question of whether Quebec would remain a part of Canada. In that setting, the central question that we Commissioners were asked to consider was: Can we not do better in the future? Our response to this question is a resounding "Yes!"

Certainly, our nation has faced difficulties, both economic and political, but our extensive meetings with Canadians across the country have reaffirmed our view of Canada as a mature, tolerant and well-governed country. We are deeply convinced that Canada possesses many valuable opportunities for satisfying achievement. To attain that achievement, however, Canadians must face the necessity to make changes in policies and in institutions that offer, at least, the comfort of familiarity. We must venture into untried ways that will demand open-mindedness, courage, innovation, and determination. This Report sets out in some detail the changes which, in our view, offer Canadians the best opportunity of fulfilling our national potential.

While we have indicated a number of directions in which we think it likely that the future will take us, including the increasingly competitive international environment and the prospects of more modest growth than the economy experienced in the golden age of the 1950s and 1960s, we have not attempted to predict the future in detail. Anyone who has had responsibility for policy making since the beginning

of the 1970s would recognize that such precise prediction is unrealistic. Assured of change, but uncertain about its exact direction, the most productive policy prescription we can urge is that as individuals and through our institutions, Canadians must maintain maximum flexibility in order to adapt to that change as it occurs.

Looking back over the perspective of 35 years, beyond the economic difficulties of the immediate past, this Commission sees Canada as having attained a quite remarkable record of economic success. We believe, however, that the circumstances which brought about that success will not continue; indeed, they have already altered, both globally and domestically. The differences which are emerging in our economic experience will have to be matched by differences in economic and social policies.

While the economy was an important focus for Commissioners' concern, we were also asked to consider how Canada's political institutions function, and by what means their functioning can be improved so that our nation can achieve better economic performance. Political institutions are created in order to manage conflict, for conflict is inevitable—between individuals, between firms, between regions, and between nations. The role of institutions is to channel that conflict so that our differences do not prevent us from attaining the goals we have in common. While we Commissioners believe that Canada's political institutions have adjusted well to the strains of the past decade, we consider that they can be made to work even better.

Our nation has been favoured in its evolution by the friendly support of larger allies and of a strong neighbour. Predictably, because Canada has not been a leader in important enterprises, Canadians have too often fallen into the habit of accepting a foreign lead or adopting a foreign opinion before fully thinking through what is appropriate for *us* in *our* circumstances. This attitude has been dubbed the "colonial mentality". As the late Vincent Massey once wrote in his well-known work *On Being a Canadian*: "We have never suffered from being too sure of ourselves." Again, he wrote:

We are one of the few countries in the world which can strengthen its nationality without threatening or offending anyone else. A stronger national sense would only help us the better to perform our national task. It need never conflict with an international outlook.

In this Report we advocate for Canada a full involvement in the broader world. We must have

confidence in ourselves. Indeed, we echo the words of Emily Murphy: "Lean on no one. Find your own centre and live in it, surrendering it to no person or thing."

In compiling our Report, we Commissioners have set out an extensive agenda for change. Some aspects of change will be imposed upon us; others we shall seek to create ourselves as we move to meet the future. Ultimately, and most weightily, the burden of that change must be borne by individuals. To move from the usual, the accustomed, the habitual into the untried, the new, the innovative has always been, at least in part, a painful experience. Government institutions and policies can and should help to cushion the shock. For all that, it remains a shock. And it must be borne.

On the other hand, the rewards for Canada of changing outmoded patterns are enormous. We Canadians enjoy incomparable advantages, not only in the country we inhabit, but in the kind of society in which we live, and with the kind of institutions we have in place. By viewing change as an opportunity rather than a threat, by moving to meet or initiate it, by adopting a positive will to use it to our advantage, we can not only improve our circumstances at home, but we can also make a significant contribution to a world in which too many others still lack many of the advantages that we Canadians enjoy.

DONALD S. MACDONALD
Chairman
May, 1985



Canada: State, Society and Economy

This introductory chapter to the Report provides the philosophy that guided this Commission's consideration of the role of the state in relation to many aspects of our society. It is an essay which attempts to portray a clear understanding of what we Canadians have become, and what we may become in the future, sharing, as we do, a common country. Secondly, we examine the scope and complexity of contemporary big government in Canada, which has transformed the relations between government and society, challenged our practices of responsible government, and greatly complicated the working of Canadian federalism. And finally in this introductory essay, Commissioners explore the relationships between states and markets, a subject which is on the agenda of democratic governments in Canada and elsewhere. Our goal is to clarify that debate, disentangle the complex issues involved, and suggest criteria to govern the future unfolding of the relationship between these two powerful systems which interact, which need each other, and within which we act as citizens, as consumers and as producers. Since the chapter entitled "Canada: State, Society and Economy" is an introduction to the Report and provides an overview of Commissioners' conclusions and recommendations, it has been reprinted separately. Rather than provide a further digest of the chapter here, we wish to make only a few, very brief, general comments which may help to provide a general context for the rest of the summary.

Commissioners regard the state as having four major roles in the governing of the nation. It has a major role to play in overseeing the evolution of the many social aspects of Canada. It also plays a central and related role in symbolizing the citizens' sense of national identity. Again, of course, it plays a vital role in influencing and directing the course of the national economy. Finally, it has a role to play in speaking and acting on behalf of the nation on the international stage.

The undertaking by government of a large and complex role in many facets of our national

life is inevitable and irreversible in this modern age. Nonetheless, Commissioners believe that in selected areas, some disentanglement and simplification of the role of government in society and the economy is desirable and feasible. Much of the extensive network of policies and programs involving the state is the result of a host of *ad hoc* decisions superimposed one upon the other over a period of years, many of which have come to have cumulative consequences that were never intended. This Report therefore seeks to redefine the links between government and society, to improve the quality of Canada's performance in selected policy areas, and to reform those central institutions of Parliament and federalism in which reside our capacity to manage our collective affairs as a democratic people.

The basic issue involving the functioning of the economy concerns the appropriate balance between reliance on market forces and government intervention. The disruptive decade from the first oil shock in 1973 to the present constitutes the backdrop for the Commission. Persistent problems such as large and protracted government deficits, financial instability, slow growth in productivity and high unemployment reflect the cumulative effect of underlying changes in the economy and society. Solutions call for a realignment of the role of the state in broad areas of the nation's social, economic and political affairs. New directions are required, based on analysis unencumbered by automatic acceptance of yesterday's assumptions.

Canada's long run concern has to be the restoration of productivity growth and improvement in employment opportunity. To achieve these goals, Canada must have better access to world markets. Freer trade arrangements both with the United States and on a multilateral basis would greatly assist Canadian industry to become more competitive and productive. Government must complement the drive to increased competitiveness by ending those policies and programs that generate disincentives, retard flexibility and work against the desired allocation of resources.

Commissioners believe—as elaborated upon in other parts of the Report—that governments should pull back from direct intervention in many aspects of the operations of the economy, placing greater reliance, instead, on the operation of market forces. For example, the government should concentrate more on facilitating Canadian industrial development through general measures and intervene less extensively in providing support to selected sectors, espe-

cially those relating to declining industries.

It is not appropriate, however, to divorce fundamental reform of the economic system from the social support network which binds Canadians together as an economy and a people. This Commission also recommends far-reaching changes in social assistance programs, education, unemployment insurance and collective bargaining arrangements. Policy and institutional changes are required in these areas in order to increase the fairness, flexibility and efficiency of Canada's economic system.

The central premise of Commissioners' perspective on citizen/state relations is that big government requires more democracy, not less. In keeping with this tenet, this Commission recommends the adoption of a series of measures aimed at strengthening the authority of Parliament to call government to account and at advancing regional representation in the political arena through the establishment of an elected Senate.

The new Charter of Rights has profound implications for the future evolution of Canadian society; it complements federalism and responsible government as a third underpinning of the Canadian political system. While the Charter extends the rights of Canadian citizens, further measures are required to strengthen the hand of the electorate and to curb the power of

government and the bureaucracy.

The social management task of government is, in Commissioners' view, as difficult and important as the task of economic management. The list of social issues involving government includes language, race, culture, the position of aboriginal people, sexual equality and the state of the environment. Some of these issues, such as affirmative action, have important economic implications.

The adversarial process that frequently characterizes federal-provincial relations is, in the view of Commissioners, a reflection of healthy competition among conflicting interests. Nonetheless, Commissioners believe that there is need to reinforce machinery for the conduct of federal-provincial relations. At the same time, there is need to encourage Canadian citizens to take part in the process and to extend the power of legislative bodies to scrutinize arrangements worked out between the two levels of government. There is a synergy between political union and economic union: strengthening one strengthens the other, but also demands parallel action. Reducing interregional barriers to facilitate the free flow of people, goods and investment will necessitate new intergovernmental mechanisms to put in practice a recommended code of economic conduct.



Global Outlook

As we peer into the future, there is one central fact about which we can be reasonably certain: there are powerful forces around the globe that are profoundly affecting the lives of all of us here in Canada. The global outlook is full of danger signals; a majority of the world's citizens are facing deeply troubling prospects.

In entering what may well be a very turbulent period, Canadians occupy a privileged position that may make the prospective problems of the global community appear quite remote. But "no man is an island, entire of itself", as John Donne astutely observed more than three and a half centuries ago. In fact, because of its far-reaching links of trade, aid and diplomacy, Canada is more exposed than most nations to developments taking place in the world. While we Canadians are highly vulnerable to adverse impacts, both direct and indirect, we are also in a favourable position, in many ways, to seize opportunities as they arise.

While we cannot know with any certainty how they will act and interact in the years ahead, we have sought in our Report to identify some of the major underlying factors and forces at play around the world in order to anticipate what problems they may create, and what choices they may require of us as Canadians. In particular, our analysis focused on five separate but interrelated aspects of global development: the human environment, especially as it involves population growth; the natural environment, including the availability of essential resources and the quality of our ecological system; the knowledge environment and the dramatic transformation being wrought by scientific and technological change; the economic environment; and the geo-political environment.

Of all of the dynamic elements that will play a part in shaping global development in the future, the most prominent is the massive growth in the world's population which, the World Bank has projected, will nearly double, increasing from 4.4 billion in 1980 to 8.3 billion in 2025. While the implications of this prospective development are far from clear, it is evident that it

will present far-reaching challenges nationally and internationally.

The explosive growth of population that has been forecast will put enormous pressure on many of the earth's essential resources such as food, water, energy and industrial raw materials. For the most part, it appears that our planet has the physical resources to meet the prospective demands of the world as a whole. Critical problems are likely to develop, however, because of the grossly uneven distribution of resources and of the variable capacity to harness them for the benefit of humankind. To avoid the occurrence of crippling shortages of various kinds will often require a combination of political will, international co-operation, adequate economic incentives, and the implementation of new techniques and technologies in both developed and developing countries.

In our drive to provide the resources necessary to nurture and maintain a rapidly growing population, there is considerable danger that we will contribute even further to the already extensive deterioration proceeding in the air, the water, and the land of the life forms that are the essential elements of our interdependent environmental system. Even now acid rain poses a critical threat throughout the northern hemisphere. The degradation of agricultural lands in both developed and developing countries as a result of abuse and over-use is becoming an increasingly serious problem, a problem that is compounded in some areas of the world by the destruction of tropical forests. If the predictions of some scientists are correct, the impending warming of the globe as a result of the "greenhouse effect" caused by the build-up of carbon dioxide in the atmosphere could have incalculably detrimental consequences for all nations.

The present onward rush of science and technology clearly has major global implications. There are those who believe that the current knowledge explosion has already provided the impetus for the onset of a third industrial revolution that will contribute much to human progress, but there are also those who fear that this explosion will generate substantial problems of its own. In a highly uncertain world, we can be certain of little more than the pressing necessity that will confront us to stand ready to adapt to the changes consequent on scientific and technological advances.

The continuing post-Second World War trend toward growing global economic interdependence as seen in flows of trade, investment, financial resources and technology is another development that has substantial, if uncertain,

implications for the future. The liberal and multilateral international economic system put in place during the early post-war years has experienced growing strains as a result of a number of factors. These include the increasing competitive pressures created by the newly industrializing countries, the generalized decline in productivity growth, distortions created by the sharp increase in world oil prices in the 1970s, and the associated problems they helped to generate directly or indirectly in terms of the massive debt burden of many developing countries and the massive unemployment that continues to prevail in many of the industrialized nations, despite slow recovery from severe recession earlier in the 1980s. Many of these strains will continue to be with us for some time.

Finally, our Report examines political, economic and social trends of certain major countries—the United States, the Soviet Union, China and Japan—and collective groups such as Western European countries and nations making up the less-developed world. We examine these trends in an effort to obtain some further insight into the ways in which they might affect future global developments.

In examining the state of world affairs, we have observed two very distinct developments which, when taken together, are cause for some concern. As we have noted, the world has become increasingly interdependent economically, environmentally and socially; as a result, we share increasingly similar problems and opportunities as global citizens. At the same time, however, our collective political will and the international institutional machinery through which we exercise it has not kept pace with this growing interdependence. While we have not reached the stage where this shortcoming is a matter for alarm, it is one that should be recognized and corrected so that nations acting together may develop the capacity to balance altruism and self-interest in matters of international concern.

The very breadth and depth of Canada's involvement in world affairs appears to impose on us a special responsibility as a nation to contribute to a resolution of some of the more critical global problems that will arise in the years ahead. This view is based on our deep belief that the major problems facing the global community are rooted in social, political and institutional structures, values and norms.

Part of Canada's contribution might be made in material form and by way of education, training and technology. Conceivably, however, we could play an even more important role as

a catalyst in bringing together other nations to work in concert for the resolution of global challenges and problems. Our capacity to contribute to the resolution of global problems as well as to pursue our own direct interests has grown, and Canadians should be more fully aware of our status as a "principal power" among the nations of the world.

As Commissioners stressed at the beginning of this section, and as we reiterate now, we can at best perceive only dimly how the future will unfold. It is crucially important, however, that Canadians should carefully search out the primary forces in play around the world, constantly monitor their action and interaction, and stand ready to respond, as circumstances require, either alone or in co-operation with other nations. While many future developments abroad will certainly have a direct effect on our nation, in many instances we may well have greater cause for concern about the indirect consequences for us of events in other countries.

This Commission underlines the importance of recognizing five critical features of the global system:

- The degree of interdependence will continue to increase in the foreseeable future, causing the domestic policies of any one country to be significantly affected and, in some instances, dominated by global forces and the policies of larger countries.
- While the eradication of poverty and famine is within the grasp of most developed nations and certainly of Canada, it is not even on the horizon for most of the world's peoples.
- The physical, economic and political global environment pose such significant dangers and challenges that people of all nations find the increase of their well-being at risk.
- The principal limits to growth are not physical, but political, social and institutional. The major challenge thus lies in the fruit of technological and institutional ingenuity.
- Global interdependence demands that national decisions be based on long-term goals and be made in the broadest possible context.

We Commissioners urge that the fundamental global priority within the context of peaceful co-existence become the general increase of the well-being of all nations and peoples, and the urgent eradication of malnutrition and starvation. Given the high degree of global uncertainty that this Commission has identified, it is important that Canadians understand both the priv-

ileged position we occupy on this planet and the human imperative this advantage places on Canada to provide leadership in those areas of critical concern to the world where our nation has a capacity to provide that leadership. Commissioners recommend that as a matter of high priority, Canada pursue a more activist foreign policy based on the concept that Canada now occupies a more responsible position as one of the world's principal powers. Combining humanitarian and pragmatic interests, Canada should:

- Seek to broaden Canadian and world understanding of the meaning of interdependence and the hazards and opportunities which confront civilization. This approach includes giving higher priority to issues relating to the

natural environment and, especially, to the implications for global well-being of the continuing population explosion.

- Vigorously support reform of the multilateral system represented by the United Nations and its specialized agencies to bring the institutional machinery into line with the problems and opportunities of the future.
- Pursue bilateral and regional initiatives where these are appropriate and essentially outward-looking in a multilateral context.

This Commission has reviewed the broad sweep of global interdependence in an effort to identify those areas where Canadians will be offered both challenges and opportunities over the next quarter century.



Opportunities in an Open World

Rapid growth of imports from the developing countries, a changing trade-policy environment, and new forms of protection adopted by our trading partners imperil Canadian jobs. By contrast, growth and technical progress abroad offer us new export opportunities and chances to benefit from access to cheaper and higher-quality products than we can produce. The challenge is one of change, adaptation and adjustment; the opportunities may be unlimited. These developments, however, impose difficult choices on Canadians.

We Commissioners have frequently been reminded, in the course of our task, that Canada's domestic economy is largely defined by its relationship to the wider global economic system. Canada's last Royal Commission on economic prospects captured this point in 1957:

Something of Canada's essence is defined by its external relations. Much of its economic structure can be explained only in terms of its external trade . . .

The ships loading lumber on Vancouver Island or aluminum ingots on the Saguenay are reminders of how deeply our material well-being is involved in the prosperity of other countries, even outside the boundaries of North America.

Canada's economic development, then, as well as our government's economic development policies, are significantly affected by conditions beyond our borders. As a relatively small, "open" economy, Canada is particularly vulnerable to outside influences on its trade and economic performance. In order to foster stability and predictability in some of these external forces, successive Canadian governments have sought to develop formal rules for conducting relationships with our trading partners. The pursuit of this objective has always involved a basic problem: How are we to reconcile conflicting priorities among national objectives and the requirements of a stable international economic system? To resolve inherent conflicts has required a continual process of negotiation and

compromise at both the domestic and the international level. Governments have often had to adjust and put to positive use the constant tension between the forces of economic protection and trade liberalization.

For almost forty years, Canada has pursued a largely multilateral approach to its foreign economic policy; indeed, we have been one of the strongest supporters of the multilateral system centred on the GATT and the International Monetary Fund. This approach proved the most effective way to secure and improve access for our products and to instil order, stability and predictability into that process. Even on the import side, we have found that we must negotiate multilaterally to open our own market, in exchange for access to foreign markets. Multilateral negotiation has proved a useful tool of industrial policy and has allowed for orderly adjustment of the economy through foreign competition.

To a great extent, Canadian trade policy has been, and will continue to be, developed as a compromise addressing the business objective of securing improved access to foreign markets, the economic need to promote efficiency and competitiveness in the domestic economy, and the political need to maintain our sovereignty and freedom of action. The international trade and payments system largely determines the design and use of particular policy instruments. For Canadian producers and investors, there are several tests of this international system. Can our government successfully improve market access for those sectors where Canadian production is, or can be, competitive in world markets? Will it maintain the access currently available to Canadian producers? Will it protect producers from unfair or injurious foreign competition? Because private sector investment is necessary for economic growth and job creation, Canadian producers need to be confident that their access is secure, and that foreign governments will not move to frustrate their efforts to market Canadian goods abroad.

The multilateral system of rules is intended to facilitate decisions favouring adjustment and to penalize decisions favouring protection, but it needs political will to make it work. Between 1973 and 1979, the Tokyo Round of trade negotiations provided a framework for organizing political will. The negotiators sought to reduce trade barriers and to move the ongoing management of trade relations in the direction of freer trade. For the past six years, however, there has been no such framework.

A new round of GATT negotiations may be

initiated to concentrate on elaborating world-trade law and removing remaining barriers to world trade, and to provide a basis for organizing political will to resist protection. The results of any future GATT negotiation are not certain, however, nor are they just around the corner. A new round of negotiations requires complex co-ordination and revolves largely around the interests of three or four players: the United States, the European Community (EC), the less-developed countries (LDCs) as a group, and, perhaps, Japan. Canada can make an important contribution, but it cannot control either the agenda or the outcome. Even to influence the outcome requires adroit negotiators. The Community is reluctant to come to the table. The U.S. executive is eager, but as yet Congress has provided no negotiating authority. The LDCs are willing, but insist on some problematic pre-conditions and do not agree on the agenda. Japan is willing, but largely because a new round would facilitate management of its trade relations with the United States and the European Community.

Canada's economic growth is critically dependent on secure access to foreign markets. Our most important market is the United States, which now takes up to three-quarters of our exports. More, better and more secure access to the U.S. market represents a basic requirement, while denial of that access is an ever-present hazard. We are extremely vulnerable to any strengthening of U.S. protectionism. Early bilateral negotiations with the United States could provide opportunities for the two countries to negotiate reduction or elimination of tariff and other barriers to cross-border trade, at a pace and on a scale unlikely to be achieved multilaterally in a further GATT round. Such negotiations could also be used to win agreement on rules designed to deal with special or unique problems affecting cross-border trade; they would provide a more secure shield against a U.S. policy of protection.

Existing barriers to trade, including tariffs, are real. The rosy expectation of 80 per cent duty-free trade by 1987 masks the fact that trade takes place through "holes" in the tariff barrier. While a tariff of 5 to 10 per cent may not prevent trade, it will deter investment beyond that necessary to service the Canadian market. Furthermore, non-tariff barriers, especially those that take the form of contingent protection, are most effective in denying exporters the kind of security that provides the incentive for large-scale, job-creating investment. On the Canadian side, our tariff remains significant; while it doubtless protects producers, it also raises costs to con-

sumers and producers, and thus retards development of a more competitive economy.

Successive rounds of GATT negotiations have traditionally provided Canada and the United States with their main opportunities to liberalize trade. Future negotiations could well offer new opportunities to liberalize and secure Canada-U.S. bilateral trade. Such negotiations, however, are unlikely to take place soon enough or to be thorough enough or provide the kind of environment that Canadian producers will need by the end of the present decade and beyond. We need, therefore, to engage the United States more directly in bilateral free-trade negotiations.

After reviewing the various elements required to develop an effective new framework for Canada-U.S. free trade, we Commissioners have concluded that a successful agreement would:

- Establish a free-trade area, rather than a customs union or a common market.
- Be a broad agreement, covering substantially all trade between the two countries, rather than a collection of sectoral agreements.
- Allow for the exclusion of some sectors from its coverage.
- Be consistent with Canada's continued participation in GATT.
- Apply to tariffs, contingency protection and other forms of non-tariff barriers.
- Gradually eliminate tariffs over a period of several years. In recognition of its relatively greater effect on the Canadian economy, allow for a longer phase-in period of elimination of the Canadian tariff than of the U.S. tariff.
- Neutralize or reduce non-tariff barriers by means of common procedures and control them by codes of conduct.
- Establish a joint tribunal, subject to appellate review by a bi-national Committee of Ministers, to decide on and implement these codes of conduct.
- Provide for mutually acceptable measures of transitional adjustment assistance and safeguards.
- Include effective dispute-settlement procedures applicable to the proper interpretation of the agreement, whereby national politicians would mutually reach decisions. Stipulate compulsory arbitration by a neutral panel as a procedure of last resort.
- Be guaranteed by national laws.
- Provide adequate room to encompass provincial and state interests.

A bilateral agreement constructed along these lines would make our manufacturing sector competitive by encouraging a process of restructuring, rationalization and expansion of Canadian industry to serve the North American market and, from that base, to penetrate overseas markets. It would also increase the security of our access to our most important market, a condition that the relatively small domestic Canadian market makes essential for economic growth and new investment. Finally, it would improve and expand the access we now enjoy to the U.S. market and thus allow Canadian industries presently shut out of that market to grow and invest with renewed confidence. Overall, such an arrangement would make Canadians richer. On the basis of analyses made for this Commission, we are prepared to say that it would increase our national income by a proportion in the order of 3 to 8 per cent. This Commission has concluded that increases in employment are more likely to come from new investment than from the protection of existing jobs by means of trade restrictions. According to surveys conducted by the Canadian Manufacturers' Association, its membership expects that expansions stimulated by free trade will significantly exceed contractions. Workers will also benefit from higher real wages made possible by a more productive and affluent economy.

In Commissioners' view, all regions of Canada would benefit from free trade with the United States. In addition, the adoption of a bilateral free-trade arrangement would remove the historic grievance of Western and Eastern Canada that, in their opinion, maintenance of protection for secondary manufacturing industries favours Central Canada. While some foreign-owned subsidiaries would undoubtedly withdraw from Canada following a Canadian commitment to free trade with the United States, some are doing so now as a consequence of lack of assured access to Canada's largest export market. Assured access to the U.S. market would, on balance, lead to a significant net increase in investment in Canada. With the abolition of non-tariff barriers, our resource-based sectors in every region would become major beneficiaries of freer Canada-U.S. trade.

Despite this prospect, a bilateral free-trade agreement would not operate without cost. The new circumstances would inevitably require adjustment, but that is an ongoing process which will affect Canadians whether we move to free trade or not. Again, on the basis of Commission studies, we are confident that the long-term

gains will be many times greater than the short-term adjustment costs. Such costs, moreover, can be cushioned by the introduction of appropriate measures to provide transitional adjustment assistance.

Finally, our review of the political consequences of a move toward free trade has convinced Commissioners that even in this area of national life, benefits would accrue. Free trade would strengthen Canada's economic fabric; it would reduce regional differences relating to the conduct of trade and industrial policy; and it would contribute to our growing sense of national confidence. There are, however, risks to the distinctive characteristics of Canada's political culture, and these cannot be dismissed lightly. They will require deliberate policy and program responses to strengthen our independence in a variety of ways. For example, adverse consequences could be managed by the deliberate pursuit of policies to strengthen cultural and other aspects of Canadian identity. Our government should also strengthen the objectives and administration of our foreign policy to reflect a more activist internationalist stance to the world community.

The pursuit of Canada-U.S. free trade is not at odds with efforts to strengthen and improve the existing framework of multilateral trade. Rather, Commissioners see it as a complementary approach, involving concentration of our efforts and scarce resources on our most important market. We see multilateral and bilateral negotiations proceeding in parallel. In our view, to take such a two-tiered approach would be the best way to ensure that Canadian industry will win sufficient access to foreign markets to invest and grow with confidence. At the same time, it allows us to open our market in an orderly fashion and thus ensure that trade policy would do its part to encourage the development of a more competitive and more productive economy.

Negotiations leading to freer trade, whether pursued bilaterally or multilaterally, will be of little use, however, if they are not supported by the right domestic policies. Our support for freer trade, therefore, depends in no small way on the recommendations that Commissioners develop later in this Report. These recommendations should contribute to strengthening the competitiveness and productivity of Canada's domestic economy. Trade policy alone will not be enough.

Commissioners, like others who have enquired into Canada's relations with developing countries, see a need for Canada to take

more positive action to help these countries through aid and trade measures. We have reached this conclusion not only on humanitarian grounds, but also on the basis of our perception of Canada's own interest. Development of stronger links with these countries through aid and trade will pay dividends to future generations of Canadians, by contributing to a more stable world environment and by nurturing future trading partners.

Having carefully considered the analyses presented in the Report and our conclusions summarized briefly above, Commissioners make the following recommendations.

General

- Canadians have benefited from and contributed to the multilateral system of trade and payments developed primarily in the last 40 years, and we should continue to support that system as the mainstay of our foreign economic policy. Canada is sufficiently strong and independent, however, to pursue bilateral initiatives, including better economic relations with the United States, within the framework of multilateral relations.
- Canadian import policy in general should be based on a recognition of its costs to consumers and the costs of delaying adjustment. Canada should minimize any new protection, reduce protection gradually as part of bilateral or multilateral negotiations, and accelerate adjustment processes.
- Export promotion should be pursued aggressively and with greater reliance on private sector mechanisms, but the degree of subsidization this might involve should lie within internationally accepted rules and practices.

International Trade

- International trade is the life-blood of the Canadian economy. It is a major contributor to Canadian growth, jobs and real incomes. In view of the changing nature and patterns of international trade, Canadians are now confronted with several options in formulating trade policy. This Commission has identified three major approaches, each of which has several variations. Canada might:
 - Maintain its present policy. It might keep to the level and type of protection currently in place, but make selective efforts both to improve access abroad and to protect Canadian industry on a limited case-by-case basis.

- Participate actively in a new round of multilateral trade negotiations under the auspices of the GATT, in order to improve and secure our country's access to foreign markets, to open up our own market, and to strengthen the legal framework for international trade.
- In addition to taking the initiative for the elimination of trade barriers at the multilateral level, open negotiations with the Government of the United States to reach an agreement on a substantial reduction of trade barriers, tariff and non-tariff, between Canada and the United States.
- This Commission rejects any generalized move toward greater economic protection or toward import substitution as a general policy to insulate Canadian producers from the international economy. This approach, while perhaps the most comfortable in the short term, would lead, in the longer term, to major inefficiencies in the operation of the national economy, and a loss of jobs and lower incomes; it would also contribute to erosion of the multilateral system. In our view, a policy of maintaining the *status quo* would carry the serious risk of taking Canada backwards to a more protectionist position.
- Commissioners recommend that multilateral trade negotiations under the GATT remain a central theme of Canadian trade policy; thus Canada should move quickly to define its objectives for the forthcoming round. The GATT has served Canada well, and our nation's participation in further strengthening this international system of co-operation is a general insurance policy for the future. Broadly stated, Canada's objectives should include:
 - A more ordered world trading environment: that is, sufficiently stable, predictable and transparent international trade relations to instill a degree of business confidence that will lead to job-creating investment
 - More secure access to our major markets, particularly the U.S. market
 - Improved opportunity for the further processing of our natural resources before export, by reducing foreign barriers to manufactured goods
 - Improved access and trading conditions for agricultural and fishery products
 - An improved framework of international rules which will encourage orderly adjustment in the Canadian economy.

- Commissioners recommend that the Government of Canada, at the same time it undertakes an initiative at the multilateral level to eliminate trade barriers, also open negotiations with the Government of the United States to reach agreement on a substantial reduction of barriers, tariff and non-tariff, between Canada and the United States. Such an agreement would have to stand within the terms of Article XXIV of the GATT, and it would provide for a reduction of barriers between the two countries, but would leave each country with freedom of action to maintain separate trading policies with other economic partners. We do not recommend a more intensive arrangement such as a common market or an economic union, where even closer integration would take place between these two economies.
- Commissioners recommend that Canada negotiate a legal arrangement with the United States which incorporates strong safeguards to limit spill-over from the arrangement and thus protects substantive policies, such as those pertaining to culture and defence, which are functionally unrelated to trade in goods and services. Indeed, a policy that creates no linkage should be explicitly confirmed in the agreement. We recommend that the Government of Canada pursue a more aggressive policy of support for indigenous cultural expression as a concomitant of a bilateral trade initiative.
- Commissioners recommend that this legal arrangement attempt to regulate three general types of barriers which currently restrict trade between the two countries. We recommend that:
 - Tariffs be phased down to zero over a period of perhaps ten years. To this end, effective rules of origin must be developed.
 - An approach be developed to use measures of contingent protection as follows:
 - For measures governing “fair” trade (such as safeguard action) and “unfair” trading practices (such as anti-dumping and countervailing-duty proceedings), enforcement would be shifted from national administrative tribunals to a new Canada-U.S. intergovernmental body established under the bilateral arrangement; this body might be known as the “Canada-U.S. Trade Commission” (CUSTC).
 - Detailed codes of national conduct would be required to govern resort to other non-tariff measures such as discriminatory federal and state-government/procurement practices, product standards and federal customs, classification rules and administrative procedures. Again, these matters should be subject to review by the CUSTC.
- This Commission holds that a free-trade arrangement should incorporate explicit provisions which reflect the proportionately greater costs of adjustment that Canadians will face. The Canadian economy needs more time for adjustment than does the U.S. economy. We therefore recommend a two-track approach to phasing in the tariff cuts, to allow U.S. rates of duty generally to be reduced either at a faster rate or earlier than Canadian tariffs. The Canadian government should quickly develop strategies for adjustment which are compatible with the framework of adjustment assistance proposed in Part V of this Report, that is, the new Transitional Adjustment Assistance Program (TAAP). The emphasis of government programs should be on assisting workers to adjust to new employment opportunities. In addition, a reoriented industrial policy, as set out in Part III, will encourage the flexibility and growth orientation required by a free-trade environment.
- This Commission recommends that the Government of Canada urge the Government of the United States to implement the free-trade arrangement by amending U.S. federal and, if necessary, state legislation to conform to the arrangement, and that they do so under a “fast-track” procedure which would require Congress to pass implementing legislation within 90 days of the President’s formal declaration that he intends to sign an international agreement binding the United States. We also recommend, however, that a formal treaty eventually be struck once both governments have had sufficient experience with the arrangement.
- This Commission recommends that negotiations in Canada proceed on the basis of broadly based, federal-provincial consensus, and that provinces be prepared to give legislative assent to the provisions of the arrangement, in keeping with the close consultation that will be required to achieve federal-provincial consensus. We also recommend that in the longer term, Canadian governments establish a federal-provincial constitutional procedure: sections of the treaty that impose obligations on provinces would come into effect across Canada when two-thirds of

the provincial legislatures, representing at least half of Canada's population, passed resolutions in support of the treaty.

- This Commission recommends the formation of a three-tiered Canada-U.S. intergovernmental institution to take basic executive and administrative decisions; to provide technical staff services; to adjudicate complaints and hear appeals under the agreement. We further recommend the institution of the following mechanisms:
 - A committee of national officials at the ministerial level to be responsible for the enforcement of the agreement's obligations
 - A supporting body of officials known as the "Canada-U.S. Trade Commission" (CUSTC) to manage non-tariff barriers, subject to appellate review by the Ministerial Committee
 - A standing arbitral panel with binding powers as a board of last resort, to resolve disputes arising from conflicting interpretations of the agreement. Such a panel would consist of two Canadians, two Americans and one neutral member to be chosen by the members of the panel.
- International trade and industrial policy are inextricably linked. In Canada, there is the added dimension of the cultural and social implications of these policies. To undertake successful negotiations on freer trade with the United States would require an extraordinary management effort by the Government of Canada. We Commissioners, while making no specific recommendation on how best to prepare the way for such negotiations, wish to express concern that the current federal departmental structure does not appear to provide the degree of integration required to carry out a major negotiation of this kind. It may be that an Office of the Special Trade Negotiator should be established, and that the incumbent should report directly to the Prime Minister.

Development Assistance

- The motives of altruism and long-term national interest coincide in this Commission's recommendations for the adoption of Canadian objectives relevant to Canada's relations with developing countries. In pursuing these objectives, Canadians should be aware that the primary responsibility for development rests with the nations in question, and that although greater international efforts are required, difficult social and institutional issues within the developing countries are often the fundamental impediments to progress, just as they are in all nations. Commissioners recommend:
 - An improvement in both the quantity and the quality of Canada's aid performance. Canada should advance to the Lima target of providing aid in the amount of 0.7 per cent of GNP, not by 1995, but by 1990, and aim to achieve aid in the amount of 1 per cent of GNP by the year 2000. The Canadian government should reduce the proportion of our aid which is tied, and to facilitate this reduction, we should rely more on multilateral than on bilateral aid.
 - That Canada work within global institutions to improve the receptivity of these bodies to proposals helpful to developing countries. Canada should, for instance, systematically seek ways to involve developing countries more fully in a future round of GATT negotiations.
 - That the Canadian government be ready to consider proposals for mitigating some of the more harmful effects of the international debt crisis on developing countries. Canadians should resist pressures for economic protection that would apply to exports from these countries. A more constructive and conciliatory approach to developing countries and their problems will not only help these countries, but also yield longer-term dividends for all countries.

We believe that the implementation of these recommendations will help to strengthen our country.



Growth and Employment

Canada's growth and employment prospects are likely to be mediocre without substantial changes in government policy in a wide range of areas.

In many respects, the policy choices open to Canadians are tightly circumscribed by the global context. We cannot forge trade policy in isolation from our major trade partners and competitors; education and training programs must coincide with employment opportunities, which depend to a considerable extent upon exports and successfully meeting foreign competition for domestic markets; industrial and natural resource policies must attend to the productivity and competitiveness of Canadian enterprise; technological progress largely derives from breakthroughs abroad, hence domestic R&D must be networked with international efforts; and monetary and fiscal policy must account for the interdependence of Canadian economic performance with international developments, particularly south of the border. But while Canada's employment and growth prospects must necessarily be assessed in a global context, and domestic policy shaped accordingly, the outcome is far from deterministic. There is considerable scope within this global framework for Canada to exercise policy choices that, if exercised correctly, may materially improve our growth and employment prospects.

Most government activity has some bearing on economic growth and employment. The most critical policy areas, however, relate to trade, education and training, management of our natural resources, industrial development, adjustment to technological change, and regulation of the overall economy by demand-management instruments (*i.e.*, monetary and fiscal policy). Decisions respecting each of these areas should, as far as possible, be mutually complementary and supportive.

In the absence of major policy changes Canada can expect to experience steady but unspectacular growth. Four independent long-term projections indicate that Canada's growth rate

will closely parallel the U.S. rate. Annual real growth in Canada should average 3 per cent during the late 1980s, and decline to about 2.5 per cent during the 1990s, in keeping with a decline in the rate of labour-force growth. The growth prospects for natural resource-based production seem weak, especially in mining and forestry.

This outlook contrasts sharply with the post-Second World War performance until 1973. Canada experienced rapid growth in those early years, comparing favourably with other OECD countries in terms of employment growth, productivity improvement and the control of inflation. After 1973, however, inflation began to climb rapidly, and productivity growth declined. Since the 1981-82 recession, unemployment has been our most serious policy problem.

While long-term projections suggest that Canada's growth over the next two decades will exceed that of the past decade, unemployment is expected to remain at relatively high levels throughout the 1980s. The continuing high levels reflect the slow recovery in employment from the devastating effects of the worst recession since the Great Depression. Also reflected, however, are structural and institutional features of our economy. These features, which include major demographic shifts, a sharp rise in the participation of women—particularly married women—in the labour force, rigidities in labour/management contractual relationships, and comprehensive unemployment-insurance benefits, will make it very difficult to reduce unemployment, on a sustainable basis, below 6.5 to 8 per cent. Changes in policy direction are needed to attain even this unemployment range in a shorter time period than "self-righting" forces would require. A long-term unemployment goal of less than 5 per cent is feasible but, in this Commission's view, only if Canadians support the necessary changes in policy and structural and institutional factors that influence the efficient allocation of resources.

We Commissioners have concluded that the employment goal should not and need not be pursued at the expense of technological progress and improved productivity. The fear that this progress and productivity will result in still more unemployment is unfounded. Productivity growth increases both the supply of output and real demand to roughly equivalent degrees; hence there is no substantial conflict with the employment goal over the longer run. Employment growth, in fact, appears to be largely unrelated to productivity growth. A much more important determinant of employment growth

is growth of the labour force. The quality of jobs, however, is tied to productivity performance. Increased productivity and technological change are the keys to longer-term growth in real income and economic welfare.

This Commission does not advocate maximum economic growth regardless of its consequences for the distribution of income, employment security or the quality of our environment. We Commissioners believe that economic growth can be strengthened by policy changes that respect broad social goals. Examination of the economic and social policies of government has revealed shortcomings that severely hamper fuller employment and increased incomes.

These shortcomings also threaten our trade competitiveness and detract from effective response to technological innovation. The rapid pace of technological progress in a number of fields, together with the emergence of new international competitors, emphasizes the need for a highly adaptive economy. While it is difficult to determine whether or not the overall pace of technological progress has accelerated, the increase in the share of gross national expenditure spent on research and development in Canada and the United States in recent years suggests that the international technology race has intensified.

For Canada to perform at least as well as its major competitors will require a highly supportive framework for private sector enterprise and astute management of overall economic growth. It is these dimensions that are the subject of Part III of this Commission's Report.

Industrial Policy

This Commission calls for a significant realignment of industrial policy in Canada. We Commissioners recommend that governments, both federal and provincial, put greater emphasis on strengthening Canada's productivity performance and overall competitiveness. Too frequently, industrial policy has intervened against basic market forces to shore-up declining industries or firms. Too little attention has been paid to facilitating adjustment to new realities and new opportunities.

Canada must strive to ensure the best performance of all sectors of the economy. Our natural resource wealth is no longer a guarantee of jobs and rising living standards. The challenges posed by Japan and newly industrializing countries, and the attractions of securing access to the U.S. market by investing there require that Canadians be much more competitive than

we are now. Further, technological developments require a more flexible and adaptive economy than past practices of government would produce.

A Market-Oriented Framework

To meet these challenges Canadians must decide on the general role government ought to play in industrial policy. Should government intervene actively in the allocation of human, capital and natural resources, in an effort to promote industrial winners and to phase out industrial losers? This Commission recommends the rejection of a so-called "targeted approach" to industrial policy. Governments, federal and provincial, lack the capacity to orchestrate, let alone to formulate, an explicit industrial strategy in the detail that would satisfy the ardent proponents of a strong "hands-on" approach. The world is just too complex, and the need for flexibility and adaptability is too great, to bind the private sector in a strait-jacket, however well intentioned that "remedy" might be. This blueprint for industrial policy would reject reliance on market forces and the private sector as the engine of growth.

This Commission also rejects, however, the strict "hands-off" approach. For several reasons, government intervention makes sense in selective cases. Furthermore, while there is little evidence in Canada or abroad that a targeted industrial policy is more effective than a market-oriented policy, other countries will continue to experiment. Commissioners' review of foreign industrial policy discloses a broad range of policies, but no clear pattern pointing to a successful mix. Nonetheless, Canada must monitor foreign industrial policies closely and consider strategic ways of strengthening its areas of comparative advantage. In our judgement, however, Canada has relied on intervention too often, too extensively, and in too *ad hoc* a fashion. We Commissioners favour a more market-oriented approach than has been past practice.

Within a framework of greater reliance on market forces in allocating resources, this Commission stresses that many government policies and programs must be realigned to forge a consistent industrial policy. First and foremost, government policies and programs should be reassessed from the point of view of Canada's productivity performance and competitive position. Industrial policy should fortify incentives for excellence, for the efficient allocation of resources, and for adjustment to new economic realities. Such a policy would produce increases

in real income, fuller employment and the means to address income distribution.

To improve the productivity of Canada's human, capital, and natural resources, and the competitive position of Canadian industry, industrial policy should emphasize broadly based support programs that work in tandem with market forces. Following are the principal elements of a more market-oriented industrial policy.

The Promotion of Stable Economic Growth

In order for private enterprise to function efficiently and effectively, it must be supported by macro-economic measures, including fiscal and monetary policies, designed to promote steady growth of output and employment in a context of relative price stability. In the matter of industrial policy, this Commission recommends that as far as possible, governments endeavour to provide consistency in the overall macro-economic and micro-economic framework. Frequent changes in tax or other policies can lead to confusion and uncertainty; a medium- to long-range perspective should guide the development of broad framework policies.

A Commitment to Freer Trade

A commitment to freer trade, as we have seen, should be a key component of Canada's industrial policy. Increased competition from the world in general and the United States in particular would work powerfully to induce Canadians to allocate our human, capital and natural resources in ways that would improve the country's productivity.

Canadian governments should adopt policies designed to help Canadian industries to overcome the problems and seize the opportunities deriving from a transition to freer trade. Moreover, they should take steps to "level the playing field": that is, to reduce or remove tax, regulatory and other obstacles that would unnecessarily impede the ability of Canadian companies to meet foreign competition at home and abroad.

A Commitment to Strengthening Our Output Capability

A comprehensive set of policies governing the education, training and mobility of the labour force, collective bargaining arrangements, and other similar measures forms an integral part of industrial policy. These issues are addressed separately in other Parts of this Report. With respect to capital, technology and management, this Commission has drawn the following conclusions and recommendations.

Capital Formation

International comparisons suggest that Canada had a relatively strong investment record during the 1960s and 1970s and until the 1981-82 recession. However, some recent economic analyses indicate that the current tax treatment of savings and investment may result in a capital stock that is too small. Commissioners suggest that government examine the effect of the tax system on savings and capital formation. If investment does not recover quickly from its present cyclically weak level, government may need to induce more investment.

Domestic Research and Development

To achieve effective R&D expenditure is more important than to reach a target level in relation to gross national product. To increase the effectiveness of domestic R&D, governments should consider:

- Ensuring the availability of existing incentives to all business through some type of refundability of tax losses
- Broadening the definition of R&D while lowering the rate of tax subsidy, even though such a broadening could give rise to administrative problems
- Ensuring that adequate resources are devoted to obtaining information about foreign technological developments and to disseminating information on technological developments to domestic industry
- Encouraging excellence by concentrating Canadian effort on projects, research and development of world-scale value through "networking" among experts within Canada, as well as internationally
- Reducing protection of domestic industry and encouraging it to be more competitive internationally.

Technological Acquisition

New technologies are increasingly shared on a global basis, and the originating country has little lead time over others to exploit its advantage. Canada draws extensively from the world pool of new technologies, partly through investment in Canada by multi-nationals. New manufacturing technologies spread more slowly in Canada than they do in other countries. A potential solution is to liberalize trade and to reduce the existing barriers to the flow of equity capital.

Public policy in education and the gathering and dissemination of information could improve technological adaptation in Canada. Post-

secondary institutions should place more emphasis on science, engineering and business courses. Universities should be more active in the commercialization of inventions. The National Research Council's initiatives on information gathering and dissemination could be a model for other agencies. Technology brokers, contract-research organizations and think-tanks have assisted technology acquisition in other countries. Both the private and public sectors in Canada should consider more activity of this nature.

Management and Entrepreneurship

Management and entrepreneurship are components of industrial policy that have so far received too little attention. Canada's business schools must be better financed; to warrant this, business schools must demonstrate that they are abreast of modern business techniques. Management would do well to give greater attention to product design; to accomplish this, it would do well to follow the lead of other countries and work more closely with the arts community. Small business has proved to be a major source of employment growth and innovation; government could better support small business by improving the equity-investment market and the access to venture capital, and by reducing problems associated with government programs.

While small business is a vital source of entrepreneurship, other sources also require encouragement. Governments should consider changing regulations to stimulate equity investment by financial intermediaries in small and medium-sized firms, and changing the tax system to make equity ownership more attractive.

A Commitment to Supportive Framework Policies

Another element required to improve Canada's economic position is a commitment to framework policies that encourage the private sector to adapt to change and to allocate efficiently Canada's human, capital and natural resources. Framework policies include tax policy, competition policy, general regulatory policy, the role of Crown corporations, foreign investment policy, and adjustment policy. Commissioners' recommendations in each of these areas are as follows.

Tax Policy

We recommend a thorough review of the influence of the tax system on decisions that distinguish work and leisure, and consumption,

savings and investment. Tax policy has a fundamental influence on economic and social choices. The efficiency costs of the tax system must be better reflected in Canadian tax policy. In addition, Canadian tax policy must recognize the fluidity of capital flows.

While this Commission has not reviewed the tax system in detail, there appears to be merit to building on recent changes that moved personal income tax in the direction of a personal consumption tax. This approach would encourage savings and investment and could promote substantial efficiency gains.

Governments should review non-neutralities in the corporate-tax structure and consider indexing of capital assets for inflation. Alternative accounting methods of defining the corporate-tax base, such as the cash-flow approach and the refundability of negative taxes, are also worthy of review. Such provisions could replace fast write-offs of exploration and development expenses in the resource sectors, and accelerated capital-cost allowances in the manufacturing sector. This Commission considers it important that the disincentives inherent in the tax system be replaced with measures that will encourage the efficient allocation of productive resources and the adoption of new processes, products and services.

The Regulatory Framework

We Commissioners have identified what we consider to be a number of shortcomings in Canada's regulatory framework: excessive regulation in certain areas, combined with some over-lapping jurisdiction and conflict; the granting of excessive discretion to regulatory authorities, which creates uncertainty; lack of consultation about proposed changes within affected sectors; the obscurity of information about regulations that has the effect of transferring income from one group to another.

We Commissioners reject the simplistic notion that regulation should always be kept to a minimum. Some current problems, such as those associated with the environment, can probably be addressed only through an increase in regulatory activity. In many other areas, however, a reduction in regulation and a concomitant increase in competition would substantially increase economic efficiency. Even where regulation is necessary, it could often be made simpler and more responsive to changing conditions.

We recommend that government undertake to review and reform the regulatory framework as a whole. We also recommend:

- Adoption of a “sunset clause” that would require Parliament to consider periodically (perhaps every 10 years) whether major regulatory activities should be continued and, if so, whether their nature should be revised
- Reducing the discretion of regulators by more precisely defining their mandates
- Requiring both government and regulatory bodies to consult those affected about proposed regulatory changes
- Requiring that a report be submitted regularly to Parliament and the public on the full extent of all redistribution of costs and income sanctioned by regulatory provisions.

Competition Policy

Canadian industry appears to have become more concentrated at the producer level over the past decade. However, trade liberalization and deregulation have reduced concentration at the seller level. Mergers and conglomerates can result in undue concentrations of economic power; they can also improve efficiency and competitiveness internationally. Canada’s competition policy should better reflect both of these realities.

Commissioners maintain that competition policy should not be particularly concerned about mergers and amalgamations in those sectors of the economy where foreign competition exists. Such policy should focus, instead, only on those sectors of the economy that are not exposed to competition from abroad. The importance of liberalized trade as a guarantee of competition cannot be stressed too often. Given the discipline of international market prices, Canada can obtain the benefits of scale and of rationalization without suffering increases in domestic monopoly power.

Commissioners urge that Canadian policy be geared, to the greatest extent possible, to the reduction or elimination of regulatory and other barriers to competition, erected by governments. Parliament should empower the Director of Investigation of the Combines Investigation Act to report on all developments that impede competition in Canada.

This Commission has concluded that a modern nation with an open market economy should have available to it, under civil law, the means to prohibit horizontal and vertical mergers that are contrary to the public interest. Given increased trade liberalization, the primary area of concern should be the non-internationally trading sectors of the economy. Canadian firms should retain the right to co-operate with one another in export markets, provided that they

do not reduce domestic competition, and clarification should be offered through advance rulings.

Merger cases should be considered by a quasi-judicial tribunal rather than by the courts, so as to allow for greater discretion in weighing the benefits and costs associated with each case. In addition, the criminal provisions of the Combines Investigation Act should be tightened to restore their effectiveness, which appears to have been reduced by recent decisions of the Supreme Court of Canada.

Commissioners also recommend that all large corporations and groups doing business in Canada—public and private and Canadian and foreign owned—be required to make public all information about their operations relevant to understanding and better managing the economy.

Crown Corporations and Privatization

The sale of some Crown corporations to the private sector would be a logical part of deregulation, since it would enhance competition. We Commissioners conclude, however, that the main point at issue is what firms governments should stop buying. The federal government and the provinces should resist the tendency toward nationalization, particularly for the purpose of bailing out industry.

Both levels of government should reassess the functions of Crown corporations and mixed enterprises. If the functions or objectives of a given Crown corporation could be met more effectively under other directions, the enterprise in question should be either phased out or sold to the private sector. If a Crown corporation is to be privatized, foreign buyers should not generally be excluded from bidding for its assets. Exceptions to this rule include instances where purchase by a foreign buyer would result in barriers to entry by other competitors, or where the industry in question should be reserved for Canadians. Commissioners recommend that governments maintain existing Crown corporations or create new ones only where they serve as an effective instrument of public policy that could not be better achieved by other means.

Foreign Investment

We Commissioners advocate relaxation of existing restrictions on foreign investment, since such investment is a valuable source of new technology, managerial “know-how” and entrepreneurship. Because of potential conflicts between foreign ownership and Canadian economic interests, foreign investment should remain subject

to some degree of regulation. Commissioners propose that:

- Foreign take-overs of Canadian companies involving assets of more than \$50 million, but not new foreign investment, be subject to review
- Such a review be undertaken by a quasi-judicial tribunal rather than a single Minister or the Cabinet to ensure full public disclosure and accountability; to this end, fast-track procedures and practices for handling of commercial confidences would need to be developed
- The review focus on the competitive and technological conditions surrounding the proposed take-over; the major criterion be the contribution of the proposed take-over to increasing the efficiency of the Canadian economy
- All large Canadian and foreign-controlled firms in Canada (that is, those with assets of \$50 million or more) be required to disclose annually information relevant to a proposed code of conduct
- Canadian directors of foreign-controlled companies be required, under law, to file an annual report which would accompany the informational returns required of all large companies, setting out their corporation's efforts to promote the performance objectives identified in the proposed general code of conduct. Such a reporting obligation would permit public scrutiny of the extent to which directors have discharged their responsibility to reflect Canadian interests.

Adjustment Policies

Commissioners emphasize that measures to assist Canadians to adjust to the unavoidable ongoing changes under way in our economy should form an important component of Canadian industrial policy. Up to the present, national policy has often been directed to retarding rather than facilitating the process of change by various means, including tariffs, quotas and subsidies designed to sustain hard-pressed firms and industries.

Commissioners recommend that adjustment assistance be directed primarily to facilitate the transition of workers from declining industries to new industries. On both social and economic grounds, there are compelling reasons why government should adopt measures that will ease the problems of transition and cover a reasonable share of the costs of adjustment for

those workers and their families who are caught up in the process of change. Whenever possible, adjustment assistance should be provided to workers rather than to firms. (See Part V for specific recommendations.)

Commissioners recommend the institution both of tougher international agreements and of mandatory reference to a neutral agency, such as the Tariff Board, in order to make it more difficult for governments to resort to protection of declining industries. By the same token, we also recommend that it be made more difficult for governments to resort to the use of firm-specific subsidies. This step could be taken by attaching conditions that the recipients increase their competitiveness, and by requiring the costing of off-budget subsidies. If firm-specific subsidies are given to firms operating in declining sectors, the assistance should go to the most viable, and not the weakest, operations. Declining single-industry communities require special labour-adjustment assistance.

A Commitment to Infrastructure-Support Services

This Commission views policies relating to transportation, communications and infrastructure generally as vital components of an industrial policy designed to enhance Canada's productivity growth and overall competitiveness. Commissioners note with concern the shrinking share of government expenditure devoted to such infrastructure. We urge both the public and the private sector to view investment in the transportation and communications field as a priority.

While Commissioners recognize that a strong public role in this field is inevitable, we conclude that deregulation and a more market-oriented approach is desirable.

The private sector should be encouraged, through the tax system and government programs, to undertake the technological and other measures necessary to establish a first-rate transportation and communications network across the country. Canada needs better mechanisms for accommodating divergent regional investment policies and regulatory policies that have national implications.

A Commitment to Strict Guidelines on Government Intervention

While Commissioners urge that primary reliance be placed on market forces to direct the industrial development of the Canadian economy, there are instances where government should become directly involved in providing

assistance. Support for generic research and development is one such case.

Government should provide itself with a clear set of guidelines to determine the nature of its intervention at the sectoral or firm level. Given the difficulty of measuring the costs and benefits of intervention, Commissioners recommend that intervention in support of economic activities be rare. Few cases warrant special attention, and the burden of proof that such attention is desirable should be on those that propose intervention at the sectoral or firm level. A strict limit on the funds budgeted for intervention is essential. Intervention should be undertaken only where there is clear evidence of market failure, or in industries that exhibit substantial economies of scale, or where high risk and large size make it difficult for market forces to operate adequately. Where these circumstances prevail, the following guidelines should apply:

- The benefits of intervention must demonstrably exceed its costs.
- If efficiency is not the overriding objective, the objective should be achieved at the least cost.
- There must be sufficient consultation with business and labour to ensure that the chosen means of intervention are appropriate.
- International obligations must not be jeopardized.

A Commitment to Strengthening the Economic Union

A commitment to a strengthened economic union is a vital element of a healthy Canadian economy. It is also a logical component of industrial policy. Barriers to the free flow of labour, capital goods and services should be minimized, and federal/provincial policies should be harmonized. Part VI proffers this Commission's recommendations for strengthening the economic union.

We Commissioners strongly recommend an integrated industrial policy for Canada. By elevating the strategic objectives of productivity growth and competitiveness, and by weaving together the many components of government policy, including trade policy, which bear upon those objectives, Canada could greatly improve its output, employment and income prospects.

Management of Overall Economic Activity

Canada's long-term growth and employment prospects will also be strongly influenced by the ways in which monetary, fiscal and other

demand-management/related policies are applied. The 1981-82 recession and the events leading up to it have been a salutary, if bitter, lesson. The longer a country delays action to halt inflation, the more entrenched that inflation becomes. And the more entrenched it becomes, the harder it is finally to call a halt. We must learn from this experience what the limitations of demand-management policy are, and we must seek other ways of moderating the vagaries of the business cycle so as to avoid the harshness of unemployment and business failure or the hardships of rapid inflation. Monetary policy, if restrictive enough, can help to control inflation, but as the 1981-82 recession has shown, the consequences for employment and private enterprise are severe.

In tracing the evolution of demand-management policy since the Second World War, Commissioners note the growing sophistication and understanding of the way that the world economy functions. A number of developments have been particularly striking:

- The landmark contribution in 1936 of John Maynard Keynes greatly encouraged Western governments to intervene on a regular basis in an effort to restrain or stimulate the overall level of spending in the economy. In this way, they sought both to provide full employment and to minimize inflation.
- Gradually, however, Western governments came to recognize that monetary and fiscal policy measures for regulating aggregate demand were less sure in their results than originally believed. Both types of measures involved critical time lags before their full impacts made themselves felt. Moreover, forecasting economic developments proved to be very imprecise activity, casting doubt on the wisdom of attempting to correct any but major excesses or shortfalls in the growth of demand for the economy's output.
- In addition, the public's growing understanding of the possible consequences of external economic developments and of the government's monetary and fiscal policies gave rise to public expectations that further complicated demand management. In these circumstances, some economists concluded that government has only very limited ability to influence real aggregate demand because the general public anticipates the results of changes in policy and rapidly adjusts wage and price levels accordingly. Such economists considered that the most sensible policy course was to set monetary policy (and pos-

sibly fiscal policy) according to some fixed rule. Growth in the money supply, for instance, would be fixed at some predetermined level that would facilitate real output growth while maintaining stable prices.

- Growing interdependence among world economies has eroded the independence of national demand-management policy. A high share of our output is traded abroad, and, hence, employment and income stability in Canada depends substantially on events beyond our control. More than a quarter of our national income is directly generated from foreign sales, some 75 per cent of which derive from exports to the United States. Furthermore, capital-investment markets now operate much more openly and quickly than they did in the 1940s and 1950s. Unless extreme intervention is exercised, real interest rates in Canada are essentially determined, in the longer run, in world capital markets, where the United States plays a dominant role.
- Finally, a combination of demographic, social and institutional developments have caused the target of full employment to be substantially modified. When the Economic Council of Canada first reported some twenty years ago, the full-employment target was recommended to consist of 3 per cent unemployment. Hindsight shows, however, that the realistic target even then was possibly in the 4 per cent to 5 per cent range. Now, however, the level of unemployment consistent with price stability is estimated to be in the 6.5 to 8 per cent range. It is this range which sets a limit to how much demand-management policy, as distinct from structural changes, can achieve. To attempt to pump up demand to lower unemployment below this range without making structural changes would simply generate inflationary pressures and afford no lasting employment gains. More young people in the work-force, greater participation by women in the labour market, two-breadwinner households, minimum-wage laws, the nature of wage settlements, and more generous unemployment-insurance provisions have contributed to the increase in this non-accelerating inflation rate of unemployment (NAIRU). A permanent reduction in such "structural" unemployment would require the sort of structural changes that we have proposed elsewhere, such as freer trade, labour-market adjustments, and new mechanisms for labour-management relations.

Long-range projections indicate that on the basis of pre-1985 budget policies, unemployment would decline only slowly to 9.7 per cent by the late 1980s and to 7.5 per cent by the late 1990s. The current rate of unemployment (about 11 per cent) is well above the rate consistent with stable inflation. This unacceptably high rate is the result of an insufficiency of total demand relative to total supply. Impediments to reducing the current rate of unemployment by even 3 to 4 percentage points are the large federal government deficit, the high real current rates of interest, and the extraordinarily complex role played by expectations of inflation.

We Commissioners recommend that policies be initiated to reduce both the structural component of unemployment and the cyclical component of unemployment. A combined approach should allow for sustained employment levels whereby, on average, some 95 per cent of the labour force would be employed. The structural measures, elaborated in Part V, include changes to the unemployment-insurance program, reforms in education and training programs, a major \$4 billion Transitional Adjustment Assistance Program (TAAP), and a Universal Income Security Program (UISP). Measures to address the cyclical component of unemployment include a change in the mix of monetary and fiscal policies, acceleration of projects to provide or strengthen public infrastructure, and possible application of an incomes policy to forestall inflationary pressures. Long-run stabilization measures include making wages and prices more sensitive to prevailing economic conditions. These cyclical or stabilization measures are detailed in the following conclusions and recommendations.

General Guidelines for Stabilization Policy

We Commissioners recommend that the federal government should, as a general rule, use stabilization policy to achieve non-inflationary growth in demand in the medium term, while preserving automatic fiscal stabilizers. We recognize the considerable disagreement among economists about the strength of the self-righting forces that tend to drive unemployment to its natural or full-employment level. We believe, however, that discretionary stimulus or restraint can help to restrain these forces in periods of major extended divergence in demand from a non-inflationary growth path. Nevertheless, we Canadians must acknowledge that the influence we can hope to have on real demand in our economy is short term and rather limited in scope. Global interdependence, especially in

capital markets, limits the degree to which policy can insulate an open economy such as Canada's from foreign developments.

While Commissioners recognize that adherence to a steady monetary-growth guideline can help to ensure that a stable non-inflationary environment will be maintained, shifts in the demand for money during the past few years have made this approach difficult to apply. Furthermore, such an approach may lessen governments' ability to adjust the mix of monetary and fiscal policy in order to balance consumption and investment, and to balance the sectors of the economy that are strongly influenced by the exchange rate with the sectors that are not.

As a compromise solution, the government could relate demand-management/policy targets to the growth of nominal gross national product (GNP). This policy would require a willingness to adjust both monetary-growth targets to nominal GNP, in the event of significant shifts relating to the money supply, and monetary and/or fiscal policy, in the event of severe prolonged departures of nominal GNP from a steady growth path. Commissioners recommend that the joint setting of monetary and fiscal policy be consistent with non-inflationary growth of nominal demand.

To preserve independence in domestic policy for Canadian authorities, this Commission recommends a flexible exchange rate. We do not recommend exchange controls or an interest-equalization tax to control capital outflows. Maintenance of a flexible exchange rate will permit a "made-in-Canada" inflation target, but beyond this, government should look to the structure of the economy for ways of modifying short-run swings in aggregate demand.

Adjusting for Inflation

We Commissioners have also considered potential adjustments to lessen the distortions and damage that any continuing inflation imposes. We share what seems to be a general preference that has emerged over the last few years to opt for a low and stable rate of inflation, rather than for structural adjustments that would make it easier to live with inflation.

Despite the preceding conclusion, Commissioners believe that serious consideration should be given to indexation of financial assets, accounting systems and tax systems. To adjust the tax system to take inflation into account would improve its neutrality in general and lessen the incentive to rely on debt financing in particular.

The Role of Incomes Policies

In Commissioners' judgement, permanent wage and price controls or even a permanent tax-based incomes policy would probably not prove acceptable to Canadians and would not be consistent with our general approach of promoting a flexible, adaptable and growth-oriented economy.

We do, however, recommend the temporary use of controls or incentive-based incomes policies if Canada needs to reduce inflation again. Such temporary controls should be the subject of negotiation with business and labour groups.

We Commissioners believe that a formal voluntary incomes policy, which would involve commitments to respect common guidelines for wage increases and for price or profit patterns, will be difficult to achieve, given the structure of labour and product markets in Canada.

We recommend, however, continued informal and formal consultation on a broad range of economic issues, and increased openness about the bases of economic policy formation. Such an approach might assist public understanding and encourage realistic attitudes about wages and prices. It might also contribute to lower unemployment.

Control of the Federal Deficit

We Commissioners share the widespread concern about the size of the federal government's deficit. We realize that if the government does not reduce the current structural deficit, it will have to increase taxes just to pay interest costs and will find its flexibility seriously constrained. To stabilize or decrease the debt/GNP ratio, it will need to reduce the deficit from what it would otherwise be by about 1.5 per cent of GNP, which would be equivalent to \$10 billion by 1990-91.

We recommend a strategy of gradual deficit reduction, given the current prospect of slow recovery. The practice of laying out an explicit medium-term fiscal plan, initiated in the December 1979 budget, is useful. We favour using a combination of tax increases and rather broad expenditure reductions to reduce the deficit. The precise means of achieving this reduction is a matter for shorter-term government policy, but one possible means for consideration would be to set the indexing factor for the personal income tax and for some transfer-payment programs at x percentage points below the rate of inflation, and to hold the price factor for all other expenditure programs—except foreign aid and national defence—at x percentage points below the rate of inflation. Setting these annual indexing factors

3 percentage points below the inflation rate for a period of three years would generate a reduction in the deficit of about 1.5 per cent of GNP, thereby reducing the deficit and, by the same amount, the deficit/GNP ratio from the 6 to 7 per cent range projected for the late 1980s. As discussed later in the Report, we do not believe that short-term budgetary problems should be solved by making large reductions in the resources redistributed through income transfers. Indeed, our social policy reforms are based on the twin premises that there is no crisis of the welfare state, and that it is important to do more to redistribute funds to those most in need.

Short-Term Measures for Employment Stimulus

Under present circumstances of high unemployment, a shift to a less expansionary fiscal stance, so as to reduce the deficit, should be more than matched by a temporary shift to a less restrictive monetary stance. A moderate increase in the projected growth of demand, which might significantly reduce unemployment and strengthen investment, should still be consistent with a further reduction in inflation.

Adoption of a new mix of fiscal and monetary policies should contribute to a reduction in unemployment that is more certain and decisive than that currently anticipated, while achieving the reduction in the deficit that is necessary to provide room for stronger growth of capital investment and output in the private sector. Commissioners also recommend acceleration, on a co-ordinated basis, of planned capital spending by federal, provincial and municipal governments. This acceleration in capital spending on needed infrastructure would supplement easing of monetary policy in promoting expansion of aggregate demand in the economy and the creation of jobs. If considered necessary, these additional public expenditures could be financed by a temporary income-tax surcharge or reduction or elimination of certain personal deductions.

To reinforce the downward trend in inflation and so make possible temporary acceleration in the rate of economic growth with minimal risk of renewed inflation, this Commission recommends consideration of a temporary incomes policy. The combination of a change in the mix of fiscal and monetary policies, increased capital spending, and a temporary incomes policy could reduce unemployment by as much as 2 percentage points a year, which could reduce the overall rate to the NAIRU range by 1988.

Measures to Maintain More Stable Growth of Output and Employment

Commissioners' conclusions about the limitations of monetary and fiscal policy in moderating the business cycle has led us to search for other ways of stabilizing the growth of output and employment. One means we strongly recommend for consideration is to make wages and prices more sensitive to prevailing economic circumstances.

If wages and prices were more flexible, they, rather than employment, could absorb variations in aggregate demand. The trade-off is stark: given rigid wages and prices, employment must fall when aggregate demand is weak; given downward adjustments in real wages and prices, employment can be better maintained during periods of recession. The latter choice would provide a more equitable manner of sharing the burden of temporary upsets in the economy, and it would help avoid the waste of unused resources.

Considerable rigidity now exists in wages and prices because of the existence of long-term, overlapping, collective bargaining contracts that provide little or no room for the adjustment of worker compensation (and subsequently of prices) to reflect actual economic conditions as opposed to those expected at the time of negotiation. Most employees, however, are unlikely to opt voluntarily for greater flexibility in wages. This Commission therefore recommends that governments introduce incentives to encourage employees and employers to settle for more flexibility in matching wages to economic circumstances. Gain-sharing so as to allow employees to share in the profits or revenue of firms should be actively encouraged by government. Hourly wages would prevail as the predominant form of compensation, but supplemented in normal and buoyant periods by a year-end (or semi-annual) bonus. Employees would have to be assured that their compensation under a gain-sharing arrangement would, on average, compare equally well to current contract arrangements. Also, for gain-sharing to function, there must be a much more open exchange of information between employees and employers than has so far been the practice.

This Commission expects that such reforms will be difficult to implement. These and other reforms recommended in this Report, however, are essential to improving the economic growth and employment prospects of Canada. Without such a comprehensive approach, reduction of unemployment to the level of 6.5 to 8 per cent may be a lengthy and difficult process. Fur-

thermore, without such a demonstration of political will by all major groups in society, and by individuals as well, the prospects for undertaking major structural changes to reduce unem-

ployment below 5 per cent would appear to be less bright. This basic challenge of political will is the central determinant of improved economic performance.



Natural Resources and Environment

The natural resource sector's contribution to Canada's economic well-being, cultural life, and political traditions and institutions has been immense. Because natural resources have been so important to Canada's past, however, we tend to exaggerate their importance to our future. In fact, the resource sector has not grown in recent years at a rate commensurate with the economic expectations we have developed in the period since the Second World War; nor does its projected growth match our hopes for the decades to come.

It has become clear in recent years—if it was not clear before—that Canada's natural resource endowment is not unlimited. We are losing our agricultural land to suburbs and shopping centres. Our stands of readily accessible, high-quality timber are largely gone, and our richest and most accessible deposits of ores and fossil fuels are already in production. Our mismanagement of the fishery has meant that we have not been able to reap the potential benefits of the designation of the 200-mile offshore zone in 1977. These problems of supply are compounded by prospects of lower demand in world markets for forest products and most non-fuel minerals. Moreover, our forestry and minerals industries can expect increasingly stiff competition from countries with lower production costs.

These problems do not mean that our basic resource industries will disappear. Relative to other nations, Canada remains well endowed with natural resources. The outlook for oil and gas, a few minerals, hydro-electricity and Western grains is favourable. The dollar value of production in the resource sector will continue to grow. Nevertheless, the share of output in this sector will decline, relative to the share of output in other sectors of our economy, although the decline will not be as rapid as it was in the 1950s and 1960s. Total exports of resource products will continue to expand, and the terms of trade are unlikely to turn against us in any dramatic fashion. Increasingly, however, we shall have to supplement resource exports with

exports of more highly processed products if we are to maintain our capacity to buy the goods and services of other nations. The pattern of relative decline will mean that we can generally expect no net gain in resource-sector employment in the future: a growing proportion of Canadians will find their jobs in factories or offices. Indeed, the decline in the resource sector's share of total employment is the clearest indication that the sector will not be the engine of economic growth that it has been in the past.

The prospect of a decline in the relative importance of the resource sector in relation to our national economy is no reason to neglect that sector's problems. Resource industries are still essential to the economic life of many regions of Canada. Moreover, we have an obligation to pass on to future generations a variety of viable resource industries founded on a natural endowment that is as secure and as healthy as we can make it. Canada's success in resource production owes as much to human ingenuity as it does to the resource endowment itself, and many of the problems of the sector can be overcome, or at least diminished, by appropriate applications of that ingenuity. We must apply new methods, new processes, new public policies, and new thinking to the problems of maintaining both the competitiveness of the resource industries and the integrity of the natural environment that is their base.

The thrust of this Commission's detailed recommendations, as set out in our Report, is as follows:

- For agriculture, we recommend a range of measures, from expansion of foreign markets, to increased R&D, to reform of national supply-management marketing boards, planned to enhance the efficiency of a sector which has good prospects over the long term.
- For forestry, we recognize a legacy of mismanagement and recommend significant changes in the way the forest sector operates, as well as a major infusion of public and private investment.
- For the fishery, what has been lacking is political will, and we recommend measures to build on the fundamental reforms of the Kirby and Pearse Reports in order to shift the balance in public policy toward building a viable economic base in Canada's coastal regions.
- For minerals, we recognize the more limited possibilities in some areas because of changing world circumstances. We recommend a more realistic approach to adjustment in keep-

ing with our more market-oriented industrial policy. Furthermore, we recommend a movement towards a profit-based tax system.

- For energy, we recommend a new framework based on the principles of efficiency, fairness and predictability, and a complete overhaul of the fiscal regime for oil and gas. In particular, our recommendations include:
 - Moving to world price for oil
 - A gradual deregulation for natural gas markets
 - Adoption of a tax system based on profit rather than output, while retaining a minimum royalty
 - A continuation of a “tilt” in favour of Canadian firms.
- For the environment, we recognize the growing challenge and the need to integrate decisions related to environment and economic development. We recommend a series of measures to correct the incentives which are aimed at protecting the environment; and, in general, we propose strengthening the regulatory framework.

Commissioners believe that it is important, however difficult, to assess the problems and opportunities of the resource sector in a more comprehensive way, just as, for example, governments from time to time focus on the general issues of the manufacturing sector. The following general principles briefly relate the Report’s detailed sectoral recommendations to the management of the resource sector as a whole:

- We conclude that in Canada, with all its rich resource heritage, there is no conflict, in the long term, between the stewardship, preservation and enhancement of the natural resource base and growth prospects for the traditional resource industries. Consequently, we perceive a vital need to integrate environmental decisions with those related to economic development, and our proposals for action in each of the particular resource sectors reflect this perception. Thus we recommend a study of the loss of prime farm land to non-agricultural uses and emphasize our concern about the problems of soil deterioration and soil salinity. We support the infusion of large sums of both public and private monies into reforestation and silviculture, and we recommend that the duration of leasing agreements between governments and forest companies be increased in order to provide an incentive for long-term management of forest tracts. Finally, in recognition of the fact

that natural resources belong to the Canadian people and must be passed on to future generations, we believe that private developers should continue to pay governments a royalty based on production for oil and gas and minerals.

- In many other places in our Report, we call for less government intervention; in the area of environmental regulation, however, we are obliged to call for more. Over the long term, the task of environmental regulation promises to be immense. We shall have to deal with growth in the number and size of projects that may adversely affect the environment, with an increasing number of pollutants and hazards, with the irreversible, and sometimes unquantifiable, effects of a growing range of industrial substances and processes, and with the emerging international aspects of our environmental responsibility. Consequently, we recommend that governments increase their spending to provide the analysis needed to support the long-term regulatory task. We further recommend that federal environmental processes be put on a statutory basis, and that federal and provincial review processes be brought into greater harmony.
- Changes in the pattern of world trade have offered both new opportunities and new challenges to the Canadian resource sector. Our ability to realize the opportunities—and to survive the challenges—will depend on our ability to design resource strategies suited to a global context. This consideration has led us to recommend that the grains sector and the fishery sector pursue marketing and production strategies that will give them access to the new and rapidly growing markets in the developing countries. Whether it is a question of expanding our markets or of beating the competition, we believe that it is within Canada’s interest to work for free trade, both at the multilateral level and at the bilateral level, with the largest purchaser of Canadian resource products, the United States. The adjustment problems that would derive from freer trade and the bargaining tactics that would be necessary to bring it about would vary with each resource.
- We believe that in many instances a stricter adherence to market principles and an increase in the incentives to the private sector would brighten the prospects of Canada’s resource industries. Thus we consider that a commitment to market pricing for both oil and gas would provide the incentive essential

to increased exploration and development. For oil and gas and minerals, we believe that the establishment of a taxation scheme based largely on profits rather than on output volumes would both promote the development of marginal supplies and allow the industry to make more rational resource-allocation decisions. Although we do not advocate transferring ownership of forest tracts to private industry, we do suggest that such modifications to the land-tenure system as increasing the duration of leasing agreements would promote more responsible forest management. Finally, we recommend a phasing-out of national agricultural supply-management marketing boards and their replacement by an income-stabilization scheme designed to moderate large fluctuations in farmers' incomes.

- We believe that there is room for significant improvement in the efficiency of both the regulatory framework and the handling, licensing and transportation infrastructure that supports the resource sector. We emphasize the important effect of the Crow Rate on the transportation of all bulk commodities, especially Western grains. We support further movement in the direction of market-rate principles when the Western Grains Transportation Act comes up for review, but we leave it to the Committee of Inquiry on Crow Benefit Payment (Hall Committee) to advise on specific adjustments to the payment of the Crow Benefit. In the minerals area, we recognize that the regulatory structure is cumbersome and slow, and we recommend that governments undertake a systematic review of their regulatory processes with a view to streamlining them. We would also draw attention to the fact that fisheries management has all too often led to overcapacity, unnecessary tensions, uneven product quality and, thus, lost opportunity. For oil and gas, we recommend a simpler taxation regime and a simpler pricing formula, both of which would decrease medium- and long-term uncertainty.
- The resource sector has undergone far-reaching adjustments since the Second World War. Further adjustment will be both essential and unavoidable, although perhaps less dramatic than it has been in the past. We believe that if a given operation has failed to realize a profit over a sustained period, adjustment is inevitable and should be allowed to take its course; governments should not intervene to support uneconomic activity. Mines that

can no longer produce an ore competitively should be phased out, and we believe that in general, the same principle holds for the fishery. As we pointed out above, however, government action is necessary in some areas to guard against deterioration in the quality of our renewable resource base. In particular, we recommend a substantial increase in both public and private expenditures for the renewal of the Canadian forest.

- There must be and can be a balance in the adjustment process between efficiency and fairness to people whose livelihoods or communities have long depended on traditional resource industries. In the matter of the family farm, we recognize the special problems created by farmers' limited access to equity capital, by the volatility of farm prices, and by the principle that the land is to be passed to future generations. We therefore support the retention of special credit schemes for agriculture and, as mentioned above, we urge consideration of an income-stabilization scheme to replace national supply-management boards. By the same token, we support replacement of Unemployment Insurance for fishermen by a new production-bonus and income-stabilization program, a scheme that would promote more efficient behaviour without reducing total benefits. Fishermen would also be eligible for income supplementation under the Universal Income Security Program (UISP) proposed in our recommendations on social security. In the minerals sector, we recommend the provision of adjustment assistance for communities and individuals affected by mine closures.
- Research has a large pay-off, but often the benefits seem too distant to the producer of the resource to justify the expenditure. We recognize that there must be renewed Canadian effort in fundamental research, especially in the traditional resource industries, if Canada is to match progress in competitor countries. Research into soil deterioration and new crop varieties warrants long-term funding by government. So does research related to aquaculture and to maintenance and improvement of the forest base. We have also called for an increase in expenditure on training in forestry. Finally, we support a stepped-up research effort in the field of environmental management, where we believe that the institutional capacity to provide scientific advice on a systematic basis is essential.
- In view of the importance of resources to

Canada's future economic prospects and of the need to take a more integrated view of the problems and opportunities in the resource area as a whole, we recommend the establishment of a Council of Resources Ministers to provide leadership for increased federal-provincial co-operation. We recognize that various ministerial groups (for example, on agriculture and mines) now exist, but we

believe that it is important for a co-ordinated strategy across the range of resources to be developed, based on the principles we have outlined above. We also recommend the development within the federal government of a greater capacity to analyse the contributions and problems of the resource sector as a whole.



Human Resources and Social Support

In this part of our Report, we Commissioners focus on those programs that bear directly on individual Canadians: the programs of our human resource and social policies sector. In approaching these topics, we have searched through the records of our hearings and the submissions made to us, to try to identify common goals and values with which Canadians approach these programs. There is no doubt that when Canadians assess social and human resource policies, they place a high value on efficiency in the use of scarce resources; in this respect, social policies are no different from others. We have found, however, that Canadians also bring a broader set of values to bear when they consider social programs.

First, we Canadians value equity. To our way of thinking, equity implies that the distribution of rewards in our society should reflect not just the ownership of resources and not merely the operations of chance, but also need, effort, merit and the taking of risk where that risk may lead to benefits for others. To our mind, equity is not identical with equality, and yet it often implies a somewhat greater degree of equality than is to be achieved by market mechanisms alone.

Secondly, we Canadians value security. While different people assign different values to security, we all require assurance that in the face of illness, loss of employment, family breakdown or the sometimes inexorable workings of a complex and dynamic economy, we will receive some protection. Security need not and should not be absolute, and there will naturally be wide debate about what degree is adequate, but it seems unquestionable that we all value it and expect our governments to provide it.

Thirdly, we Canadians seek opportunity. For most of us, opportunity is tied to labour-force participation; for most of us, a job represents our avenue of upward mobility, and it is often an essential element of our sense of self-identity. We therefore want our human-resource programs to be structured in such a way as to help us to find opportunities, to take advantage of

them when they come, and to gain some economic headway when we do so. The other side of opportunity is responsibility. We have a corresponding responsibility to provide for ourselves whenever we can and to be willing to adjust our behaviour in order to minimize our dependence on government.

Finally, we Canadians believe in sharing. Whether we are sharing risk or reward, adversity or wealth, we believe that it is our responsibility not merely to help ourselves, but also to help those who, through disability or, perhaps, the hand of fate, cannot provide fully for themselves. To this end, we believe that the benefits provided by social programs should be tailored so that those who, through no fault of their own, have profited less fully than others by the many opportunities provided in our economy should receive at least some of the rewards.

Equity, security, opportunity, responsibility and sharing: these concepts are not put forward in any particular order, for different Canadians will attach different weights to each. Commissioners believe, however, that these are the goals and values that Canadians would wish us to use when we examine those programs which bear most directly on us all as individuals.

The development of major social security and social service programs, the rapid expansion of educational and training systems, the augmentation of a framework for labour relations, the assimilation of millions of immigrants into Canadian society, and the improvement of some aspects of our labour markets all stand out as important achievements of the post-Second World War era. Yet despite broad agreement concerning the values and goals outlined above, the basic means by which we should seek to accomplish them have been increasingly debated. The arguments about the universality of our social programs constitute one such debate. Another relates to the adequacy of our educational and training systems and the continual discussions of how best to structure our unemployment-insurance plans. Still another revolves around the nature of our immigration policies. Controversy surrounds the entire area of labour relations, and as a nation, we are far from determining how best to provide equal opportunities in the work-place. A careful examination of these areas of interest is essential to determining Canada's future development prospects.

Achieving Our Social Goals

In striving to achieve the best possible combination of equity, sharing, opportunity, respon-

sibility and security, we Canadians must also remain mindful of our need to achieve an appropriate degree of economic efficiency, for this contribution to the well-being of us all is vital in an increasingly competitive world. To improve economic efficiency is, in effect, to increase the output available to meet the needs and wishes of Canadians, including the poorest and most vulnerable groups within our population, as well as the richest and most secure. It is obvious, therefore, that we must pay due regard to the economic efficiency of all our program designs.

This concern for economic efficiency underlies Canadians' general preference to pursue our goals primarily through formal instruments of social insurance and income redistribution, and through governments' provision of essential social services which the market would not adequately provide, rather than by imposing constraints on the functioning of market mechanisms. Thus, for example, the need to develop a more efficient, flexible and adaptive labour market undergirds Commissioners' analysis of intervention in wage setting, our approach to meeting labour-force requirements, our consideration of existing constraints on part-time work, and our proposals for the reform of aspects of our Unemployment Insurance (UI) system and our major income-transfer programs. We are well aware, of course, that there are many instances of market failure, of situations where the labour market does not operate to ensure efficient allocation of human resources. Where such market failures do exist, we have not hesitated to recommend interventions to correct them.

Just as we Canadians have a range of goals to aim for in considering our human resource and social support programs, so also we have a variety of instruments through which to achieve these goals. Broadly speaking, these mechanisms may be divided into two categories: the *direct delivery of services* by government or public institutions such as schools or hospitals and the provision of *transfer payments or the use of tax mechanisms* which redistribute money from one member of society to another. Transfer programs may be further subdivided into those intended to serve primarily as a social insurance instrument, helping to insulate Canadians from unexpected declines in income, and those which redistribute income on the basis of some definition of need. Unemployment Insurance is the primary example of the former type of program, and social assistance is an example of the latter.

It is equally important to distinguish among

instruments when designing individual programs. For example, attempts to blend the two instruments of insurance and redistribution in a single program may reduce the efficiency of each. Thus Unemployment Insurance is not well suited to serve as an instrument of equitable income redistribution because the program pays benefits on an individual, rather than a family, basis; excludes people who have not paid premiums; fails to test for all sources of income; and applies a very short accounting period to benefits. Yet, intentionally or inadvertently, Canadians use Unemployment Insurance as a redistributive instrument; we do so, for example, by applying a surtax to workers whose annual income is greater than \$30 000 and by maintaining a regional-benefits structure which is not related directly to individual risk. General acceptance of the desirability of separating insurance and redistribution would therefore provide the basis of important reforms in the UI program, and we Commissioners have based some of our reform proposals on that proposition. Yet, because we are mindful of the multiple goals which the income-security system as a whole should attain, we shall recommend that such an option not be pursued in isolation but, rather, that it be accompanied by a stronger reliance on the transfer and tax systems for redistribution of income.

During the decades that immediately followed the Second World War, it was widely assumed that rapid economic growth and the development of social programs had eliminated widespread poverty from modern societies. From the 1960s onward, however, a growing body of evidence and experience has steadily eroded that view. The extent of poverty in Canada continues to stand as a tragic problem, but one which Commissioners believe is susceptible to substantial amelioration through improvements in our income-security programs and tax systems. Moreover, we view the constellation of our tax and transfer programs as seriously flawed with respect to the incentives and opportunities which it provides for low-income Canadians to improve their economic situation. The reforms we summarize below are intended, in part, to deal with these problems.

Implementing Major Reforms

The reforms proposed in this section are extensive. They will affect the lives and livelihood of virtually every Canadian. They are also both highly complex and closely interrelated. These attributes are particularly important with respect to those proposals dealing with income security,

unemployment insurance and transitional adjustment. In those areas particularly, we Commissioners must emphasize our view that the benefits of reform will be greatly amplified if governments treat our proposals as a single package. We shall be recommending a significant set of changes to our unemployment-insurance system and our income-security system. The UI changes will make our economy more dynamic by encouraging the expansion of more efficient industries and avoiding the payment of inappropriate cross-subsidies to less efficient firms and sectors. These are important changes, well worth considering in themselves, but implemented alone they would cause substantial hardship to some Canadians. If, however, they are implemented in conjunction with a Universal Income Support Program (UISP), the combination will offer substantial compensation for any negative effects, while most of the desirable effects will be retained. If the net savings generated by our basic changes in unemployment insurance are also redirected into a Transitional Adjustment Assistance Package (TAAP)—a very important step, in this Commission's view—individuals will be even better able to cope with the economic adjustments which we foresee.

Not all of the proposals presented in this section need to be considered as parts of a package approach. Commissioners' recommendations on labour/management relations or occupational health and safety, for example, are only very indirectly related to income-security or UI-program changes, and the same is true of most of our suggestions concerning post-secondary education.

Finally, we wish to emphasize that our proposals would do little to increase the net cost of Canada's social programs. The major elements of our suggested reforms are either self-financing (as with the UISP) or financed by expenditure reductions mentioned elsewhere in the package (as with UI and TAAP programs). We have not proposed reductions in the programs in this sector because it is our view that Canada's expenditures in this area are not excessive. For this reason, our financial objective has been to suggest appropriate reallocations of funding within existing expenditure levels.

Looking forward, Commissioners can see no trends that will inevitably undermine the fundamental viability of social programs. Such factors as the aging of the Canadian population or the demands imposed by technological and economic change require careful planning, but none is likely to prove so large as to make our

programs unsustainable, particularly if the reforms suggested in this part of our Report are carried out.

Labour Markets and Unemployment Insurance

After considering Canadian labour markets, Commissioners are of the view that Canada's most important goals are to create more jobs and to improve the situation of individual Canadians by eliminating any inappropriate incentives in current programs. We undertook our analysis on the assumption that current trends in participation rates will continue, bringing a steadily increasing proportion of women into the labour force. While these trends are basically manageable, particularly given our reasoning, detailed in Part III, that labour supply itself creates demand for labour, they do portend continuing high levels of unemployment—and continuing preoccupation of policy makers with that problem—for the next five to eight years; and they do add significantly to the training requirements Canadians must face.

We note in our analysis of labour markets that the highest proportion of current unemployment is either created by deficiency of aggregate demand or by structural factors such as mismatches between available job requirements and skills. A significant amount of unemployment is also created by "frictional" effects, that is the inevitable lags and delays as workers move from one job to another. We have dealt in Part III with aggregate demand deficiency. Here we recommend several measures to facilitate adjustment and training, thus reducing structural unemployment. We also recommend changes in unemployment-insurance and income-security programs which will lower frictional unemployment. Without undertaking changes such as those we are recommending, it will be almost impossible, even in the long run, to reduce unemployment below 6.5 to 8 per cent of the work-force, the current non-accelerating inflation rate of unemployment (NAIRU). Since we consider even those levels to be unacceptably high, we lay great emphasis on these types of reform.

Some increase in unemployment is also engendered by our existing UI programs. First, by making unemployment relatively "cheaper" for individuals, it has, in some instances, a negative effect on job search. Secondly, by providing, through its benefit structure, that individuals in some areas may qualify for 40 weeks of benefits by 12 weeks of work, it encourages regular cyclical unemployment; this feature is taken

advantage of by both employers and employees. Again, by providing extended benefits in some areas but not others, it discourages labour-force adjustment, while providing no extended benefits to large numbers of unemployed Canadians. Moreover, because its premium structure is unrelated to the risk of unemployment, it penalizes steady employers and employees and shifts benefits towards firms and employees with unstable unemployment patterns.

■ With respect to Unemployment Insurance, Commissioners recommend that the federal government consider a package of changes such as the following:

- Experience rating which establishes premium rates that are proportional to the risk of unemployment. These rates should generally be calculated on a firm-by-firm basis.
- A reduction of the benefit rate from 60 per cent to 50 per cent of insurable earnings
- An increase of the entrance requirement to 15-20 weeks of insured work over the preceding year
- Tightening of the link between the maximum benefit period and the minimum employment period; for example, establishing a ratio of two or three weeks of work as qualification for one week of benefits
- Elimination of the extended benefit period based on regional unemployment rates.

These changes would reduce UI benefit costs by at least one-sixth in respect of the reduction in benefit rates and approximately one-sixth in respect of the elimination of regional extended benefits. The cost reductions that could be achieved by the other changes are too sensitive to behavioural change even to be estimated by methods available to this Commission. However, total savings of at least \$4 billion at April 1985 rates of unemployment are probable.

■ Commissioners therefore recommend that:

- The savings in respect of the first three UI reforms be passed along as reductions in overall premium levels. (The regional extended benefits are financed from consolidated revenues.)
- Personal and corporate taxes be raised by an amount equivalent to premium reductions to create a Transitional Adjustment Assistance Fund. The government savings from termination of extended benefits should be added to the fund.

■ This Commission recommends that the Transitional Adjustment Assistance Fund be used to

finance a Transitional Adjustment Assistance Program. This program would provide adjustment assistance for Canadians who have exhausted their UI benefits, or whose lay-offs appear permanent, provided that they were willing to move or to undertake retraining to improve their employment prospects. The program would provide greatly expanded support for:

- Portable wage-subsidy programs
- Mobility grants
- Training programs
- Early retirement.

In addition, the TAAP could be used to provide compensation for losses in assets, such as housing, which occur as a result of the decline of communities. It should also be possible for TAAP funds to be used on a pooled basis to assist workers to purchase equity in plants which would otherwise shut down or in other forms of local economic development projects. In general, the extent of entitlement of workers to TAAP funds should be proportional to their length of attachment to the labour force, since older workers will typically experience greater transitional difficulties than younger workers.

■ Commissioners recommend that existing policies promoting equal pay for work of equal value be maintained. However, they may involve some negative consequences. If they are used apart from affirmative action programs, for instance, they may actually reduce employment opportunities for disadvantaged groups. Moreover, they can serve to move Canadians too far away from a market-determined wage system to an administered wage system. Commissioners therefore recommend that legislation emphasize creation of equal employment opportunities through affirmative action, rather than the principle of equal value. Commissioners generally approve the approach put forward by Judge Rosalie Abella. This would involve:

- Legislated requirements for affirmative action by all employers covered by the Canada Labour Code
- Encouragement of all provincial jurisdictions to follow suit
- Contract-compliance action by the federal government and Crown corporations.

We are not convinced, however, that sufficient attention has been paid to the costs of equal-employment/opportunities programs or, particularly, to the issues of equity among the various disadvantaged groups in Canadian society.

■ We therefore recommend that the program be phased in following:

- A three year experimental program of affirmative action in Crown corporations
- Extensive consultations with the private sector to ensure effective, but least expensive, implementation to begin in three years' time.

This Commission believes that the programs are more likely to be effective if they are supported by legislation and backed by an adequate enforcement agency.

■ We therefore recommend:

- Legislated equal-employment/opportunities provisions, rather than guidelines
- Establishment of fully adequate levels of funding for the federal Human Rights Commission and equivalent provincial institutions.

Work schedules are necessarily established on the basis of understandings between employer and employees that will express a balance between the requirements of the work process and the desires of the employee. This Commission has found, however, that some factors exist which may interfere artificially with the achievement of this understanding. Any such factors should be eliminated in order to achieve fuller flexibility of labour-market arrangements, thus enhancing both employee satisfaction and productivity.

■ Commissioners therefore recommend such changes as:

- Basing Unemployment Insurance, Worker's Compensation and CPP premiums on hourly earnings, with a ceiling on contributions that applies to hourly rates rather than to weekly or annual compensation
- Eliminating the bias against some categories of reduced hours in creating eligibility for paid holidays or termination notice
- Encouragement of pro-rating of fringe benefits.

Immigration

In the past decade, Canadian immigration policy has become more restrictive than our historical norm, both with respect to numbers of immigrants admitted and with respect to the criteria for admission. We Commissioners do not believe that this narrowing is necessary or appropriate, given the long-term projections for Canada's population growth. We are concerned, however, about the overall implications of a more open immigration policy.

■ We therefore recommend:

- A major examination of Canadian demographic trends and their implications for our government's future immigration policies
- That the same study examine, by means of open debate and other methods, the cultural, linguistic and racial implications of other forms of immigration policy
- Establishment of a long-term plan for immigration that, depending on the results of the study described above, will move to higher numbers of immigrants over a number of years. This new plan should place less emphasis on narrow occupational requirements and more emphasis on broadly skilled and generally capable immigrants.

Labour/Management Relations

This Commission notes the very great importance of the labour movement in Canada and throughout the developed world in improving the pay and working conditions of workers. To this end, we wish to recommend generally that all Canadian governments provide a supportive legislative environment for the labour movement and for collective bargaining.

■ The adversarial system of union/management relations needs to be re-examined. Management must respond to employee concerns about job security and job satisfaction and to the often-untapped capability of all employees to contribute to improved productivity and product quality. Unions must find new ways to facilitate and to participate in this process; they should have and take the opportunity to do so, not by relinquishing their representation of employee interests, but by adding to it a responsibility for helping to achieve the levels of competitiveness essential to the survival of the enterprise.

■ Since reductions in strikes and lock-outs could be achieved by the following measures, Commissioners recommend that:

- Labour-relations boards be permitted to create multi-employer and multi-union bargaining units when this is likely to facilitate the bargaining process. Such units should not be imposed but, rather, could be permitted on the application of one or both sides.
- More information be shared by the parties to industrial disputes.

Commissioners are not persuaded that shorter contracts or forced centralization of bargaining structures are likely to improve labour/manage-

ment relations significantly. Changes in these areas should therefore proceed on a voluntary basis. The right to strike or lock out must be rationally limited by the need to maintain the health and safety of the public.

Employer-employee relations in Canada seem likely to be most responsive to improvement at the level of individual firms, plants and union locals. Overall solutions proposed at the provincial or national level seem unlikely to be as effective as local solutions.

■ Commissioners therefore recommend that governments support, on a local and voluntary basis, such features as:

- Preventive mediation programs
- Quality-of-working-life programs
- Gain-sharing/compensation arrangements.

■ Occupational Health and Safety is an area of important and growing concern. Since great improvements can still be made, this Commission recommends:

- Greater emphasis on these issues at higher levels of corporate management. Management failure in this area is bound to result in higher levels of government intervention.
- More complete experience rating of worker's compensation premiums in order to provide direct financial incentives for firms to minimize health and safety problems, in order to ensure that the full social costs of hazardous work environments are reflected in prices
- Continued and increased reliance on the internal responsibility system rather than increased government intervention. This requires:
 - Mandatory, joint health-and-safety/labour-management committees in all eleven jurisdictions, such as currently exist in nine
 - Vesting real responsibility in those committees rather than leaving them with only an advisory role
- Continual revision of standards by governments as new information about hazards becomes available. This is most important in dealing with occupational health problems. At a national level, these standards could most appropriately be developed by the Canada Centre for Occupational Health and Safety. The appropriate jurisdictions would then apply the standards.

Commissioners are particularly concerned with occupational health issues. Because occupational diseases typically have long incubation periods, it is often difficult to evaluate the effects

of industrial processes on workers. That same factor makes it difficult to establish a direct link between occupational factors and specific diseases, and therefore current worker's compensation programs are not well adapted to handling occupational disease.

■ As well as recommending continual development of standards and monitoring of processes, Commissioners also urge that:

- The federal and provincial governments immediately consider the development of a comprehensive social insurance disability plan to deal with the longer-term effects of occupational health problems, as well as with other forms of disability in the working-age population. This plan could be implemented either by expanding Worker's Compensation into a comprehensive disability scheme or by extending the present disability provisions of the Canada and Quebec Pension Plans. A federal-provincial working party is currently considering this measure, but progress in developing this idea has been slow.

Education and Training

In Canada education and training programs discharge multiple functions. They constitute an important way in which young Canadians learn to live together in our community, and they are the most important means by which labour-force skills and knowledge are adjusted to labour-market demands. They also provide a major means of upward mobility. Our post-secondary educational institutions are also the major source of basic research and of much applied research, and they are important repositories of our culture.

Commissioners anticipate no diminution in the general importance of post-secondary education and training. Indeed, PSE is likely to increase in importance as the demand grows for high levels of knowledge and research. Training programs, particularly those relating to industrial training, are likely to become more important as Canadians adjust to the shifting realities of the labour market. The Transitional Adjustment Assistance Program, by providing greatly increased support for training, may be a particularly important factor in this adjustment.

Commissioners are concerned about several features of our educational and training system. In particular we are convinced that:

- Higher levels of excellence are desirable and achievable.
- More flexibility is desirable.

- Use of the PSE system by low-income Canadians is insufficient.
- The current federal-provincial transfer arrangements are inappropriate.
- The current balance between industrial and institutional training is still tilted too far towards the latter.
- There is inadequate provision for retraining and re-education in adult years.

With respect to post-secondary education, Commissioners believe that it is desirable to consider substantial changes in financing mechanisms in order to create a more competitive, dynamic and diversified system. The current Established Program Financing (EPF) transfer arrangements between federal and provincial governments are quite inappropriate for achieving those objectives. They should be changed to encourage reform of the system, but in a way that will minimize direct federal intervention in this area of provincial jurisdiction, while still allowing for the achievement of national objectives.

There has been very considerable informal discussion of the intergovernmental transfer arrangements for post-secondary education over the last five years, but there have been no formal federal-provincial negotiations. Commissioners believe that it is important for federal and provincial governments to enter immediately into serious discussion of methods of funding other than the current mechanism both because the present arrangements are less than satisfactory, and because the uncertainty about possible future arrangements may be impeding necessary reforms to the sector. Several broad options are available. Our federal government could:

- Withdraw completely from this sector and cede enough tax points to the provinces to cover its current contributions
- Return to the pre-EPF funding formula
- Provide an amount equal to provincial "own source" funding, exclusive of the tax points transferred under EPF
- Freeze its basic contributions at current or slightly lower-than-current levels while matching on a 50/50 basis incremental provincial spending on education. Alternatively, incremental funding could be earmarked to support high-level university-based research.
- Undertake a form of direct-to-student financing, allowing for variable PSE fee schedules.

This Commission does not recommend federal withdrawal from PSE involvement. Many of the benefits of post-secondary education are

national in scope, and provincial governments might tend to undersupply this sector unless there were some federal presence, particularly if they believe that graduates are likely to leave the province. Many representations and briefs emphasized the importance of involvement of the Government of Canada in this field.

Among the cost-sharing options are:

- A return to pre-EPF arrangements. This would be a step back to a basically unsatisfactory system.
- Provision by the federal government of amounts equal to provincial "own source" funding. This move would constitute a massive cut-back by the federal government, part of which would probably be passed on by provincial governments to already hard-pressed institutions.
- Freezing of basic federal contributions with cost-matching of increments. This stance would exert relatively little "leverage" on provincial government expenditures in this sector and would mean starting from a basically unsatisfactory base point. However, it is probably the most desirable of the cost-sharing options, particularly if some of the incremental funds are used to support research.

With the possible exception of the last option, none of the cost-sharing options seems likely to be satisfactory. None is likely to improve the incentives for institutions to achieve the flexibility and excellence which Commissioners think desirable. We believe that the complex institutional arrangements for PSE have created very considerable inertia in the system, to the detriment of the student and society as a whole. We therefore believe that direct-to-student funding, although it is the most radical option and thus difficult for PSE institutions and governments to accept, may be a preferable approach. In order to institute that approach, the following changes would be required:

- The federal government should terminate the PSE cash portion of its EPF grants to the provinces, ceding the EPF tax points plus further equalized tax points in an amount equivalent to the Quebec abatement. All of the cash portion of EPF, including transitional adjustment payments, should be replaced with an education-expense tax credit or grant, to be increased annually at a rate equal to nominal GNP increase.
- Provincial governments should be encouraged to deregulate the fee structure of post-

secondary institutions.

- Provincial transfers to institutions might appropriately be based on an equal per-student figure, without differentiation for particular programs, and be related directly to enrolment.
- Students should be responsible for a portion of education costs. Beyond that point, the federal credit should vary with the amount of expenses and tuition fees, up to a limit. The amount of the grant should vary only with fees and expenses directly related to education, and no attempt should be made to direct students into "demand" programs by means of a variable grant structure.
- A portion of the current EPF transfer (and some additional funding) should be reallocated to granting councils, which should begin to cover overhead costs of funded research.

A variant of this approach would provide much higher grants to graduate students than to undergraduates. This approach would greatly increase the "value" of graduate education for institutions and thus encourage specialization and excellence.

■ Commissioners strongly recommend that federal-provincial discussions aimed at rectifying an unsatisfactory situation should begin immediately, that they should consider a range of options such as we have suggested here, and that they should proceed with all urgency toward a conclusion. We believe that close further attention is merited for the options which:

- Replace intergovernmental transfers with direct-to-student transfers. Careful consideration should be given to the variant which makes much larger transfers to graduate students.
- Freeze current federal cash contributions. The federal government would match provincial expenditure increases on a 50/50 basis.
- Freeze current federal cash contributions while redirecting considerable amounts (perhaps one-half) of what would have been the incremental amounts into funding of university-based research. The rest of the funds should be used to match, on a 25/75 federal-provincial basis, any increases in provincial government contributions to universities.

■ With respect particularly to primary and secondary education, this Commission recommends the establishment of an independent national commission to monitor quality and

standards in primary and secondary education and to conduct and record research in related areas. We urge that the private sector take the lead in establishing and financing this commission. With respect to occupational training programs, Commissioners believe that the direction of reform presently being followed by the federal government is generally appropriate. The increased attention to on-the-job and job-related training is to be encouraged.

■ This Commission also recommends that the federal government:

- Provide a special wage subsidy for labour-force entrants who have not had other forms of vocational training or post-secondary education. The subsidy would normally be provided to persons 15 to 18 years of age and to women entering the labour force after discharging family responsibilities. The subsidy could be financed by eliminating other job-creation programs for young people.
- Provide, under the Income Tax Act, for a Registered Educational Leave Savings Plan which workers could use to help finance the cost of training. Careful consideration must be given to the type of program eligible for RELSP financing and to the possibility of requiring completion of any training or education undertaken in order to qualify for the advantage.

Commissioners wish to point out that the TAAP described earlier might significantly increase training requirements in Canada.

Access to higher education by low-income students should be an important avenue of upward mobility in Canada. However, for a variety of reasons, low-income students make far less use of higher education than do middle-income students, thus impeding both their own upward mobility and Canada's labour-force efficiency. Several of the barriers faced by low-income students are not susceptible to immediate government reduction. Family-socialization patterns and peer pressures can be influenced only very indirectly. But governments can and should ensure that undue financial barriers are not blocking the educational prospects of low-income students.

■ This Commission therefore recommends strongly that further attention be paid to improving access for low-income students. At the least, therefore, we recommend continued support for the Canada Student Loans Program and its provincial equivalents, and we recommend that loan limits be changed in consonance with other policy changes proposed in the Report, to

remove any financial barriers that might exclude otherwise-qualified low-income students. We also wish to emphasize the importance of continuing to grant scholarships for students who excel, no matter what their income level, and of offering bursaries for low- or moderate-income students with above-average grades who might otherwise be reluctant or unable to continue their education.

Commissioners are concerned, however that the CSLP is increasingly unable to deal with the issue of student independence of parental support. Therefore we do not reject the concept of contingent-repayment loan schemes, and we recommend that governments continue to consider that possibility.

Income-Security Programs

While this Commission does not view Canada's problems over the next quarter-century as unmanageable, Commissioners do believe that many—perhaps most—Canadians will have to face the need to make adjustments that will maximize their own opportunities in the face of the effects of economic change. For most Canadians, these adjustments will not be severe, but for some they will be very difficult. This is particularly true for low-income Canadians, families with children that lack income adequate to meet family needs, and workers in peripheral regions or peripheral jobs. Economic change has always caused these Canadians more difficulty than middle-income Canadians, and it will continue to do so. Moreover, even without the impact of change, there are over one million Canadian families whose incomes are inadequate to cover any but the barest necessities, and many of these can be considered the "working poor": families where one or more breadwinners are employed all or most of the year, but where incomes are still inadequate to meet their needs.

Middle- and upper-income Canadians get a great deal of public and private support as they adjust to economic change. They receive tax-supported education and training, and their employers often foot a substantial portion of their adjustment costs. Low-income Canadians receive relatively little such support. In general, it often seems true that the poorer one is, the more one is left to one's own devices to cope with the forces of change or destiny.

For these reasons, among others, Commissioners believe that all Canadians have a duty and a right to share the costs of adjustment and to provide help to those who need it. That has always been the basic rationale for many of

Canada's income-security programs, and it should remain so.

We Commissioners are also persuaded that there is enough money in our current personal tax-expenditure and transfer-payment programs to provide a comprehensive program of support for all deserving Canadians, but that current programs are often fundamentally flawed so that the current safety net is inappropriate. We believe that Canada can do much better than it has done in providing income support for our working poor and for those undertaking adjustments in their own lives in order to build a better future for themselves and their children.

The Transitional Adjustment Assistance Program (TAAP) would go some way towards providing assistance, but other reforms, too, are required. Thus Commissioners believe that the provision of a Universal Income Security Program (UISP) with a universally available income guarantee, subject to reduction at a relatively low "tax-back" rate, constitutes the most appropriate foundation for Canada's income-security programs.

- We therefore recommend that the UISP replace existing federal tax and transfer programs including:
 - GIS (but not OAS)
 - Family Allowances
 - Child Tax Credits
 - Spousal Exemptions
 - Child Exemptions
 - Federal contributions to social assistance payments
 - Federal Social Housing Programs

The replacement of these programs would make possible a universally available guarantee (Option B), in 1985, of an income of approximately \$2750 per adult (and first child in a single-parent family) and \$750 per child, with benefits reduced at a 20 per cent rate as other income was available. A substantially larger guarantee (Option A) of \$3825 per adult and \$765 per child could be provided if the personal income-tax exemption were also included. In order to maintain at least the current income level of those elderly with no source of income other than OAS benefits, the basic guarantee for single people over 65 should be this larger guarantee.

The UISP should be put in place at the same time as the broad Unemployment Insurance reforms described above. The entire package should be in place in 1988. The package should be phased in, however, in two stages. In the first stage, which should begin immediately, the Family Allowance, Child Tax Credit, and Child

Tax Exemptions should be eliminated and replaced with a single demogrant or tax credit of approximately \$1000 per year in 1985, payable monthly. The total amount should be available to families with a total annual income of up to \$26 000. Beyond that level, benefits might be reduced at a 25 per cent rate. Experience rating for UI should also begin immediately, and social assistance payments under the CAP should be restructured to replace the present pre-emptive reduction of benefits above the current work-related/expenses level with a 50 per cent reduction rate. At the second stage of implementation, to be completed by the beginning of 1988, the full range of UI, UISP and TAAP changes outlined above should be in place.

Commissioners wish to emphasize that recommended benefit levels and structures are indicative only. While we believe them to be correct and appropriate levels in mid-1985, they will change with time. Moreover, the interrelationship among such features as basic guarantees and tax-back levels can be varied to achieve a number of effects.

We also wish to emphasize that while the federal government could implement most parts of this proposal unilaterally, these reforms are likely to be far more effective if they are carried out in co-operation with provincial government changes. The major reason for this is that provincial governments automatically receive larger tax revenues whenever the federal government eliminates tax exemptions and deductions. If the full value of these programs is to be maintained for the social policy sector, it will be necessary for the provincial governments either to provide harmonized transfers or to cede some tax points back to the federal government in return for delivery of the income-transfer arrangements.

■ Commissioners recommend therefore, that these proposals be the subject of urgent and serious federal-provincial discussion. We urge the Government of Canada to introduce them to the federal-provincial agenda at an early federal-provincial ministers' meeting and to move forward quickly towards implementation.

The UISP is not intended to provide fully adequate benefits for all Canadians who have no other earnings or income; it is primarily a supplementation program intended to compensate for the fact that there is often a considerable mismatch between earnings and needs. Commissioners therefore recommend that provincial governments continue to provide needs-tested

social assistance as a top-up to UI and UISP benefits where these do not fully meet pertinent needs. The equivalent of the current provincial share of social assistance payments should be adequate for this purpose. In addition, provincial governments could reap a substantial increase in tax revenues from some of the tax changes which would accompany the inception of the UISP. It is desirable that these funds should also be used to support income-security programs; that arrangement would make provision of topping-up arrangements financially easy.

Under the two options outlined for UISP, the federal government would provide a basic annual income of \$9180 in Option A and \$7000 in Option B for a two-adult/two-child family with no other income. If provinces continued to provide social assistance top-ups in the amounts they now provide under CAP-supported social assistance, provincial payments would add, on average, approximately \$3500 to \$4500 to the basic levels, making an annual income of \$12 500 to \$13 500 available to Canada's poorest families under Option A or \$10 500 to \$11 500 under Option B.

The UISP seems to Commissioners to be the essential building block for social security programs in the twenty-first century. Should governments not be able to implement it, a series of less complete reforms would at least ameliorate some of the worst features of the existing systems.

- Thus, failing the implementation of the UISP, Commissioners recommend:
 - Reform of the family-benefits program to reduce or eliminate the child tax exemption and the family-allowance program, and to increase the child tax credit, which should also be made payable on a monthly basis
 - Reform of social assistance provisions of the Canada Assistance Plan to eliminate pre-emptive taxation of social assistance benefits as other income from employment, training allowances or similar sources is received.

We wish to emphasize that these are partial reforms only, and that the more comprehensive UISP is a preferable choice.

Social Services

This Commission did not undertake an extensive review of Canada's social service programs. We did, however, receive many representations about them, and we did develop several recommendations.

■ Commissioners support the continuing devolution of responsibility for delivering social services to the community level and to non-profit associations. We strongly recommend, however, that this devolution not be handicapped by a reduction in funding, and that governments retain sufficient staff to exercise their monitoring responsibilities. The maintenance of funding is particularly important, since we could see no evidence whatsoever that social services, which include support for children, the elderly, the disabled and those with shorter-term social problems, are overfunded. Indeed, considerable evidence of underfunding was presented to us in our hearings.

- The major social services will also benefit from:
 - Further forms of assistance which will help users to become more self-reliant
 - Better integration of various forms of social and medical services at the community level.

Access to many social services in Canada is now impeded by the “needs-based” approach of the Canada Assistance Plan. Only those “in [financial] need or likely to become in need” have free access to services, so that many Canadians just above the poverty level are effectively precluded from receiving such important support as family, marital and financial counselling or child-support services.

■ This Commission recommends that the current federal-provincial financing arrangements be severed from social assistance financing and

renegotiated to provide Canadians with broader access to these services.

■ This Commission is not persuaded that extensive delegation of responsibility for social services to the profit-seeking part of the private sector is likely to improve significantly the services provided to Canadians. Where such privatization is practised, we recommend that it be done in the context of very careful government regulation of the provision of services. Profit maximization, in our view, is not always the best motive for governing human transactions.

There are currently two major task forces working at the national level to review day care in Canada; therefore this Commission has not conducted research in this area. Commissioners do, however, wish to note that the current CAP day-care guidelines actually serve to make access to publicly supported day care quite difficult for middle-income Canadians, and that the current \$2000 tax exemption for child-care expenses is much more valuable to upper-middle/class Canadians than to the majority of Canadian families. Both these provisions require reform.

- Finally, Commissioners wish to pay tribute to the hundreds of thousands of Canadians who work through the voluntary sector to help their fellow citizens. We recommend that all levels of government should continue to support and nurture such activity, but only in the context of continuing to provide fully adequate support and supervision for the programs dispensed through the voluntary sector.



The Institutional Context

The three essential elements of Canadian constitutional government—responsible parliamentary government, federalism and citizens' rights, which culminated in the recently adopted Canadian Charter of Rights and Freedoms—are not disposable pieces of machinery to be subjected to narrow instrumental calculations based on cost efficiency. These three pillars represent the historic arrangements through which we govern ourselves, formulate economic policy, preserve social peace, shift the boundaries between the public and the private sector, and make claims on one another as individuals, as members of communities, and as residents of distinctive regions. This subtle blend of institutions and norms, fashioned over more than a century of our existence as a nation, defines our political identity, shapes our collective existence, and helps us to address problems that require our collective response. Our institutional arrangements must be both true to our evolving concepts of ourselves as a people and useful for the collective tasks we have taken on and will take on in the future.

The more government we Canadians have, the more democratic we must become. The institutions of responsible parliamentary government remain the key to keeping government our servant rather than seeing it become our master. Commissioners regard Parliament as the principal forum for public debate and intend our recommendations to contribute, in general, to the strengthening of that institution.

To restore Parliament as the principal forum for national debate, we must not only bolster its democratic processes, but we must also improve its capacity to reconcile national and regional interests. We wish neither to reassert the dominance of the national government in line with the prevailing opinion at the time of Confederation nor to establish the provincial order of government as an integral part of national government.

With regard to federalism and intergovernmental relations, two basic needs influence Commissioners' general objectives. First, it is desir-

able to clarify where possible, by constitutional amendment, by delegation or intergovernmental agreement, or by more clearly defined policy directions, the responsibilities distributed between federal and provincial governments. Secondly, recognizing the complexity of modern government and the interdependence within our federation, it is desirable to introduce greater certainty and stability into existing intergovernmental processes. We seek neither to eliminate intergovernmental conflict nor to further the development of non-accountable institutions. Rather we seek to secure and give greater public recognition to minimal processes and structures that will moderate the excesses and costs of unresolved conflict and channel creative solutions to common problems.

Commissioners view the Charter of Rights and Freedoms both as a guarantee of specific rights and freedoms of citizens and as an important element of the framework within which Canadian society can evolve. This is consistent with our view that constitutional law should be responsive to social change and evolving values and attitudes, and that it should stabilize the pace and direction of such change.

Responsible Government and Public Accountability

The Canadian practice of party government has restricted the opportunities for Members of Parliament to participate in the development of public policy outside the confines of party caucuses. Organized special-interest groups now challenge MPs as representatives and frequently bypass them.

MPs could gain more influence over public policy if members in committee could investigate and debate matters of public interest on which party positions have not yet been fully determined or established. The separation of legislative committees from investigative committees would help to achieve this end by providing Parliament and the government with policy analysis and guidance distinct from that which is received from administrative officials or extra-parliamentary sources.

Parliament need not diminish the activities of interest groups, but it should provide the principal public forum for these groups to define their concerns. Parliament should encourage them to present their positions and demands for an open examination in relation to general interests. There should be a small number of parliamentary committees focusing on comprehensive policy matters—the budget, regulatory policy, Crown corporations, and federal-

provincial relations, for example—and these would be ideal forums for such scrutiny.

Agencies such as the Public Service Commission, the Office of the Commissioner of Official Languages, the Privacy and Information Commissioners, and the Office of the Auditor General have important functions, but receive insufficient direction and control from our elected representatives in Parliament. In order to ensure accountability of these agencies, Parliament must define their procedures and basic strategies. Commissioners suggest that the Public Service Commission, the Office of the Commissioner of Official Languages, and the Privacy and Information Commissioners review their work before a Parliamentary Committee on the Public Service. This committee would study the success of these agencies in meeting the various criteria set by Parliament. The same committee, since it would be familiar with the performance of these agencies, should review their financial estimates. The Public Accounts Committee would perform this role in relation to the Office of the Auditor General.

The federal government has formalized Cabinet structures, processes and support services in recent years, in order to restore ministerial and parliamentary control over an expanded and complex administrative structure. Although central agencies have partially checked the dispersal and diffusion of power to public servants, they can do so effectively only when under the close direction of ministers; otherwise central agencies themselves become yet another layer of bureaucracy to be controlled.

We have given too much autonomy and discretion to non-departmental forms of government organization such as Crown corporations and regulatory agencies. Such autonomy has undermined the principles of responsible government. To correct this situation, Commissioners recommend that greater “control” of Crown corporations be defined in the context of a reformed competition and regulatory environment, and not just in the framework of administrative accountability, in accordance with the current trend. Especially for commercial Crown corporations, governments need greater strategic control, not day-to-day interference in management decisions. Moreover, Cabinet should strengthen its review of regulations formulated by regulatory agencies.

Although some prominent political appointments have violated the ideal of a neutral public service, it is not true that the senior bureaucracy has become politicized. The system of appoint-

ments by Order-in-Council based on professional merit on the recommendation of the Clerk of the Privy Council has worked well. However, political advice to the Prime Minister has traditionally been the basis of appointments to a large number of boards and agencies. This category may be too large; the public might be better served if more of these appointments were based exclusively on merit. An all-party group designated by the proposed Parliamentary Committee on the Public Service should review the current use of Governor-in-Council appointments to boards and agencies, the foreign service, high levels in departments, and ministers’ staffs, in order to help distinguish between two categories of positions: those where partisan sensitivity justifies political appointments, and those where partisan sensitivity is not at issue, and where professional merit should prevail. Commissioners’ opinion is that this general review process should be continuous, and that appointments of no clear partisan value should be made on a basis of “merit”.

In light of the accelerating challenge to democratic controls presented by the increasing international responsibilities of the state, Commissioners believe it is desirable to provide secure foundations for parliamentary ratification of international treaties and for other measures to ensure parliamentary review of executive action in the international domain.

Representative Government and National Socio-Economic Interests in Economic Policy Formation

It is important to facilitate more direct and continuous involvement of representatives of Canadian interest groups in public decision making, especially in economic policy. Those interests need to interact more with one another and to take greater account of the broader concerns and conflicts within Canadian society for the resolution of which Parliament itself is ultimately responsible.

In comparison with the formal structures that have developed in some Western nations, Canadian consultative practices tend to be fragmented, informal and episodic. Current practices may be inadequate in light of recent Canadian experience and anticipated needs, such as the continuing pressures of economic adjustment. However, we do not recommend a corporatist or tripartite style of government/private sector relations.

Although substantial secrecy is necessary in relation to the preparation and release of the budget, Commissioners recommend that guide-

lines are needed to allow less comprehensive budget secrecy than now exists. We urge the House of Commons to initiate a change in the convention of comprehensive budget secrecy in order to move towards more effective advance discussion and consultation arrangements.

It would be desirable to seek federal-provincial agreement on the timing of budgets so that their presentation could be co-ordinated, with the federal budget either preceding or following most provincial budgets by two or three months. Pre-budget consultation should occur in several forums, but particularly in the House of Commons.

A continuing national dialogue on general directions for economic policy requires a permanent national forum. This Commission favours establishment of a permanent Economic Policy Committee of the House of Commons. The Committee would hold an annual series of pre-budget hearings timed to allow its work to influence budget preparation. It would take testimony about the nation's economic prospects from the Department of Finance, the Bank of Canada, and the Treasury Board, as well as from agencies such as the Economic Council of Canada; it would also gather the views of major groups, including national representatives of business, labour and other associations.

The Committee would scrutinize the government's performance and the revenue and expenditure implications of the positions of key interests. It should schedule its budget review to co-ordinate with its other responsibilities and with the timing of the annual First Ministers' Conference. Moreover, it would be necessary to adjust the internal priorities and planning cycle of the federal government in light of the accepted federal-provincial cycle.

Continuation of sectoral and industry-by-industry dialogue on improving Canada's economy is essential. Discussions should bring together representatives of business and labour, and federal, provincial and municipal governments and other groups, as necessary. Government participation may not always be required.

In light of these conclusions, Commissioners recommend that such sectoral discussions be developed within the following guidelines:

- Consultative mechanisms should focus on clear, specific objectives. This approach will improve the chances of success.
- Consultation should be a continuing process with reasonably predictable arrangements. Permanent or standing groups may be required in some cases.
- Governments must make a firm commitment to any consultative process they undertake. Effective consultative arrangements require that non-government participants have some influence on the agenda and decision-making schedule. Responsibility for the overall policy-making process, however, rests with the government of the day.
- Consultative processes aimed at consensus building must be supported by fair representation from many groups in society and, normally, by parity between business and labour.
- Sharing and refining of information are prerequisites to these consultative processes.

National Institutions and the Representation of Regional Interests

We Commissioners believe that the federal principle requires that the House of Commons, chosen on the basis of representation by population, be balanced by a second chamber based on representation by region. Our institutions should recognize the federal principle, provide greater regional representation, and respond to regional interests in national policy making and administration.

Commissioners recommend that the Senate embody the federalist principle and provide the regional representation lacking in the House of Commons.

- A reformed Senate must build on our practice of party government in its elections, caucuses and discipline. The Senate must be elected, and election to the two Houses should take place at the same time.
- In the Senate, representation should be weighted in favour of the less populous regions. All regions need not be considered equal, for the Senate should only temper, not obstruct, representation by population.
- The Senate should be elected by a system of proportional representation. The governing party is more likely to have elected representatives from all regions within its parliamentary caucus, even if, for one or some regions, they secure places only in the Senate. A Senate elected on this basis should ensure that the governing party will usually be able to constitute a Cabinet that includes members from all regions.
- We recommend that Senators be elected in six-member constituencies. This number is large enough to effect the intended propor-

tional representation and yet to allow for some recognition of the regions within provinces. Yukon and the Northwest Territories could elect their Senators on simple plurality. Existing numbers of Senators would be modified and distributed as follows:

	<i>Existing</i>	<i>Proposed</i>
British Columbia	6	12
Alberta	6	12
Saskatchewan	6	12
Manitoba	6	12
Ontario	24	24
Quebec	24	24
New Brunswick	10	12
Nova Scotia	10	12
Prince Edward Island	4	6
Newfoundland	6	12
Yukon	1	2
Northwest Territories	1	4
	104	144

The Senate does not require a veto to temper, on regional grounds, the legislative majority of the House of Commons. Commissioners believe that the Senate should have a six-month suspensive veto, except in relation to legislation with linguistic significance; such legislation would require approval of a majority of francophone Senators, as well as of the Senate as a whole.

Many federal departments and agencies have not assumed responsibility for regional development within their mandates. This failure has lessened the executive branch's capacity to be regionally responsive and has undermined the effectiveness of regional representation in Cabinet.

This Commission therefore recommends that:

- The central administrative agencies should be structured so as to provide more regional information upon which the Cabinet can base policy decisions. This requires that regional offices be part of the central agency apparatus supporting the Cabinet and the Prime Minister.
- The Cabinet should decentralize departments and agencies for purposes of policy planning and development. Sectorally organized departments should incorporate the regional dimension fully in departmental planning and policy development. There should be regional officials in the central administrative decision making of departments.
- Regional representation should receive consideration in nominations to the boards of Crown corporations and regulatory agencies. If the Senate becomes an elected body, appointments of the heads of major Crown corpo-

rations and all members of the governing boards of major regulatory agencies should be subject to the approval of a Senate committee to be established for this purpose.

Barriers within the Canadian Economic Union

Despite recent expressions of concern that the Canadian economic union is becoming increasingly balkanized and fragmented, goods, capital, services and people now move relatively freely within the Canadian common market.

While lost economic output from impediments to free movement and distortions of the common market appears small, submissions made to us by firms and individuals have indicated that the policies in question create considerable difficulties for them. Even more than the economic rationale, the political rationale for the national right to free movement is a powerful idea for most Canadians.

The effect of these distortions—and the need for effective co-ordination of economic policy—is likely to increase as Canadians face greater competition from the outside world. We should create incentives to international competitiveness, and we should facilitate appropriate adjustments.

The economic union implies elimination of internal barriers and positive measures to facilitate operation of the market, to overcome market imperfections and to pursue effective stabilization, industrial and social policies. All regions must share in the benefits of economic integration.

Internal barriers may be the response of governments to local preferences, and they often reflect our commitment to redistribution of income and opportunity. Thus, the challenge, in particular cases, is not simply to eliminate the barriers through constitutional prohibition or other means, but rather, how to balance the economic benefits of free movement against other goals to which Canadians aspire. The trade-offs to be made are not exclusively between economic efficiency and political diversity or provincial autonomy within the federation: Canadian federalism also involves a national community with its own requirements. Moreover, as the Canadian Charter of Rights and Freedoms makes clear, individual rights have implications for the economic union.

The goal of regional development requires that Canadian economic policy must seek not only to maximize aggregate national income, but also to encourage the economic development of individual regions.

Commissioners urge that a broad view be taken of the scope of section 121 of the Constitution Act, 1867, regarding the freedom of trade within Canada consistent with an interpretation that section 121 covers services as well as goods, and non-tariff barriers as well as tariffs. However, in light of existing controversy and uncertainty, it may be prudent to seek clarification by constitutional amendment.

- We would recommend a limited amendment to include services to reflect current conceptions of the nature of interprovincial trade. On the issue of non-tariff barriers to trade in goods and services, we recommend as an interim step that governments agree to a Code of Economic Conduct.

The governments of Canada should develop a Code of Economic Conduct to spell out acceptable practices, set out the principles of the economic union, and provide for enforcement. We advance a series of general guidelines for consideration:

- The code should confirm general principles of the economic union applicable to both the federal and provincial governments:
 - Reduction of barriers to the allocation of capital, labour, goods and services throughout Canada;
 - Non-discrimination against persons (individuals and organizations) based on province of residence;
 - Commitment to minimizing the costs of provincial programs that might fall on the residents of other jurisdictions and to prior consultation for this purpose;
 - Recognition of the need for a transportation, communications and information infrastructure to support national economic development with significant regional benefits.
- The burden of demonstrating that a barrier did not violate the principles of the Code should lie with the authority imposing the barrier.

The Code should identify major areas where reduction of barriers to internal trade should begin. Attention should focus not only on the form of the barriers, but also on the anticipated effects. The possibilities of substitution between types of barriers are extensive, and provinces vary in economic development and in their potential to inflict injury on other jurisdictions or the residents of those jurisdictions. Those drafting the Code might first consider barriers that prevent Canadian enterprises from being

internationally competitive.

Initially, governments should set up the Code, and public and governmental pressure should enforce it. The intergovernmental process would provide the appropriate forum for dealing with the politically sensitive issue of internal barriers to trade. After experience with the operation of the Code, we should move to entrench its principles in the Constitution and to enforce the Code through some other form of binding inter-governmental agreement.

To develop the Code of Economic Conduct, monitor the state of the economic union, and explore methods for co-ordinating policies, the First Ministers' Conference should create a Council of Economic Development Ministers.

To initiate the process of identifying and controlling internal trade barriers, Commissioners propose the following procedure. The Council would ask each government to list barriers imposed by other governments that they believe harm its provincial economy or its residents. Next, each government would be required to explain and defend those of its policies identified at the first stage. A Federal-Provincial Commission on the Economic Union would receive this material and would analyse the barriers, their probable consequences, and the justifications declared. The Commission would identify violations of the principles of the economic union and make recommendations concerning specific terms for the proposed Code. It would send this report to the Council for action.

A Federal-Provincial Commission on the Economic Union which would serve the Council of Economic Development Ministers would have responsibility for preparing materials for the Council as directed:

- Analysing the first round of barriers identified by the Council's initial inquiry;
- Initiating research on the state of the economic union and methods for improving it;
- Receiving complaints from groups, individuals and corporations affected by government actions threatening the economic union, investigating these complaints and reporting on them, with recommendations, to the public and the Council.

If a Code is eventually made legally enforceable, the Commission could become a regulatory agency, but one that regulates governments.

Economic Management

In several specific areas related to our concern with the international environment, the Canadian economic union, and economic adjustment,

Commissioners believe that constitutional changes are desirable for more effective economic management. Canada requires a procedure which would allow treaties, once concluded, to be binding and enforceable on both federal and provincial authorities within Canada.

We recommend a constitutional amendment to provide that where a proposed treaty contains provisions which require implementation by provincial legislatures or affects rights within areas of provincial jurisdiction, the relevant sections should be ratified by provincial legislatures. We propose the application of the amendment formula for this purpose so that sections of a treaty imposing obligations on provinces would come into effect on the passage of resolutions in the legislatures of two-thirds of the provinces, representing at least half of Canada's population. We do not see this recommendation as having immediate application to negotiations with the United States on a free-trade agreement. We would recommend, however, that a constitutional solution be in place before the proposed trade agreement would come up for review in the 1990s.

- To clarify jurisdiction and roles in the field of telecommunications, we recommend concurrent jurisdiction with federal paramountcy.
- To clarify responsibility regarding certain aspects of overall regulation of trade and commerce, we propose that section 91(2) of the Constitution be amended to provide explicitly for federal regulatory power over competition and product standards.
- If intergovernmental agreement is not reached soon on the harmonization of regulations respecting interprovincial trucking, we recommend that serious consideration be given to bringing this matter under federal jurisdiction.

Equalization

The principle of equalization, an essential element of Canadian federalism, represents a commitment to all provinces that economic misfortune will not undercut their constitutional role. It contributes to a true decentralization of government functions, in spite of the differing economic capacities among provinces.

Commissioners stress the distinction between equalization payments and regional development programs. The former are intended to offset economic disadvantages, while the latter are intended to reverse this disadvantage. Equalization payments are necessary only because of our lack of success in combatting regional

economic disparities. In practice, this means that regional development financing must be added to equalization disbursements; the federal government should not cut one in favour of the other.

The federal government's responsibility for interregional redistribution gives it a leading role in designing and operating the equalization scheme. Commissioners recommend that the following changes to the equalization system be discussed with the provinces:

- Canada should return to a representative tax system that includes all 10 provinces in the base. The present five-province calculation base allows too much room for distortion, strategic behaviour and unintended side-effects.
- Equalization payments should include some portion of resource revenues. There is no magic figure here, but the 20 to 30 per cent range seems an appropriate compromise, since it approximates the amounts that would accrue to provincial treasuries in the form of tax revenues if natural resources were in private hands.
- The concept of including needs as part of the entitlements calculation is attractive. Commissioners recognize, however, that this can develop only slowly, given the amount of data required and the serious practical difficulties involved. The inclusion of needs in the calculation will be especially important if the Northern territories enter the scheme.

Regional Development

This Commission believes that regional development must remain an essential component of Canadian policy and, indeed, of the Confederation bargain as now reflected in section 36 of the Constitution Act, 1982. It must be recognized, however, that policies intended to promote regional development have often hindered the overall efficiency of the national economy in that they impeded inter-regional adjustment and distorted regional development. Canadians need to reconsider the way in which we look at regional economic disparity, what we do to overcome it, and the institutional mechanisms we bring to the task.

■ We recommend a new federal-provincial system of sharing regional development expenditures and responsibilities. The federal government should direct regional development programs toward improving regional productivity and the efficiency of the labour market. To these ends, such programs should include measures

to improve worker and management skills, enhance research and development efforts, ensure a high level of infrastructural support, and supply assistance for intra- and inter-regional mobility. The federal government should not only provide such programs on a national basis, but should also make a special effort in the less-developed provinces. While it might make sense, too, for the federal government to provide assistance for plant modernization as a means to enhance regional productivity, we believe that it should provide this type of assistance on a national basis, if at all, or that the provincial governments should take on this responsibility on a regional basis.

Under this arrangement, the federal government would end all explicit and direct regional employment-creation programs. While national schemes would continue, federal subsidies, tax breaks and so on, intended only to generate jobs in, or attract firms to, a particular locale, would be eliminated. Similarly, the federal government would terminate regionally differentiated unemployment-insurance programs, tax credits and other measures that tend to distort regional labour markets. Funds formerly allocated to these types of programs would instead become the source of Regional Economic Development Grants.

Provinces that qualify for equalization payments would be eligible for Regional Economic Development Grants. The amounts of the grants would be determined by a formula on a per capita basis, and they would be proportionate to the degree of fiscal disparity identified by the equalization formula. As noted earlier, equalization payments are necessary to offset economic disparities, while the purpose of these new grants would be to reduce future disparities. They would be re-negotiated every five years.

Provinces would assume full responsibility for local or place-specific employment measures as part of their own approach to regional development. They would be free to use the Regional Economic Development Grants for this purpose, subject only to two conditions:

- Each recipient province would sign an Economic and Regional Development Agreement (ERDA) with the federal government; the ERDA would set out a broad economic development plan for the province (and for each other province) and would indicate the measures to be carried out by both orders of government. Some elements of these packages might take the form of shared cost programs or federal contributions to provin-

cial activities; in general, however, Commissioners recommend that under the ERDA umbrella, each government remain responsible for the implementation and delivery of its own programs, in order to enhance accountability.

- The recipient province would be required to sign the proposed Code of Economic Conduct to improve the functioning of the Canadian economic union.

While recognizing the immediate need for financial prudence at the federal level, Commissioners believe that the total federal financial commitment to regional development—combining the Regional Economic Development Grants and other funds spent through ERDAs—should increase significantly over the next few years.

The federal government would continue to play an important role in other development efforts which have significant regional impacts such as:

- A reformed equalization system
- The proposed Universal Income Security Program and the Transitional Adjustment Assistance Program
- Sectoral policies, such as those pertaining to fisheries, agriculture and forestry. These should be designed according to criteria for good sectoral policy (see Parts III and IV of this Report), but they ought to also be developed in close consultation with provincial governments, where these are affected to an important degree.

A sustained federal commitment to regional development requires that a single central agency be responsible for injecting regional concerns into the programs of individual federal departments and for co-ordinating federal efforts. It would appear to Commissioners that the Federal-Provincial Relations Office (FPRO) reporting to the Prime Minister, would be the appropriate existing body. We believe also that the Federal Economic Development Co-ordinator (FEDC) or other senior officials resident in each province can help to co-ordinate federal activities within each province, interacting with the provincial government and establishing links with local economic interests. The federal government should enlarge the responsibilities of such federal regional officials, who should report directly to FPRO.

Fiscal Arrangements

Tax Collection Agreements

The Tax Collection Agreements have served

Canada well. They are convenient for both citizens and governments, and they help to maintain harmony and contribute to the strength of the economic union. They should be retained. Nevertheless, the agreements are presently under considerable strain and are in some danger of disintegrating. This Commission's proposed reforms are based on the desire to maintain the agreements, but not at an excessive cost either in terms of the accountability of legislatures or in terms of the flexibility which exists in the system.

■ Commissioners therefore recommend that:

- The agreements be amended in order to place the personal income tax on the same footing as the corporate tax, applying the provincial rates to the common, federally-determined base. This measure would not only reduce provincial vulnerability to federal tax changes, but would also enhance provincial autonomy, since it would become easier for provinces to decide how progressive their own tax rates should be.
- The federal government consult with provinces before introducing any tax change which would have a significant effect on the federal-provincial relationship. This recommendation is consistent with Commissioners' larger concern to reduce budget secrecy for federal and provincial governments and to ensure that federal budget proposals receive wide discussion in Parliament.

To provide greater consultation on taxation matters of a more fundamental nature, Commissioners recommend that a new federal-provincial Tax Structure Committee be given the following mandate:

- As part of the regular process of the quinquennial review of federal-provincial fiscal arrangements, the Tax Structure Committee would re-examine the definitions of taxable income, basic exemptions, marginal tax rates, and the like. This is really an endorsement and extension of a consultation process which is already in effect. The Tax Structure Committee would also monitor the division of tax room between the two orders of government, in light of anticipated revenue and expenditure needs, and of the difficulties of managing restraint.
- As part of the overall concern for the economic union, the Tax Structure Committee could also discuss the implications of federal or provincial tax credits and subsidies. It would thus assist the Council of Economic

Development Ministers which, we propose, should be responsible for the development of an overall intergovernmental Code of Economic Conduct. This Committee would be composed of representatives of all governments, including those now outside the agreements.

The Spending Power and the Impact of Fiscal Restraint on Intergovernmental Transfers

Although Commissioners do not recommend formal limitations on the spending power, we consider that this power has important consequences for federalism and therefore should be exercised with special restraint and subject to certain guidelines concerning its use.

■ Commissioners thus recommend that the spending power be retained as a vital instrument for flexible responses to changing definitions of the national interest, subject to the conditions that:

- The judicial distinction between federal legislation providing grants or gifts and federal legislation involving direct regulation in fields of provincial jurisdiction is appropriate and should be further refined.
- As a matter of principle within the federation and for purposes of accountability and clarity of roles, the federal government regard new shared-cost programs as a last resort in pursuing its objectives.
- The use of the federal spending power in areas of provincial jurisdiction be supported by broad national consensus. In addition to the contribution to consensus which an elected Senate with stronger regional representation will make, consultation through the Federal-Provincial Ministerial Councils and, ultimately, the First Ministers' Conference is essential, not only in relation to new programs, where it will occur in any case, but also in relation to the proposed alteration or termination of a program by the federal government. Designated periods of operation of, say, five years, could be considered for program renegotiation.

In order to retain a desirable degree of federal flexibility and accountability to Parliament while ensuring provinces some stability for planning and protection against rapid unexpected variations in federal spending, we recommend that:

- Federal-provincial transfers be subject to a review on a five-year basis.
- During that period, the federal power to make

adjustments be limited to, say, 5 per cent in any given year, without provincial approval.

Intergovernmental Relations and the Institutions of the Federation

The intense intergovernmental conflict Canada experienced in the 1970s may be partly attributed to institutional limitations. Interdependence in modern federalism is inescapable and needs to be managed, as do the excesses of intergovernmental competition.

This Commission's goal is to encourage a more functional approach to federalism, one not oriented towards centralization/decentralization, but one which emphasizes the potential contribution of Canada's federal arrangements to the well-being of Canadians. Canadians should create political institutions to co-ordinate activities involving both orders of government.

While greater co-ordination of federal-provincial affairs would be desirable, Commissioners believe that the diversity of government action inherent in a federal state is also a positive contribution to society. Thus we have tried to strike a balance between encouraging institutional diversity or competition and proposing new measures of federal-provincial co-ordination.

Commissioners do not recommend comprehensive constitutional amendment as a means to modernize the division of powers. Instead, we urge the use of more flexible instruments to clarify or transfer the location of responsibility.

■ To this end, we recommend that:

- The power of intergovernmental delegation be expanded so that on a particular matter, law-making authority could be delegated to another jurisdiction. Such delegations should be approved by the legislatures of all jurisdictions involved.
- Constitutional amendment be used to establish a procedure that would permit the Parliament of Canada and provincial legislatures to enter into intergovernmental agreements that would be binding on their successors
- The powers of reservation and disallowance, now by convention virtually "dead letters", be formally interred by means of an appropriate constitutional amendment.

To provide essential recognition of the need to manage intergovernmental interdependence and the need to co-ordinate policies and activities, the First Ministers' Conference should be established in the Constitution with the requirement

that it meet at least once each year. Such an institution must in no way encroach on the principles of responsible government.

First Ministers may eventually wish to consider the creation of a body comparable to the Advisory Commissions on Intergovernmental Relations in the United States and in Australia. "Third parties" of this nature may facilitate behind-the-scenes resolution of intergovernmental conflicts and contribute to improving the context of information, analysis and public opinion to which the intergovernmental process will need to respond.

Despite a plethora of federal-provincial bodies, current intergovernmental discussions are sporadic and lack co-ordination. Our purpose is to suggest a core framework of federal-provincial mechanisms which would, in a more streamlined way, support the First Ministers in their collective and individual responsibilities. Commissioners propose that the First Ministers' Conference appoint a network of Councils of Ministers to serve in major functional policy areas and to be supported by continuing committees of officials. We believe that three central Ministerial Councils should be established in the fields of Finance, Economic Development and Social Policy.

■ We therefore recommend that:

- The *Council of Finance and Treasury Ministers* which now exists and meets from time to time regarding fiscal arrangements, economic projections and macro-economic policy, be formalized to encourage greater regularity of assembly and better co-ordination of budgetary preparations, and to receive the findings of the new Tax Structure Committee, which would monitor tax developments.
- The *Council for Economic Development* seek agreement on common objectives in economic development and trade policies and identify opportunities for mutually beneficial links among regions. The Council would be responsible for monitoring and assessing the state of the economic union and would serve as the vehicle through which to develop a "Code of Economic Conduct".
- The *Ministerial Council on Social Policy* consider all facets of social policy, especially in the fields covered by Established Programs Financing and the Canada Assistance Plan. Consultation with practicing professionals and interested groups and individuals is particularly important in this area. We would encourage Parliamentary Committees to play a stronger role in this activity.

To ensure that governments are held accountable for their conduct of intergovernmental affairs, Commissioners recommend that Parliament and the provincial legislatures should establish permanent standing committees responsible for Intergovernmental Relations.

Differing provincial regulations create inconvenience for those who wish to operate nationally. The impetus for interprovincial efforts towards harmonization must arise through the pressure of groups adversely affected by interjurisdictional variations. Commissioners therefore propose no specific institutional changes designed to enhance harmonization of provincial laws.

The Charter of Rights and Freedoms

The Charter and Constitutional Government in Canada

The Charter of Rights and Freedoms signals a significant transformation of the relationship between citizens and the state in Canada. Most noteworthy are the important limitations imposed on the constitutional authority of legislatures and the elevated role of the judiciary as guardians of the constitutional rights and freedoms of individuals. The Charter will also further the rights of citizens to review and assess government actions, and it will contribute to a fuller and more regular discussion of citizen rights in Parliament. Its guarantees will probably become the basis for individuals and groups to introduce issues to the national and provincial political agendas.

The scope and application of the Charter will be tested constantly through both the legal and the political processes. The Charter is not, however, a springboard for unlimited claims of citizen rights, for there are reasonable limits to its guarantees. Ultimately, its effectiveness in protecting the rights and freedoms of citizens and in enhancing democracy will be determined by how citizens use this document.

This Commission believes that the changes recorded and introduced by the Charter should be given a broad scope in interpretation and application. Departures from its guarantees should meet stringent tests and conditions, justifying the circumstances of exception.

The Charter's general override provision should contribute to public awareness of legislation limiting the constitutional rights of citizens in Canada. Overriding legislation should include a declaration of intent to legislate, notwithstanding a provision of the Charter, and should include not only reference to the specific

rights being overridden, but also an indication of the purpose of such legislative action. Such a statement of purpose would help the courts to ensure that limitations do not exceed what is necessary to achieve their objective; it could also be a useful reference point in discussions on whether to extend the override after the five-year period.

Commissioners do not suggest constitutional amendments to change and improve upon the Charter's words. Rather we consider various interpretations of the Charter which we think will serve to maximize the desirable effect it can have on Canadian society. Two examples illustrate our approach:

- We favour a broad and flexible application of the Charter at the periphery of government activity, as well as in its more visible legislative forms.
- Similarly, in the matter of the Charter's guarantees of personal mobility rights, we conclude that preferential provincial employment schemes permissible under the Charter should be strictly limited to the socially and economically disadvantaged within a province. Such programs should not prevent the federal government from simultaneously pursuing employment-opportunities programs in that province.

Inherent in the Charter of Rights and Freedoms is an attempt to overcome some of the problems of national unity that have preoccupied Canadians since the mid-1960s. This is especially evident in the Charter's provisions respecting mobility rights, official languages and minority official-language education, as well as multiculturalism.

With regard to ethnic diversity in Canada, Commissioners believe that multiculturalism policy should seek to create circumstances that permit all Canadians to preserve and enhance their cultural heritage within the broader Canadian tradition of individual equality. Multiculturalism is not a justification for cultural or racial discrimination. For visible minorities, in particular, racism must be addressed through more than multicultural policy. There is a systemic aspect to racial discrimination in Canada. As with other patterns of systemic discrimination affecting groups such as women, the handicapped and other identifiable groups, the Charter plays an important role as both an educative and a legal instrument in enhancing equality.

The Charter's equality-rights guarantees embody a broad definition and understanding of equality. These guarantees reflect contem-

porary notions of substantive equality in giving assurance of equal benefit of the law and equality under the law. By enabling affirmative action programs, the Charter responds to contemporary concerns about discrimination against various groups in society.

Commissioners believe that governments have a leadership role to play in breaking down these patterns of discrimination and we believe, too, affirmative action is a valuable tool for this purpose. Accordingly, we view the provision in the Charter enabling governments to pursue affirmative action programs as a valuable reinforcement of government's role. Equality, however, must ultimately relate to individuals, and affirmative action must be supplemented with other programs designed with individual equality as the ultimate goal.

The Charter both contains guarantees of individual equality and elsewhere recognizes special rights of various groups, such as official-language minorities and Canadian aboriginals. We believe that when group rights are inconsistent with rights of individual equality, the latter, as a general rule, should prevail.

The Supreme Court of Canada

The members of the Supreme Court of Canada do not perform representative functions in the Canadian institutional and constitutional system. Judicial merit alone is the criterion by which the Court's membership and performance should be assessed. Accordingly, Commissioners reject arguments that the composition of the Supreme Court should be regionally representative. Existing provision in the Supreme Court Act for the appointment of Quebec members is based on the distinctive legal traditions of that province. We also reject socio-economic representational claims about Supreme Court of Canada membership, which we anticipate may emerge as the Court addresses complex Charter litigation involving citizen-state relations.

The central issue in the appointments process is the perception that it does not adequately involve the constituencies ultimately affected by Supreme Court decisions. Although the existing informal procedures followed by the Prime Minister before making appointments to the Supreme Court do involve extensive discussions, they are sometimes perceived as not taking sufficient account of concerned interests or advice. Measures to shift responsibility from the Prime Minister to some designated group or institution necessarily involve replacing one political process with another. If a broadly based

political process of consultation is to be replaced by alternative arrangements, an elected Senate has much to commend it.

The constitutional status of the Supreme Court and, in particular, the independence of the Court, should be clarified by entrenchment, although there is no reason to remove responsibility for the administration of the Court from the federal government.

Quebec

The Distinctive Character of Quebec Society

Quebec is characterized by the presence within its borders of a largely francophone population which controls and gives direction to its own political and social institutions. The existence of this institutional framework which reinforces the distinction between the majority status of francophones within Quebec and the position of francophones elsewhere in Canada is central to *la spécificité du Québec*. The very essence of Quebec society lies in the fact that it is the principal, though not the exclusive, focus for the political dimensions of French life in Canada. To a large extent, Quebec remains a linguistically isolated society, an island of French in an overwhelmingly anglophone sea. For Quebec and for francophones outside the province, the central challenge will always be how to remain French in North America.

This challenge entails practical problems in the cultural and economic domains for whose resolution Quebecers and francophones outside Quebec, individually and collectively, are, themselves, ultimately responsible. But constitutional recognition of Quebec's distinctiveness and of Canada's duality would provide an affirmation that practical economic and cultural problems of French life can be solved within the Canadian context and with the support of the rest of Canada. The necessary compromises could thus be worked out in a clearly understood context of recognition and affirmation of a cultural complementarity which is at the very heart of the Canadian experience.

The initial requirement at the level of principle to secure a renewed understanding between Quebec and the rest of Canada is a statement in the Preamble to the Constitution along the following lines:

- Recognizing the distinctive character of Quebec as the principal, though not the exclusive, centre for Canadian francophones and accepting as fundamental the duality of the Canadian federation . . .

Fundamental Guarantees

As a consequence of Quebec's uniqueness, steps should be taken to ensure that no future constitutional amendment as noted below be imposed on Quebec which that province might consider to affect its fundamental interests as a distinct society.

Concerning transfers of legislative powers from the provinces to Parliament, the simplest means to provide Quebec with the necessary protection, without putting the principle of equality of the provinces in question, is to grant each province the right to opt out of any general arrangement with full compensation in all cases.

In relation to reforms of national institutions which are not covered in the present opting-out formula, the only means to protect the interests of Quebec is through the right of veto. An obvious solution would be to grant all provinces such right in conformity with the equality principle. In the long run, this move could, however, freeze the natural development of our national institutions. Although granting Quebec the right of veto is an arrangement politically more difficult to obtain, it is, closer to the intended objective, for it is the distinctive character of Quebec society for which protection is sought. It is important that Quebec have a right of veto on any amendment to the institutions described in section 42(1) of the Constitution Act, 1982, if such an amendment touches on the special character of Quebec and the duality of Canada. One method of implementing such veto would be to amend immediately section 47 of the Constitution Act, 1982, in order to grant French-speaking Senators the right to block proposed amendments affecting Quebec under the double-majority formula described below.

The Senate and Quebec

With regard to federal legislation, any proposed Bill with linguistic implications, before becoming law, should require a double majority of the Senate: that is, the approval of a majority of all Senators and of a majority of francophone Senators. Such a veto would be a full, rather than a suspensive, veto. In light of the protection offered by this double-majority proposal, Commissioners see no need for specific guarantees to Quebec of a certain proportion of seats in the House of Commons.

Division of Powers

Because of Quebec's distinctiveness, the most obvious fields where conflicts might arise between that province and the federal govern-

ment are education, external relations, immigration, communications and culture. There are ways in which Quebec could participate in dealing with these areas. While we make no recommendations, we do suggest that legal mechanisms such as delegation and inter-governmental agreements may provide a better means of accommodating the specific interests of Quebec than would constitutional amendment.

Francophones Outside Quebec

The diverse communities of Francophones in Canada outside Quebec are currently in a state of crisis. If they are to survive and flourish, prompt action is required. Commissioners suggest that beyond recognizing the principle of duality in the Preamble, governments should make efforts to extend the recognition of French and English as the official languages of individual provinces. Ontario in particular, with its large French-speaking population, should proceed promptly to implement official bilingualism. Such a step would set an example for other provinces.

Furthermore, this Commission wishes to point out that implementation of language rights has not kept up with the intended policy of bilingualism in the federal public service. We believe that litigation, while generally useful, is not the proper tool for making improvements in this direction, since it is a lengthy and costly method of dealing with these problems.

Instead, we recommend that stronger support be given to the role of the Commissioner of Official Languages.

Scattered French-language communities outside of Quebec face difficulties in developing a French-language working environment. Efforts to solve this problem should be geared towards the development of French-language centres of activity. These centres would vary from province to province, depending on the population and geographic concentration of francophone Canadians. In some areas, the centres would be of an essentially cultural or educational nature, and in other areas, such as in New Brunswick, they could include a strong economic component.

Aboriginal Self-Government

Measures to increase the influence and control exercised by aboriginal people over their social and economic affairs are desirable. Our commitment to this objective is based on the distinctive place of aboriginals in Canadian society as the first peoples of Canada and on the

constitutional recognition they now enjoy.

Institutional reforms to enhance the autonomy of aboriginal peoples focus on the idea of self-government. Implications of aboriginal self-government for Canada's overall institutional framework and, in particular, for the three pillars of the Canadian constitutional order, Parliament, federalism and the Charter, have not yet been clarified. Indeed, many important issues have been avoided and should be addressed more squarely. The fundamental changes to our national and provincial institutions that are now being contemplated need broad Canadian understanding if they are to be acceptable in the long run. The pace of discussions, as well as the comprehensiveness of debates in Parliament and the legislatures should reflect this concern.

The Northern Territories

The economic, social and environmental challenges of development in Northern Canada will remain of continuing concern to Canadians. From an institutional perspective, significant questions must be addressed—some of these in the near future.

No Canadians—Natives and non-Natives, Northerners and Southerners—can be well served by further delays in the settlement of aboriginal land claims. Final agreements affirming and delimiting aboriginal rights should be actively encouraged. If necessary, deadlines should be established by the parties, and discussions could proceed without reference to the issues of legislative powers, sovereignty and special political status, which could be dealt with subsequently in other settings.

The Yukon Act and the Northwest Territories Act should be amended to reflect the current practices of responsible government in Yukon and to encourage comparable evolution in the Northwest Territories. In both territories, new formula-based financial arrangements should be negotiated, to increase the predictability of transfers and to promote genuine responsibility and accountability for expenditures.

On the basis of federal commitment to the ultimate goal of some form of provincehood in the Northern territories, the governments involved should establish a timetable for the transfer of provincial-type responsibilities in areas such as health, labour relations, inland waters, renewable resources and the institution of criminal proceedings. Additional measures should be taken to:

- Advance the process of transferring to territorial governments responsibilities for Crown lands that do not bear directly on the

national interest, and that have not been ceded to the Native people through claims settlements

- Institute resource-revenue/sharing arrangements comparable to the types of agreements worked out with Nova Scotia and Newfoundland
- Confirm participation of the territorial governments in federal-provincial forums where matters of direct concern to Northern residents are being discussed. Joint-management arrangements may be valuable transitional procedures.

Failing an internally generated and ratified agreement on division of the Northwest Territories, the federal government should establish an independent boundary commission to recommend a boundary on the basis of arguments from the two constitutional forums. Subject to the spirit of the Canadian constitutional tradition and the need to recognize the essential quality of Canadian citizenship, the structure of post-division government should be left to the discretion of the respective constitutional forums.

Municipalities

Local governments are an enduring and important feature of government in Canada, despite their lack of constitutional status. Variations in approaches to local government in different provinces have permitted sensitivity, dynamism and creativity in the city-province relationship. Existing arrangements have contributed to the development of some of the most liveable cities in the world. Local governments have experienced uncertainty and frustration because of limited policy-making instruments and their relations with provincial and federal governments, but responses to current concerns must begin from the premise that we have been doing something right.

Canada's major cities should be provided with the legal, financial and institutional means to fulfill their economic development role. By and large, this involves removing constraints that prevent their involvement in development.

- Although Commissioners do not recommend changing the constitutional status of local governments, the federal and provincial governments should increase the involvement and responsibility of local authorities. The federal government should review with the provinces the possibility of occasional tri-level conferences; improve communications between municipalities and ministers whose responsibilities affect local interests; assign responsibility to

investigate the significance of local concerns in national policy to the proposed Standing Committee for Intergovernmental Relations, and explore opportunities for the decentralization of specific responsibilities, including airports and federal urban properties to federally-appointed local agencies. The use of the delegation amendment as Commissioners have earlier proposed, may become a means to delegate directly to local governments responsibility for such questions as siting, development and administration of some airports through agreement with the relevant province.

The provincial governments should continue to assess possibilities for assuming financial responsibility for requirements greatly exceeding local revenue sources. Commissioners also recommend that the provinces examine ways to designate a specific portion of income or sales-tax revenues for local government financing. Commissioners believe that revenues to local governments should be increasingly unconditional.



Concluding Comments

In sum, there is no clean slate on which reformers can write what they wish. The battery of relationships in our system—Cabinets and legislatures, federal and provincial governments, regulatory agencies and Crown corporations, interest groups and the state, the citizen as ultimate source of authority in a democracy—all require sustained attention if we Canadians are to govern ourselves efficiently into the twenty-first century. The reforms that this Commission has proposed can only emerge as we Canadians continually rediscover ourselves as an evolving society.

As this Commission began its work, the Canadian Conference of the Arts brief pointed out this home truth: "We are presented with

the opportunity of re-examining and reorienting our goals for the future, and of preparing for and entering into that future with the spirit that first brought this country into being . . ." This Commission has tried to capture that pioneering spirit in the extensive agenda for change that has been set out both in this summary and in the full Report. While governments can help to cushion the shock that change will inevitably bring, every Canadian must be prepared to face the future with flexibility. The challenge for change must ultimately be carried through by every Canadian.

Canada does not lack the human resources to meet the demands of the days ahead. Indeed, we Canadians should celebrate our incomparable advantages, not only in the country in which we live, but in the compatriots we have gained and in the institutions we have built. By seeing the chance for change as an opportunity rather than a threat, we can not only improve our circumstances at home, but we can also make a more important contribution abroad. Canada must now move from dependence to self-determination. With that firm confidence in our future, let us together make the leap of faith into tomorrow.

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