au courant

Economic Council of Canada Volume 7, No. 1

Health care for the elderly

- M[illegible] can boost competition
- A[illegible]t soft technology
- N[illegible]uncil project underway

PUBLICATIONS

Research Studies

Research studies are published by the Economic Council in both official languages. A list of titles is available on request. Each study clearly attributes the findings and conclusions to the individual author or authors rather than to the Council (ordering information below). One new title has been published since the last issue of *Au Courant*.

Forest Management and Economic Growth in British Columbia, by *Michael B. Percy* (EC22-130/1986E; $7.95 in Canada, $9.55 elsewhere).

Colloquium Proceedings

The Council's two-day Colloquium on the Environment pinpointed some of the major environmental problems facing Canada and other countries. It brought together more than 100 experts from diverse backgrounds in scientific research, economics, environmental management, public administration, and industry. A summary of the Colloquium proceedings was featured in *Au Courant* (vol. 6, no. 3). The papers presented at the Colloquium have also been collected in a volume of proceedings, which can be ordered in accordance with the information below.

Managing the Legacy: Proceedings of a Colloquium on the Environment, December 1985 (EC22-131/1986E; $9.95 in Canada, $11.95 elsewhere).

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No. 300 "Local government enterprise in Canada," by *Harry M. Kitchen*.

No. 301 "Government enterprise in Western Canada's telecommunications," by *Michael Denny*.

No. 302 "Controlling public enterprise in Europe," by *M. E. Beesley, A. Likierman*, and *S. Bloomfield*.

No. 303 "The potash corporation of Saskatchewan: An assessment of the creation and performance of a Crown corporation," by *Nancy D. Olewiler*.

No. 304 "The interjurisdictional allocation of income and the unitary taxation debate," by *D. J. S. Brean* and *R. M. Bird*.

No. 305 "Taxes and the labour supply of married women in Canada," by *Eden Cloutier*.

No. 306 "Taxation and life cycle savings behaviour in a small open economy," by *Denis Gauthier*.

No. 307 "The role and economic implications of the Canadian dividend tax credit," by *Glenn P. Jenkins*.

Reprint

The following Council study has been reprinted and can be ordered in accordance with the information below:

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Contents

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The Economic Council reports featured in *Au Courant* reflect the viewpoint of Council members. Research studies, technical reports, discussion papers, and other background papers are prepared for the use of the Council by members of its staff and others. The findings of these reports are the personal responsibility of the authors. Neither the original publication of these studies and papers, nor their condensation for the purposes of this magazine, should be taken to imply endorsement of their conclusions and recommendations by the members of the Economic Council.

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Aging with limited health resources

Will Canada be able to meet the needs of its aging population by the turn of the century? Rising health care costs, combined with an anticipated wave of senior citizens as the baby boomers grow old, have made this question a critical one for policy-makers. With that in mind, the Economic Council sponsored a Colloquium on "Aging with Limited Health Resources," which was held in Winnipeg in May. Participating with the Council in this event were the Canadian Hospital Association, the Canadian Medical Association, the Canadian Nurses' Association, and Health and Welfare Canada.

Over a two-day period some 100 participants from diverse backgrounds in scientific and social research, economics, health administration, and government talked about the key issues in the health care field and explored potential developments. The highlights of their discussions are presented on the following pages.

The international perspective

By world standards, Canada has a first-class health care system. Access is virtually universal (and prompt to boot); facilities are widely available; the quality of care is good; costs are reasonable; and techniques, up-to-date.

But Canadians themselves tend to be critical of their system, with many calling for major reforms, observed professor William Glaser, from the Graduate School of Management and Urban Professions in New York, in the Colloquium's lead-off presentation.

Glaser's analysis of Canada's health care problems suggests that some, at least, "are much smaller than Canadians think." For example, the issue of cost control is not as serious in this country as in many others, illustrated by the fact that, over the past two decades, health costs here have not increased as much, as a proportion of Gross Domestic Product, as they have elsewhere. In fact, Glaser said, Canada has become a model for other countries in this regard, primarily because of its use of payment methods (such as funding hospitals from "global" – or one-source – budgets) that effectively control costs. Canada has also acted more decisively than some other nations in curbing too-rapid expansion in its medical profession; and it has been quite successful in developing alternative health service facilities such as day care, home care, and ambulatory centres to take the pressure off hospitals.

As is everywhere the case, Canada will have to come to grips with the dilemma of providing care for its elderly, Glaser noted, adding that the problem is less acute in this country since it has fewer old people than any other developed nation. Nevertheless, critical questions of financing long-term care and of creating and managing services to meet the needs of senior citizens will have to be dealt with in Canada, as elsewhere.

Should Canada be making fundamental changes to its health system? Not in world opinion, Glaser concluded. Critics who argue for major reforms – such as privatization, a more consumer-oriented system, the reorganization of medical practice, or a revised system of payments – are not, in his view, on very solid ground.

Discussant Robert Kane, dean of the School of Public Health at Minnesota University, commented that "to the American observer, the Canadian

health care system seems marvellously civilized" and "surprisingly free of litigation and regulation."

He cautioned against adopting the "capitation" system (whereby health organizations provide health care to individuals in return for a regular fee), which is currently catching fire in the United States. That system "makes money on those who use it little," he remarked, "while those who make heavy demands represent losses."

At the same time, he raised several questions about Canada's method of paying hospitals from global budgets – an approach that contrasts with the multifaceted, fragmented U.S. system. The Canadian approach, he noted, would appear to deprive hospitals of the incentive to keep patient stays at a minimum.

In conclusion, he praised Canada's extension of universal health care coverage to include long-term care. He observed, however, that this country, along with its neighbour to the south, must solve the problem of co-ordinating long-term care with acute care. At present, these two areas are managed separately, causing duplication and inefficiency.

Discussant Betty Havens, provincial gerontologist at the Manitoba Department of Health, pointed to some immediate and long-term concerns in the health area. An important issue has to do with providing health care – particularly long-term care – to an aging population, she said, noting that today's elderly receive 80 per cent of their care from the informal support network of family, friends, and neighbours. She stressed the need to link this informal structure with the formal system, ideally under the management of a "case co-ordinator." This arrangement works well in Manitoba, she observed, where program nurses or social workers act in that capacity.

Havens also discussed the issue of women and health care. She noted that women predominate as both givers and receivers: they consume health services at rates disproportionate to their numbers; and they are the principal caregivers in both the formal and informal systems. They will need greater support in both these roles, she warned.

Floor discussion

A number of questions and comments were aired in the ensuing floor discussion. One participant observed that health care has become an industry in its own right, employing large numbers of workers. Glaser concurred, pointing out that meeting the wage demands of hospital employees accounts for a large slice of mounting hospital costs.

The need to link long-term and acute (or hospital) care also concerned participants. One suggested that medical and nursing schools should stress the importance of this linkage in their programs. Kane queried whether a medically centred system was the answer, saying that he preferred a "social model."

Meeting health care needs

An interweaving of formal and informal care networks is probably the most efficient and least costly method of meeting the needs of the elderly, said Alan Walker, professor of social policy at the University of Sheffield, England.

There are dangers to relying solely on the community for health care services, he continued. For one thing, community care, by and large, means family care, which in turn means care by female family members – a situation that is unlikely to continue indefinitely, particularly in light of increasing numbers of old people. Furthermore, there is always the risk that politicians and officials will ask too much of the informal system, both in terms of services and as a means of reducing health care costs.

At the same time, institutions (hospitals and old-age homes) shouldn't be overused either – particularly since the majority of old people need social rather than medical attention. Canada tends to err in this direction, Walker observed: compared with Britain, where 5 per cent of residents over the age of 65 are institutionalized, 9.5 per cent are in institutions in this country. One explanation is that "powerful medical and nursing interests" favour the institutional route, he noted.

Walker advocated the development of non-institutional, community-based policies, using a combination of formal and informal support systems. As an example of how this approach can work, he pointed to projects in Britain and in Nova Scotia, where families are paid to look after relatives who would otherwise be institutionalized. Other schemes have provided care to the elderly in their homes at no extra cost through a system of visiting wardens, emergency telephone services, home-care assistants, and so forth.

The main lesson to be learned from British attempts to implement this kind of policy over the past 30 years, he concluded, is "not to underestimate the strength of the forces opposed" and "not to overestimate the caring capacity of the community."

A two-pronged strategy to control health care costs and to wipe out disabling disease may help solve Canada's long-term health care problems, said discussant Kenneth Manton, a professor of both demographic studies and medical research at North Carolina's Duke University.

He observed that growth in the numbers of old people, along with a probable increase in life expectancy, will inevitably lead to greater demand for health care services. However, his research shows that a good deal of the ill health and functional disability of the elderly is due to preventable diseases. Targeting and reducing these illnesses "could significantly lower the demand for long-term care services," he argued.

A recently developed method of regulating the consumption of health care services could also successfully control hospitalization costs, he continued. This so-called "DRG" system is based upon fixed reimbursements to hospitals for their treatment of a long list of diagnosis-related groups; for example, hospitals would be paid specific amounts for appendectomies, for cancer treatments, and so forth. Long-

Health and Welfare Canada

The elderly population is growing fast

term care will also have to be included in this reimbursement scheme to keep costs under control throughout the system, Manton concluded.

Changing the behaviour of "hospital-prone physicians" could have more impact on the health care system than growth in the numbers of the very elderly, commented discussant Noralou Roos, professor in the Department of Social and Preventive Medicine at the University of Manitoba.

Roos noted that "the great majority of elderly individuals . . . are healthy and infrequently hospitalized." Only a small percentage of old people – the very elderly and the dying – actually spend lengthy periods in hospital. But the hospital days taken up by these patients are insignificant compared with the hospital stays attributable to the practice style of some well-intentioned doctors. Consequently, Roos observed, in Manitoba "a 10 per cent increase in the numbers of the very elderly might lead to an increased 'need' of approximately 6,952 hospital days, while a 10 per cent increase in physicians who are hospital-prone would result in an increased 'need' of 34,956 days." The availability of hospital beds gives a similar boost to hospital admission rates, she added.

The answer, in her view, is better control of the numbers of doctors and an investigation into why some hospitalize their patients more than others. Active hospital admission review committees might be the answer, she concluded.

Floor discussion

The concept of community care generated a good deal of discussion. Several participants cautioned that inadequate care in the community could work against the elderly. One observed that numbers of old people die of hypothermia in the United Kingdom each winter; another commented that people over 55 suffering from kidney disease in the United Kingdom were not given dialysis. Walker agreed on the need for effective community care but pointed out that the dialysis decision had been taken at the hospital level, not in the community.

Another participant remarked that switching from a medical to a social care system could put doctors out of work and thus might be resisted. Manton replied that downward pressure on doctors' salaries, rather than job loss, would be the likely outcome of this change. Roos's reference to hospital-prone physicians also attracted attention. One participant queried whether longer and more frequent hospital stays might not imply improved care rather than the reverse; but Roos said she found "nothing to suggest that this practice style is good for the elderly." She noted as well that doctors disagree about the most effective form of treatment in many cases, and she recommended more research in this area.

National Film Board of Canada

Recognizing the benefits of community life

Long-term care services

Institutional care need not be the only recourse for ailing or frail senior citizens, said Dr. Duncan Robertson, a consulting specialist in geriatric and internal medicine at the Juan de Fuca Hospital Society in Victoria, British Columbia. An integrated range of long-term-care services could, in fact, prevent or postpone admission to institutions in many cases.

Long-term health care has five essential components, he observed: acute care (in hospitals), primary care, facility care (such as old-age homes), home health care, and case management. Acute care is presently overutilized: in many parts of the United States and Canada, the elderly account for half of all hospital bed-days. This usage could be reduced significantly, Robertson claimed, with more effective and earlier discharge planning and with efficient geriatric assessment – that is, full diagnostic and functional evaluation as a prelude to arrangements for treatment.

The role of long-term-care facilities could be expanded to minimize unnecessary permanent admission to institutions, Robertson continued, by greater use of geriatric rehabilitation programs, by respite care (whereby family care-givers are provided with short periods of relief), and by day programs that provide specialized social and recreational opportunities for the mildly disabled elderly. Home health care is yet another option for the elderly, depending on their needs and on those of their families.

One important element in long-term care is the coordination of social and health care services, Robertson noted. That function is best carried out by a case manager, who is able to bring together all available resources in each individual case. Successful case management requires that patients be referred for help while they can still benefit and that available support services operate collaboratively for the attainment of therapeutic, rehabilitative, or management goals, he said.

Robertson concluded with the observation that in the quest for cost effectiveness in health care, society should be "guided by humanitarian principles, not merely by cost considerations."

Discussant Greg Stoddart, an associate professor at McMaster University's

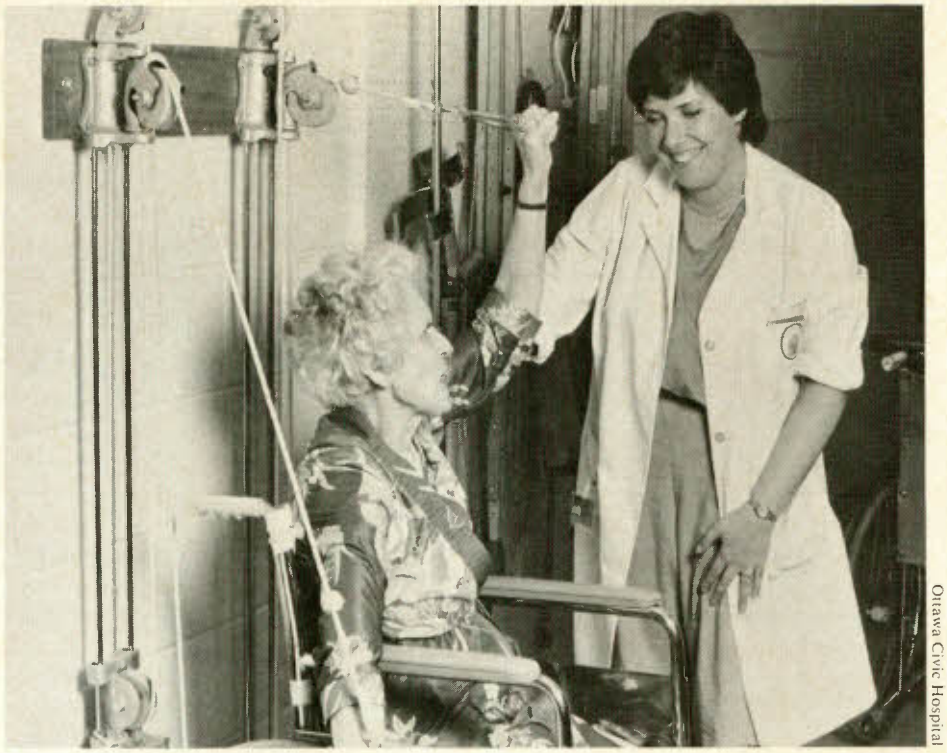
Department of Clinical Epidemiology and Biostatistics, elaborated further on Robertson's recommendation for an integrated long-term-care system, by focusing on three issues: the "crisis mentality" with respect to future health care needs; the nature of cost-effectiveness information; and an important new source of revenue for long-term-care.

The sense of impending crisis in health care shouldn't be exaggerated, he said, even though there are reasons for concern. The impact of aging on health care will occur slowly over the next 50 years, he pointed out, and will primarily affect the institutional services sector; and demographically generated increases in health care spending could be met by real economic growth of around 2 per cent a year. Society's response to these demographic changes will be a deciding factor in determining future costs, he added. Planning in that regard should be undertaken with care, however, and not with a sense of urgency.

Alternative services must be evaluated more clearly and honestly insofar as their cost effectiveness is concerned, he continued. Frequently new services or programs are not cost-saving but, rather, more effective *and* more expensive. While society may consider increases in quality of life to be worth large additional net costs, it should have the appropriate information at its disposal.

Finally, eliminating ineffective, inefficient services elsewhere in the health system could provide a new source of funds for long-term care. In his view, combining public funding with a better incentive system would be the right approach.

Discussant John Horne, professor of social and preventive medicine at the University of Manitoba, took issue with the idea that community care is necessarily better and cheaper. In particular, he criticized the findings of a recent report on health care delivery. The report, prepared by management consultants Woods Gordon for the Canadian Medical Association task force on the allocation of health care resources, explored the costs of four different approaches to health care: reducing the number of elderly in institutions and placing them in community care; reducing the number of mentally ill patients in special facilities; shortening hospital stays for people under 65; and using nurse practitioners more extensively. On the basis of this analysis, Woods Gordon argued that huge savings – $6.8 billion – were possible by 2021, primarily through the reduced institutionalization of the elderly.



Ottawa Civic Hospital

Long-term care services should be varied

Horne concluded that the report overstated the case for de-institutionalization. His analysis showed that total savings in 2021 were $0.8 billion less than Woods Gordon predicted. In particular, the savings from removing the elderly from institutions were "dramatically reduced" by a full $3.6 billion when more realistic assumptions were made about the costs of alternative forms of care. Horne also maintained that, on the other side of the ledger, the potential savings from the use of nurse practitioners, from an increase in the operational efficiency of hospitals, and from the elimination of some marginally ineffective medical services (such as chest X-rays and electrocardiograms) would increase potential savings by $2.8 billion. With this approach, savings could be made through the more efficient use of existing services rather than through changing the entire system, as Woods Gordon suggested.

Floor discussion

The question of the future cost of health care interested many participants. One observed that since the rate of aging is not uniform, costs increase in spurts rather than regularly – implying that resources will have to be shifted rapidly and without warning rather than slowly over time. Another participant argued that the proportion of resources devoted to the elderly becomes even more worrisome when the cost of financial support programs, such as pensions, is included. A U.S. participant suggested that the problem stems from moving people from system to system rather than treating them within one and the same system. Another U.S. observer commented that in his country people are beginning to object to escalating health care costs and to the addition of new programs. Stoddart remarked that while there appeared to be no such reaction in Canada to date, it could be triggered at any time. The remarkable feature of the Canadian system, he added, is its excellent record of cost control in the absence of any incentives.

Preventive care

A new way of evaluating the health care system would help in the development of effective future policy, contended Madeleine Blanchet, president of the Conseil des affaires sociales et de la famille (CASF), a Quebec government organization.

In 1982 the CASF developed an effective method of evaluation – a "quality of life" measurement that takes into consideration not only the life expectancy of an individual but also his or her ability to enjoy that life in good health. This approach is more comprehensive and thus probably more

accurate than current methods, she said. According to the new measure, life usually begins to decline in quality around the age of 60.

This perspective changes the priorities for health care policy, putting far greater emphasis on preventive care and the promotion of good health, she observed.

In the context of this approach, the CASF developed a scenario for the year 2000, at which time health care policy will be concerned with maintaining the health of increasing numbers of old people. The CASF identified six initiatives essential for effective preventive care at that time: a research initiative, in areas such as genetics and the environment; an information initiative, to acquaint the general public with important health care issues; financial incentives (such as tax breaks and subsidies) to encourage preventive care; a legislative initiative; action to reduce environmental health hazards; and action to change the financing methods with regard to both personal health care and therapy.

Discussant Donald Wigle, chief of the Bureau of Epidemiology at Health and Welfare Canada, argued that Canada must develop national health goals designed to improve health, to reduce the major risks to health (such as smoking), and to improve general knowledge about these issues.

The kind of health objectives Canada should be setting for the period 1983 to 2000, he continued, include reducing the overall risk of death by 25 per cent, reducing disparities in the risk of untimely death among low-income groups and among regions by 50 per cent, and reducing the number of smokers between 12 and 29 years of age to less than 10 per cent.

Mass intervention programs (such as fluoridization of water) have proved most successful in achieving specific goals in the past. Thus workplace smoking bans would probably be a more effective form of preventive action than the establishment of smoking cessation clinics. The greatest gains will come from programs aimed at primary prevention, Wigle added, such as educating young people about the dangers of smoking.

In sum, education about avoidable health risks, along with legislation to control health hazards, is key to ensuring good health, he concluded.

There are few shortcuts in the journey to a healthy old age, commented discussant Carol Buck, a professor in the Department of Epidemiology and Biostatistics at the University of Western Ontario. The most important requirement for a better life in old age is a better life in infancy, childhood, and adulthood, she said.

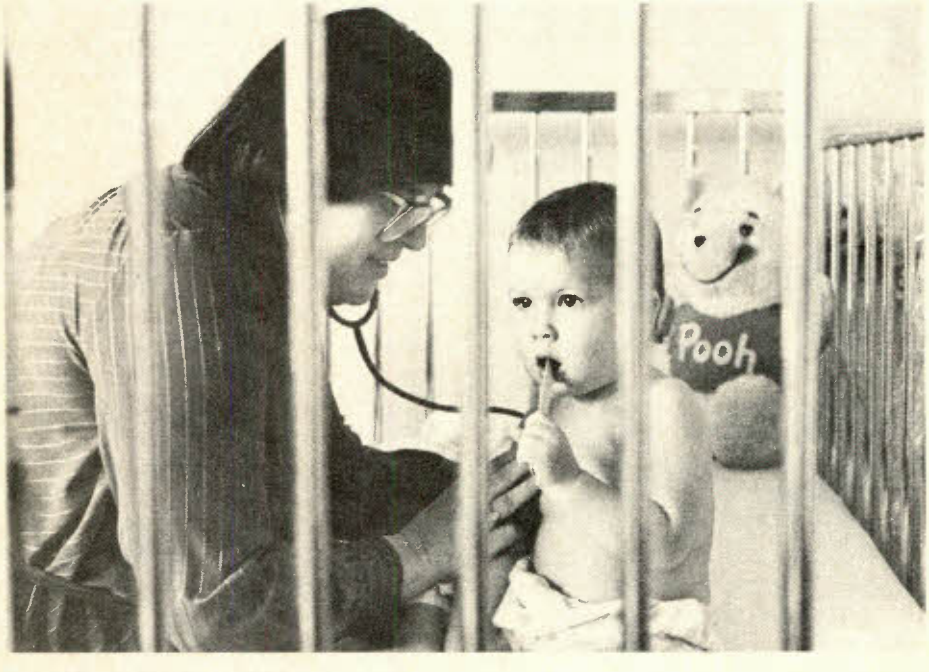
People are the product of not only their genetic and prenatal inheritance but also a variety of lifetime experiences, Buck pointed out. So, for example – as her own research suggests – childhood infections may affect an individual's health later in life. Similarly, dental decay can lead to nutritional problems in old age, and high levels of noise over time can cause hearing impairment.

The implication is that preventive health care must begin early in life, Buck concluded. Sudden lifestyle changes – except for cessation of smoking – are not necessarily as beneficial as popular theory holds. For example, the effects of alcohol, diet, and exercise on health are quite complicated and deserving of a good deal more research.

Floor discussion

In the course of the floor discussion, a number of participants stressed the need to distinguish between health promotion and primary care (care in youth), on the one hand, and disease prevention, on the other. Several referred specifically to the disabling diseases, such as arthritis, that frequently strike the elderly. Although these concerns are interrelated, it was pointed out that each requires a different strategic approach and has different targets. Health promotion, for example, is a communitywide or countrywide affair, while the management and prevention of geriatric diseases has a narrower focus.

Another participant queried Wigle's approach to disease prevention. She argued that the costs of prevention can be higher than those of treating the disease itself, citing a U.S. study which found that screening of the entire population for hypertension can be more expensive than treating subsequent heart attacks.



Linda Carrier

Preventive care begins in childhood

Advances in technology

Senior citizens will be better off in the future than they are now, thanks in large part to technological innovations. But these technologies will have to be used wisely to ensure that costs do not get out of hand, said David Banta, a consultant for the World Health Organization in the Netherlands.

Since 1950, there has been an explosion of biomedical knowledge, both in diagnosis and in treatment, he observed. Often these new technologies are designed to compensate for the incapacitating effects of certain diseases or to postpone death – as in the transplant of artificial organs, or kidney dialysis, for example. Such technologies are very expensive, he pointed out: artificial heart transplants, for example, could end up costing the

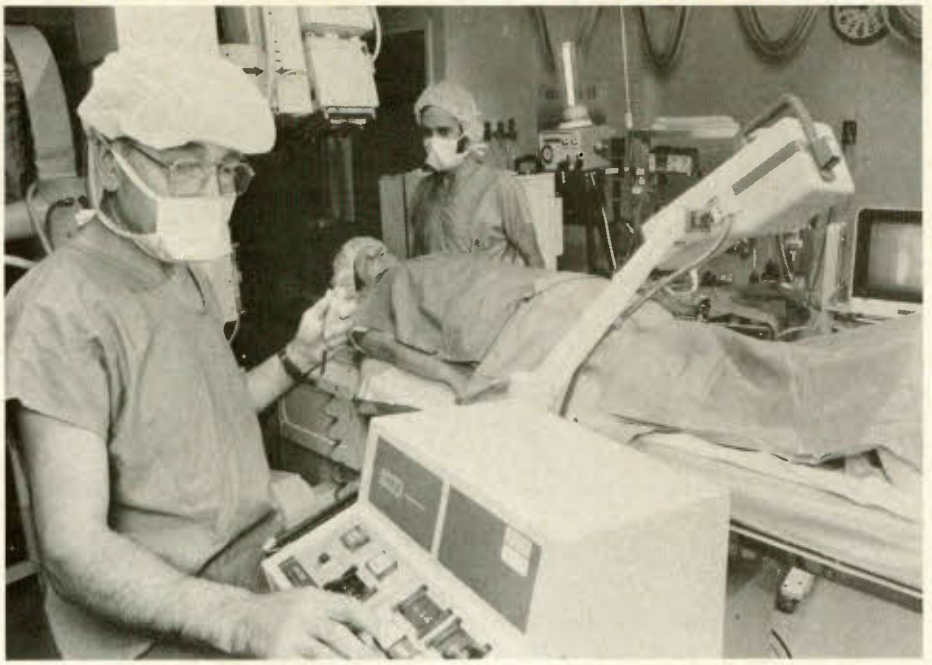
United States about $1-to-3 billion annually.

What's needed, in Banta's view, is a health policy framework to control or channel technological development. Increasingly, governments are recognizing that budget constraints are the most important form of control, and there is a general movement to prospective budgeting along the lines of Canada's global hospital budgets. That process requires an assessment of the benefits, risks, financial costs, and broad social impact of new technology, Banta said. While this kind of evaluation can be tricky, the most utilized and effective technique appears to be cost-effectiveness analysis, which indicates the benefit derived from the cost incurred. One such analysis, conducted by the Office of Technological Assessment of the U.S. Congress, found that using an influenza vaccine created "a healthy life for the cost of $63 a year (per person)." But Banta cautioned that the cost-effectiveness method should not be used in isolation. Judgment, as well as political and other considerations, should continue to affect decision-making.

Discussant Roger Evans, a senior scientist with the Health and Population Study Center in Seattle, Washington, said that rather than ignore or criticize new medical technology, we should focus on how much and what type we can best afford in current circumstances.

One of the most difficult and sensitive problems confronting health care policy-makers, he observed, is having to put a dollar value on lives, as cost-effectiveness analysis does. It's critical, therefore, that the best information on cost effectiveness be available for the assessment of any new technology. Once we accept that principle, Evans said, we're very close to developing consistent health care policies.

Quality of life is an important consideration in this assessment but one that is difficult to evaluate. According to Evans, this concept has both an objective dimension (functional ability, ability to work, and health status) and a subjective one (well-being, psychological condition, and life satisfaction). His studies of both kidney and heart transplant patients indicate that while they do not tend to score well on the physical scale, they do well subjectively – suggesting that they adapt remarkably to their situation. These findings, which probably apply equally to the elderly under long-term care, suggest that measuring the quality of life is not as straightforward as it might appear to be.



Ottawa Civic Hospital

New technology should be treated wisely

Evans went on to argue that some technologies – such as heart transplant therapy – are cited as expensive experiments, when most insurance companies view them as standard benefits. That inconsistency, in Evans's view, stems from a reluctance on the part of policy-makers to popularize costly procedures. A key issue in the health care field, he concluded, will be to determine not how much a new technology costs but, rather, "how much we can afford to spend on the care of the dying patient, regardless of the approach to treatment."

Discussant Raisa Deber, a professor at the University of Toronto's Department of Health Administration, noted that provincial governments haven't entirely succeeded in controlling the explosion in medical technology, even though they hold the health-care purse strings. That is probably because society finds it hard to ration services that delay death, she said, particularly when it is easy to identify with the individual lives at stake. In her view, policies restricting these technologies are unlikely to be adopted, since "only curmudgeons attack artificial heart transplants." A better approach, in her view, lies in eliminating demonstrably inefficient procedures.

Future technologies promise to create new problems, she added. In particular, those dealing with genetic diseases, although cost-saving, may challenge the basic ethical premises of our society. Other technologies, such as computers to assist in diagnosis, will be an invaluable aid to doctors in years ahead, she concluded.

Floor discussion

A wide-ranging discussion of technological issues followed the presentations. A number of participants pointed to signs of an anti-technology backlash, particularly with regard to the dying process, or to childbirth. Several noted, however, that this reaction is directed at inefficient technologies, such as fetal monitoring, rather than at technology in general.

Also raised was the question of how new technologies should be assessed: in closed fashion by experts, or openly, with feedback from the general public. The latter approach is preferable, Banta commented.

Whether technologies will be cheaper in future was also debated. If costs are expected to go down, then financing decisions should be long-term, noted one participant. Another argued that since labour (nursing, for example) makes up a high proportion of the costs, no large reductions are likely. Another contended that the scaling-down of hospital technologies – for example, hospital laboratories – is inevitable.

Ethical questions

As increasing numbers of Canadians grow older and health care costs continue to climb, certain ethical

questions take on increased significance. Three such concerns were raised by professor Jack Gallagher, of the Cardinal Carter Centre for Bioethics at St. Michael's College in Toronto, in his discussion of the topic "Economic Limits and Bioethics."

To begin with, he dealt with the contention that Canada cannot afford to provide its old people with increasingly costly health care. In his view, that attitude fails to address the real problem, which is one, not of mounting costs but of "our inability to apply our productive capacity to the needs of people," including their health care requirements.

Second, he discussed the priority that should be given to health care for the elderly, given queries about their entitlement to large expenditures in this regard. Cautioning against the attitude that aging lives are worth less than young ones, he suggested some guidelines for determining when life should be preserved by active means. These include developing a respect for the value of life and for the importance of preserving it; paying attention to all the needs of the elderly, as opposed to simply the physical ones; and placing emphasis on restoring health or alleviating pain rather than on maintaining life at all costs.

Finally, he queried whether health care resources should be utilized on the basis that some lives are more valuable than others and thus more entitled to medical attention. It would be mistaken and inhumane to establish priorities that exclude a large group, he maintained, arguing that with respect to this kind of decision-making, "chance is by and large preferable to choice."

Discussant Margaret Somerville, a professor at McGill University's Faculties of Law and of Medicine, outlined a number of pressing ethical concerns at both the practical and the theoretical level. In practical terms, she said, we need to recognize that medical issues cannot be examined in isolation: the legal, social, economic, and symbolic aspects of health care are equally important and interrelated. The law could prove helpful in resolving some of the complex questions that are presently being raised and in establishing an effective decision-making framework, she observed, since in its widest sense a society's laws reflect its values and culture.

We need to determine the guiding principles of decision-making in the health care field, Somerville argued, noting that fairness, informed neutrality, and creativity are critical elements of this process. As well, health care professionals should work from a clearly established set of values. Those guidelines require replacing the current "rigid, technological, simplistic, decision-making model" with a flexible, protective, and humanistic one, she concluded.

Health and Welfare Canada

Aging lives have value

Sister Nuala Kenny, head of the Department of Paediatrics at Queen's University, introduced her discussion of this topic by observing that decision-making on health care issues has become more complex in this era of medical and technological advance.

She contended that certain issues badly need clarification before ethically valid decisions can be taken. Most important, in her view, is the development of a sound philosophy of health care, affirming that health is a complex state and much more than simply the absence of disease.

Current financial restraints underscore the need to look carefully at the decision-making process in order to establish priorities. Above all, she concluded, all decisions should "preserve both the integrity of the individual and the integrity of the community."

Floor discussion

Ethical questions are complex and difficult to resolve, commented several participants. One noted that for many people, these concerns have a religious foundation; and so, since religious views vary, agreement is hard to reach. Gallagher agreed with this observation but suggested that efforts should be made to establish areas of common ground. Kenny added that ethics committees serve a useful role in this regard.

Another participant pointed out that ethical training should be given not only to health providers but also to managers and administrators. In reply, Somerville referred to a new approach whereby important health care decisions go through several levels – including the doctor and the administrator – before they are approved.

Planning for the future

A better system of providing Canadians with health care services would be more innovative, effective, and cost-saving, claimed Claude Forget, a partner in Sécor Ltd. and a vice-president of the C. D. Howe Institute.

Canada's present health-services delivery system is good, but it could be even better, he observed. As it stands, there is little room for innovation or change – two qualities that will be badly needed in the future. The problem, Forget said, is that the "powerlessness of all the players" to make changes in the system creates "frustration, staleness, and resentment."

This inflexibility can be explained by the fact that the present system is run by governments, which lack the incentive to make improvements or provide orientation. As well, the "professional

bureaucracy" of medical and hospital interests militates against change, as does a prevailing "ideological commitment" to all the features of the system. Finally, the assumption that the health care system should function with perfect rationality and consistency inhibits the growth of innovation and change, which are by nature "messy," he said.

A much more appealing arrangement, in Forget's view, would be a competitive system, better geared to consumer preference, individual initiative, and responsible management by doctors and other providers. A system recently established in some areas of the United States might meet these requirements, he observed. Under this approach, Health Maintenance Organizations (HMOs), run by doctors, undertake to provide health services to the public in return for an annual fee per patient. Since doctors collect the profits remaining once service costs have been paid, they have an incentive to keep their clients healthy (or to minimize the costs of illness), while clients in turn have the freedom to choose the best providers.

Forget also recommended putting hospital management on this kind of footing, by allowing HMOs to buy hospital services on behalf of their subscribers. This client/supplier relationship would improve management and boost efficiency, he concluded.

Discussant Jacques Brunet, director general of the Centre Hospitalier of Laval University, warned that the health system will need streamlining if it is to cope with future health care needs. A larger elderly population, accompanied by more chronic disease and additional new therapies, will place a heavy burden on hospitals in the years to come.

At present, Brunet said, neither consumers nor doctors have the incentive to moderate their use of hospitals. However, he noted, evidence from the American Hospital Association bears out his belief that the "DRG" approach (whereby hospitals are reimbursed for their treatment of specific ailments) could effectively limit admissions and control costs.

In conclusion, he recommended that hospitals in future be linked to the community through the establishment of extramural (community-based) hospitals.

Two major points were stressed by discussant Fraser Mustard, president of the Canadian Institute for Advanced Research in Toronto.

First, he agreed with Forget on the need for a more competitive health care system, giving doctors the incentive to deliver services efficiently. The ideal system would combine Canada's current public funding approach (ensuring equity of access) with more freedom to innovate. The HMO scheme, as described by Forget, might prove successful in this regard, he said.

Second, he argued that "the social structure or arrangements for supporting older individuals in the community are the most important questions for this conference." In his view, community health care should be provided primarily by non-professionals assisted, when necessary, by health service providers. Measures to encourage this kind of support should include the provision of paid employment leave to relatives and friends of the dying, "to allow the end of life to be as humane as possible."

Floor discussion

Forget's proposal for change drew a number of questions from the floor. One participant commented that he did not find a sense of powerlessness in the health care system but, rather, a power struggle between the doctors and the provincial governments. Another added that in the kind of closed financial system characterizing this sector, there is a loser for every winner; he recommended more flexibility in terms of resource allocation, both overall and at various levels of the system. Another participant observed that a more flexible system would not necessarily be more inequitable but, instead, could attract more resources for lower-income groups.

On another subject, one participant questioned the value of Brunet's proposal for more extramural hospitals. He argued that efforts would be better directed at solving the problems of conventional hospitals, which are presently locked in intense competition for limited resources.

The issues raised at the Colloquium were summarized by dinner speaker Monique Jérôme-Forget, vice-rector of Institutional Relations and Finance at Concordia University. She concluded with four recommendations "of the utmost importance" for health care in the future: the establishment of clear objectives to improve overall health by the year 2000; the development of a first-class information system; the increased use of cost-effectiveness and cost/benefit analysis; and the introduction of a new system emphasizing prevention and cost-effective techniques.

In her closing remarks, Council chairman Judith Maxwell pointed to "incentives and integration" as key initiatives in future for Canada's health care system. While Canada should not unquestioningly imitate foreign systems, she continued, there are valuable lessons it can learn from other countries, particularly with respect to the importance of innovation and change. As well, Canada should be working to break down the barriers between its social and medical systems, while encouraging people to develop a sense of personal responsibility for health care.

National Film Board of Canada

Planning for future needs

The other side of new technology

Glamourous gadgetry like robots and satellites, Concordes and Canadarms, have helped to revolutionize the workplace.

But not so obvious are the effects of the "soft" technologies that have supplemented these developments. One example is statistical process control (SPC), which uses basic statistical methods to improve quality control. The success of a product in meeting certain engineering specifications (such as weight and dimensions) is charted over time. The patterns of variation may reflect material quality, environmental conditions such as heat or pressure, servicing intervals, and operators' skill. Hence the technique can be used as a diagnostic device to identify potential sources of trouble. Production workers trained in its use also become their own quality-control inspectors. Manufacturing industries in Canada are rapidly adopting the technique.

A closely related concept is "just-in-time" (JIT) inventory control, which, as the name implies, helps companies keep costly stocks to a minimum. In this way, companies also impose high standards of quality control, since with limited stocks there is no room for rejects. Thus SPC and JIT go hand in hand.

These and other innovations (such as robotics and lasers) are described in a guide to new technologies (and glossary of terms) being produced for the Economic Council as part of its project on the impact of tech change on the labour market (*Au Courant*, vol. 5, no. 4). The guide is being prepared by project director Keith Newton and consultants from Words Associated.

In a separate background paper, consultant Jacquie Mansell looks at one important example of "soft" technology – workplace innovations that emphasize the human side of the enterprise. She contends that such innovations – including changes in management style and philosophy, decision-making methods, job design, and organizational structure – may be as far-reaching in their impact on corporations as "hard" technologies that result in better machinery or equipment.

Creative management

Mansell explains that many factors – the recent recession, concerns about productivity, fierce international competition – are forcing companies to embrace imaginative and creative approaches to management. North America's fascination with the Japanese experience stems partly from the way in which technological advances there have been accompanied by equally progressive changes in job design, with the involvement and commitment of the work force. Working more productively and more co-operatively helps get the best out of hard technologies.

Canadian initiatives

In Canada, a number of workplace innovations have evolved over the past 15 years. Early management initiatives were motivated by the twin goals of work humanization and (though early proponents were reluctant to voice this) "bottom line" concerns such as increased productivity, reduced turnover, absenteeism, and industrial conflict. The efforts tended to focus on improving job satisfaction and morale. Thus programs of job redesign, involving the enlargement, rotation, or enrichment of individual jobs, were increasingly popular in the 1970s. (Job rotation and enlargement involve increasing the number of workers' individual tasks and are most commonly used in unskilled and semi-skilled assembly, clerical, and warehousing work. Job enrichment gives workers more skilled or responsible tasks, including basic planning, scheduling, and administration.)

Improving communications

Because poor communication was often blamed for low morale and job dissatisfaction, the common response was to establish union/management committees to share information, in an attempt to deal with problems before they festered and grew. Ontario Hydro and the International Nickel Company of Canada experimented with this approach in the early 1970s. The federal government subsequently established a program to encourage the development of these committees, as did provincial governments in Alberta, Ontario, and New Brunswick. Since 1979, the Preventative Mediation Program in Ontario has helped as many as 10 "joint action committees" get started each year. Both job design and communication programs in general have enjoyed varying degrees of support and commitment, and thus mixed success, Mansell concludes.

> ***Technology and people are interdependent; only by mutual accommodation will each produce its best.***

"Sociotechnical systems"

A more recent development has been the shift to a broader view of organizational effectiveness, which explicitly recognizes that the technological and social (or human) sides of the enterprise must be jointly fashioned. Technology and people are interdependent; only by mutual accommodation will each produce its best. A program that attempts to take advantage of this synergistic, symbiotic relationship is called a "sociotechnical system" (STS).

A world-famous example of how this system works is found at the highly automated and technically complex Shell Canada plant in Sarnia, Ontario, where chemical workers and management have jointly planned, designed, and implemented a thoroughgoing commitment to STS. The cornerstone of the Shell system is the self-regulating (or "semi-autonomous") work

group: teams of workers typically assume responsibility for their own work scheduling, training, overtime planning, and even hiring. Job rotation, which encourages team members to become multi-skilled, is reinforced by a "pay-for-knowledge" system that sets wage rates in accordance with a worker's skills. Hierarchical control is downplayed in favour of participation and group responsibility to promote co-operation, flexibility, and problem-solving. The emphasis is on change as a continuous process. Openness and participation encourage and support continual learning; thus the organizational design is self-sustaining. For Shell, the results speak for themselves: output levels are high; maintenance standards and quality control are excellent; grievances, few; and absenteeism, low. The company has recently incorporated the expression "sociotech" in its television commercials.

Industrial survival

Another impressive example of STS can be found at the Canadian General Electric plant in Bromont, Quebec, where employees received bonus payments of close to $1,000 each in 1984, under a plan that rewards them for cost-saving initiatives. At Pratt and Whitney Canada, the commitment to STS at its new operations in Halifax, Nova Scotia, involves combining the most advanced technology with the most innovative organization of work. Said a senior company spokesman in a *Globe and Mail* interview: "The aim of this combination . . . is nothing short of industrial survival."

Mansell points out that STS appears particularly well-suited to capital-intensive, highy integrated, and complex technologies. That's because rapid, flexible, and high-quality diagnosis and problem-solving are at a premium in these operations. But STS is not limited in scope and has been introduced in warehousing operations, unionized settings, and in numerous office situations (including the Ontario Ministry of Consumer and Commercial Relations).

Lessons for the future

If all the stakeholders in an organization want change, there now exists considerable information to help them avoid some of the mistakes of the past. A few simple points appear important. First, programs of change are more likely to succeed when supported by strong and stable leadership from management and unions. To work together effectively the parties must have built a relationship of mutual respect and sensitivity. Second, workplace innovations must be custom-made rather than adopted wholesale, to avoid "re-inventing the wheel." Paradoxically, however, an essential ingredient of success is that parties work together on their own design, thus sharing a learning experience and ultimately "owning," and identifying with, the structure they implement. Third, innovations do not last long in enclaves of the organization; significant results are more likely to emerge from plans that are establishmentwide. Fourth, resources are necessary; money, time, and (most of all) people must be devoted to the change process. The prospects for success are better when competent, respected, and influential people are involved. Fifth, organizational change must be regarded not as a "one-shot" deal but as an ongoing process. What was effective yesterday may not be adequate tomorrow. Finally, international experience suggests that new organizational forms and modes of behaviour are more likely to survive and succeed within the context of broader acceptance, by society in general, of participation and collaboration.

For their part, economists have to reconsider the concept of technological change. Instead of viewing it simply as a process in which the inputs of production (such as capital, labour, materials, and energy) are used more efficiently, their analysis has to take account of the impact of advances in soft technologies. In fact, if this aspect is overlooked, even the most-advanced hard technologies may prove ineffective.

Current activities at the Council

The Council is presently at work on projects to do with industrial policy, labour and social policies, international trade and finance, public finance, and the monitoring of economic performance. A brief summary of its current research activities follows.

Industrial policy

Government enterprise

Debate about the extent of public ownership and the performance of government-owned corporations prompted the Council to look at the role of government enterprise as one of a number of instruments of public policy. The research report will make proposals with respect to the use of commercial public corporations and the problems of accountability and control.

Financial institutions

The Council will focus on the trade-offs between major policy goals (such as competition and solvency) that Canadian governments have to consider in revising legislation. It will also look at ways to improve the efficiency with which financial services are provided to all Canadians.

Adjustment of firms to trade

How manufacturing firms adjust to changing market conditions is the focus of yet another project, with a final report expected in the summer of 1987. Under particular consideration are Canadian and foreign-owned firms; the births and deaths of firms on an industry basis; and the different impact on various firms in Canada of bilateral (Canada-U.S.) and multilateral trade liberalization, especially the degree of adjustment within industries relative to that between industries.

Public finance

Taxation of capital income

This report, to be published late in 1986, will identify the shortcomings of the current taxation system with respect to income from capital (including property) at both the corporate and personal levels. The Council will recommend ways to improve the efficiency and fairness of capital income taxation, giving special emphasis to the relative merits of both consumption and income taxes.

International trade and finance

Trade policy options

This project will carry out simulations of the growth and employment effects of implementing Canada's major trade policy options, including both bilateral and multilateral trade, as well as of the impact of changes on both tariff and non-tariff barriers. Interim results will be released in late 1986 and in 1987, with the final report due early in 1988.

Monitoring of performance

Annual Review

The Council's *Twenty-Third Annual Review* of the performance of the Canadian economy will focus on structural change and on the medium- and long-term outlook for the Canadian economy.

CANDIDE Project

The CANDIDE group is responsible for the maintenance and updating of the Council's large-scale econometric model. Its work provides the basis for the Council's medium- and long-term projections and policy analysis. In addition, the group provides analytical data for other projects, including taxation and trade simulations.

Labour and social policies

Impact of technology on labour markets

Researchers will make projections concerning the likely effect of technological change on future employment and the occupational structure. A survey of firms, case studies, and broad discussions with labour, industry, and government will be part of the research effort. The final report, due in the summer of 1987, will include recommendations on a variety of policies for assisting adaptation to change in such areas as education, training, mobility, and income redistribution. An interim report on the survey results will be released in the fall of 1986.

Labour adjustment to structural change

This project will analyse how workers adjust when they lose their jobs and how effective labour market policies (such as training) are in helping those workers to find jobs. Interim results will be published in the spring of 1987, with a final report expected in 1988.

Mergers can boost competition

Corporate mergers may be better for the economy than hitherto thought, according to new Council research.

Instead of reducing competition, they can also enhance it – either by enabling new competitors to enter markets where competition might be lacking or by permitting small firms to rationalize production and become more competitive. On the whole, mergers "appear to be part of a process symptomatic of a healthy economy," says a new council paper by economists John R. Baldwin of Queen's University and Paul K. Gorecki of the Economic Council.

Until now, disagreement over the effects of merger activity has stalled efforts to revise federal legislation that is generally seen to be ineffective in this area. Some observers argue for more stringent legislation to prevent the formation of monopolies or oligopolies, which may use their market power to charge higher prices and curb competition. Others contend that mergers have little impact on the concentration of market power within industries and that screening them is unnecessary. The authors' evidence "emphasizes the need to be extremely selective in devising a merger policy."

The paper examines the "horizontal" and "diversified" mergers that took place in the Canadian manufacturing sector between 1970 and 1979. A horizontal merger is one in which competitive companies in the same industry merge. This is more apt to create market power than a diversified merger, where companies in unrelated businesses merge.

Declining importance

What the authors find is that horizontal mergers have declined in importance. Multiple mergers of either kind are much less common. No matter what type of merger, larger companies generally acquire smaller ones. But, the authors conclude, the level of merger activity between firms of comparable size suggests that this process actually "strengthens small firms' ability to compete," by allowing them to achieve economies of scale.

The authors explain that mergers play an important role in allowing firms to enter the market and to expand. In fact, almost as many firms grow by horizontal merger as by the building of new plants, for example. Similarly, entry by diversified merger ranks equally with new plant creation, when measured in terms of sales. But, since merged plants are generally larger than new ones, they are better able to compete against the largest competitors in their respective industries.

To determine the importance of the merger process, the authors examine the circumstances that influence a company to merge rather than build a new plant. The results are given separately for both foreign-owned and domestic firms.

The entry process

For domestic firms, entry by diversified merger or by new plant creation depends on such factors as the number of existing firms in the industry and the growth of the market. Foreign-owned companies are more concerned with global considerations. In both cases these mergers are more likely to occur in "concentrated" industries (where market power is held by relatively few firms, making it difficult for new competitors to enter the market). This is particularly the case for foreign-owned firms. Hence these mergers overcome entry barriers and are "potentially procompetitive," the authors suggest.

The expansion process

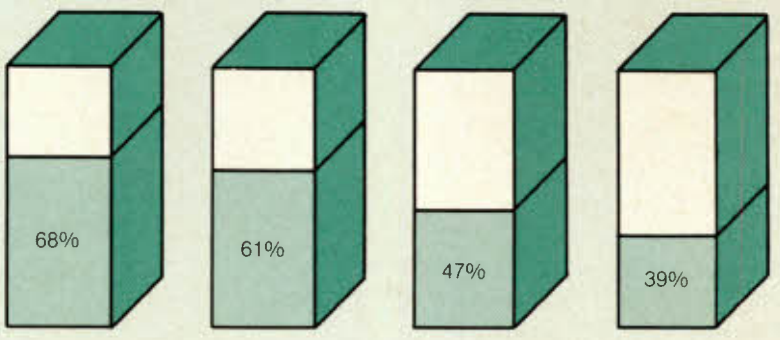
Similarly, the evidence for both foreign-owned and domestic firms is that mergers of the horizontal variety occur mainly as part of a rationalization process in which firms take advantage of greater economies of scale. In fact, even when the size of the minimum efficient plant is increasing, mergers by domestic firms are still more common than new plant creations. Among domestic firms, these mergers occur mostly in regional industries. Foreign-owned firms are less likely to engage in mergers in concentrated industries.

Overall, both types of mergers respond to much the same forces that influence new plant creation – such as profitability. In this respect, the argument that mergers in some sense create higher profits through the creation of market power is less credible, the authors note. The merger process, in fact, "is not an aberrant one that is dramatically changing the structure of the manufacturing economy," they conclude. While merger activity does have competitive consequences, a broad policy either encouraging or discouraging it "is probably inappropriate," they add.

"Mergers and merger policy in the Canadian manufacturing sector: 1971-79," by John R. Baldwin and Paul K. Gorecki. Discussion Paper No. 297.

Horizontal mergers have declined in importance

(as a percentage of total mergers in Canada)



Newfoundland revisited

After weathering the near bankruptcy of its fish-processing industry, the Newfoundland fishery has brighter prospects in sight.

But there are still too many fishermen chasing too few fish, which limits full-time work in the industry and forces many fishermen to accept unemployment insurance benefits as a significant source of income. The situation has become progressively worse since 1980, when the Economic Council issued its first major report on the Newfoundland economy. In an update of that report, economist Lawrence Copithorne (original director of the Newfoundland project) contends that unless governments deal with the plight of these workers soon, they "may bring the industry to its knees a second time."

One solution, in his view, is to establish a universal income subsidy that is not tied to the fishery. This would eliminate the need for workers to remain in the industry to be eligible for income relief under the special unemployment insurance scheme for fishermen.

Positive outlook

Meanwhile, other developments in the fishery since 1980 have been more positive. The recent shake-up in the fish-processing industry left most plants in the hands of a new Crown corporation – and workers there recently accepted real wage declines to help the company become profitable. Some industry sources claim that this agreement and the restructuring of the industry come from "a fundamental change" in attitudes that signals new co-operation between workers and management, Copithorne says.

Beyond that, a new system for allocating the offshore catch – one the Council had suggested be adopted in 1980 – has proven "very successful," he says; new fish stocks now under Canadian management as a result of the extended fisheries jurisdiction are recovering relatively well. The productivity of the Canadian trawler fleet has improved dramatically in response, he adds.

Hibernia oil

The brightest new hope for the Newfoundland economy lies in the prospect of developing the Hibernia oil field. At the moment, however, there is uncertainty over the costs of production, the size of reserves, and the impact of falling world oil prices. To make the project viable, governments need a fiscal regime that can aid the project in the early stages of development without undermining the prospect of collecting a substantial amount of economic rent in the future. A "profit-oriented" cash flow tax would work well in this respect, Copithorne finds. It would respond automatically to unforeseen fluctuations in project costs and oil prices; burdens would be shared and windfalls reaped in proportions determined by the tax rate.

The labour market

In his analysis of the labour market, Copithorne finds that Newfoundlanders are generally much less willing than other Canadians to take wage cuts to get jobs. Indeed, even in the face of high unemployment in the province, the average hourly earnings in Newfoundland manufacturing jobs climbed above national levels in 1984, he points out.

Employment growth in Newfoundland remains sluggish. Its labour force participation rate is about 10 percentage points below the national average. Thus job creation has virtually no effect on measured unemployment, because the prospect of jobs attracts numerous new workers into the labour force. In other words, the official unemployment rate excludes the abundance of discouraged workers who have given up looking for employment. Unemployed workers also tend to get "bottled up" in the province during recessions, as a poor economy slows outmigration and encourages some Newfoundlanders to return home. This is partly the result of income subsidies that affect migration. Within Newfoundland these subsidies slow the process of urbanization and its positive impact on the economy; thus they should be removed, Copithorne concludes.

Subsidies for transportation to and within Newfoundland also adversely affect the economy by reinforcing a pattern of economic activity that is costly and counterproductive. Without these subsidies, for example, most freight would be shipped through Corner Brook and St. John's – the two largest markets in the province – instead of through smaller urban centres. Copithorne's update says the best hope for improving the transportation infrastructure is the development of Hibernia. The province should also upgrade the Trans-Canada Highway linking Newfoundland's major urban centres, he adds.

"Newfoundland revisited," by Lawrence Copithorne. Discussion Paper No. 296.

National Film Board of Canada

The fishery remains important

Cutting the cost of municipal services

The most cost-efficient way to deliver some municipal services is through private companies.

In the case of urban transit, for example, this method is "significantly less expensive" than using a municipal enterprise such as a local transit commission, a new Council paper finds. This is due largely to a lack of competition in the public sector, which reduces the incentive to improve efficiency and performance, says economist Harry M. Kitchen of Trent University, in research done for the Council's project on government enterprise (*Au Courant*, vol. 4, no. 3).

The author looks at the provision of urban transit, water, and electricity in Ontario, comparing the costs of delivering these services under different organizational structures. (For electricity this includes the repair and maintenance of local facilities only.) For both electricity and transit, Kitchen cites evidence showing that the use of private contractors may affect cost savings. As well, he indicates that for both transit and water the use of a government department is less costly than a municipal enterprise. One reason is that operating costs are reduced by using existing city hall resources, such as office space, accounting and legal services, and so on.

While most municipal enterprises were created to ensure more technically competent and carefully administered services, Kitchen queries whether this objective has been achieved. He finds that the proliferation of municipal enterprises undermines their effectiveness by generating conflicts among organizations seeking to promote their own special interests. Hence local governments would be better off having complete control over all municipal functions, the author contends.

The paper also examines the efficiency of pricing policies for municipal services and whether or not the organizational structure influences the type of pricing policies used. Kitchen finds no connection in the latter respect but does uncover some glaring inefficiencies in pricing methods. Practice in setting prices varies widely; it ranges from "flat-rate" or fixed charges, unrelated to the volume of service consumed, to "metered" charges that reflect volume, to a mixture of both approaches. The revenue from these charges covers anything from a small percentage to all of the operating costs.

For water, the flat-rate charges for residential consumption used by many smaller Canadian municipalities create excessive demand and in some cases result in considerable overinvestment in capital facilities. Even with some of the metered systems, consumers may not be billed for using increased quantities of water as long as their total bill remains below a minimum. Also, water charges may not take account of the proximity of water plant facilities to the areas being serviced, thus failing to reflect transportation costs. One effect is that these policies act as subsidies that can artificially raise land values, Kitchen explains.

He suggests a "multi-part tariff system" in which charges for connection and on-site expenditures would be incorporated into a pricing schedule that reflects all the costs of servicing different users. The concept of prices varying with seasonal or daily demand "should be seriously considered," he adds.

Municipalities have less control over the provision of electricity. Ontario Hydro, a provincial Crown corporation, supplies local electric utilities and largely determines rate increases across the province. But these rates do not often vary with demand; nor do they take account of the distance between customers and the source of supply.

While the provincial government provides large operating and capital subsidies for urban transit, local municipalities establish fare policies. The rates depend largely on the degree to which each government wishes to encourage public rather than private transport. This, in turn, is related to such issues as local development, the use of downtown parking lots, and urban sprawl. But failure to set fares in accordance with the distance travelled "makes little economic sense," Kitchen insists. In addition, subsidies that are completely unrelated to income – such as lower fares for senior citizens and students – are difficult to justify on efficiency grounds, he points out.

To make municipal services in general more economically efficient, pricing policies should be designed to cover the cost of providing these services (except where subsidies are required). Improved efficiency could also result from "altering the organizational structure of providing certain services in some communities," Kitchen concludes. What is needed, he says, is a "careful reassessment" of each existing municipal enterprise, possibly with a detailed study of a few services in selected municipalities.

"Local government enterprise in Canada," by Harry M. Kitchen. Discussion Paper No. 300.

S·P·E·A·K·I·N·G · O·U·T

How will Canadian industries fare in the wake of freer trade with the United States and other countries?

The Economic Council is addressing that question by looking at the adjustment and adaptation of Canadian manufacturing firms to various trade pressures and opportunities. In a new project, Council research will focus primarily on the impact of trade liberalization over the past two decades and look at the public-policy response to these and other trade-related changes. This should provide a yardstick as to what might happen in the future and help governments respond appropriately.

The results of the project are expected to be released in early 1988. To find out more about it, *Au Courant* interviewed project director Paul Gorecki.

Au Courant: *What will the project focus on?*

Gorecki: The project has two main parts. The first will provide an overview of the adaptation experience of the Canadian manufacturing sector. It will examine the way in which firms enter and leave industries, the way in which they merge, and how these activities are affected by changing trade conditions and particularly by trade liberalization. Particular attention will be paid to the behaviour of foreign-owned firms. The second part will be largely devoted to looking at four specific industries where governments have attempted to assist in the adjustment process, usually by providing some form of financial assistance and/or import protection. The four sectors are automobiles; pulp and paper; shipbuilding; and textiles, clothing, and footwear. We expect these examples to provide some valuable public-policy lessons.

Paul Gorecki

Au Courant: *What do we know about the adaptation of manufacturing firms in general? Have they been fairly successful to date?*

Gorecki: On the whole, yes. We know that poor demand conditions tend to discourage new firms from entering the industry rather than encourage a massive exodus. That means the brunt of the adjustment process – both good and bad – occurs through a change in birth rates instead of death rates, which is probably less painful.

Some people have overplayed the worst-case scenario in which they fear a massive exodus of foreign firms from Canada.

Our experience in terms of trade liberalization has generally been positive. Where tariffs have been reduced in industries characterized by high tariff levels and concentration (where few firms produce most of the output), we have seen growth in plant size and production runs. The ones facing import competition have in many cases managed to carve out specialized niches in the market.

However, there are still industries protected by trade barriers that are not likely to fare well if exposed to the winds of international competition. Indeed, future trade liberalization may bring more severe adjustment problems than we have seen in the past, simply because of Canada's policy of protecting industries that are probably the least competitive at the international level. In other words, the past might not be a good guide as to what may happen in the future. We intend to devote some attention to this issue.

Au Courant: *So trade barriers have tended to hinder industrial adjustment in Canada?*

Gorecki: Not necessarily. If, for example, a sudden influx of dumped goods threatens domestic jobs in an industry where we do have a comparative advantage, then it may make sense to provide temporary trade protection until such time as the world trade in this commodity resumes a more normal pattern. In other instances, it might be worthwhile to grant temporary protection so that industries can reorganize themselves to compete on a world scale. This may apply particularly to young industries that are not fully developed and where considerable economies could be realized once the learning process is completed. The real problem is that temporary protection often becomes permanent. The industries never reach a point where they can compete on a world scale. The so-called "infant" industries never grow up.

Au Courant: *How can governments prevent this from happening?*

Gorecki: It is unfortunately quite difficult to design and implement temporary trade protection measures. Perhaps there should be some sort of "sunset" provision, putting a time limit on protection. I think the onus should be on industries to demonstrate the benefits of temporary trade protection. Governments

should reflect on whether or not these industries will ever be internationally competitive. They should clearly define the problem being addressed. They should examine the alternatives and lay out the costs involved.

Au Courant: *Is there any reason for concern about the effect of foreign ownership on adaptation?*

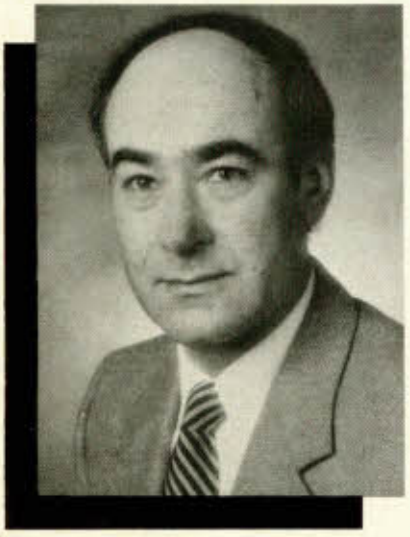
Gorecki: Yes, in the sense that a very large portion of the Canadian manufacturing sector is owned by foreign-based multinationals. Naturally, different constraints and opportunities affect the performance of these firms than affect Canadian-owned firms. Hence they may react differently to falling trade barriers.

But I think some people have overplayed the worst-case scenario, in which they fear a massive exodus of foreign firms from Canada. We certainly did not witness any such occurrence over the last 10 to 15 years – a period when tariff levels fell considerably. Indeed, if Canada is able to negotiate secure access to the U.S. market, this will make it a more attractive place to locate new foreign investment.

Au Courant: *Will Canadian firms be able to compete with their U.S. counterparts under a freer trade arrangement?*

Gorecki: It is usually argued that intra-industry trade – that is, trade in similar commodities, such as American beer for Canadian lager – will not cause big dislocations in Canada. Intra-industry trade normally takes place between countries of similar income levels and with similar capital and labour endowments. Much of our trade with the United States is of this variety. In the future, we are likely to see growth in the production runs and plant sizes of both Canadian and U.S. industries involved in intra-industry trade. An increase in this kind of trade may make it easier for Canada to move away from lower-value-added items to higher-value-added goods, which are better able to utilize Canada's supply of skilled workers.

New members appointed to the Economic Council



Martin Chernin is president of Kanso Development Corp.; Medallion Communications; and Cape Breton Cablevision. He is also an officer and director of several other firms, and is a former vice-president of the Chernin group of companies.

Constantine E. Passaris is a professor of economics at the University of New Brunswick. He has written for various newspapers, magazines, and journals on a wide range of economic subjects, and is the author of several books and monographs.

WORKING TO IMPROVE
CANADA'S POLICY PERFORMANCE

. . . that has been the chief concern of the Economic Council of Canada since its creation as an independent advisory body in 1963.

Over the past two decades, the Council has focused on public policy issues of key importance to Canadians — including economic growth, the role of new technology, the impact of government regulation and the changing job market, to name only a few.

The Council pursues its goal of improving Canada's economic performance in three ways:

Consultation

Members of the Council, representing a wide cross-section of Canadian society, meet regularly with governments and groups to study, analyse, and make recommendations on significant economic issues.

Research

An expert staff originates research and provides background information on a variety of topics, with particular stress on the medium- and longer-term problems of the Canadian economy.

Information

The need for better information on economic issues has led the Council to place strong emphasis on its contact with the public, through the use of topical publications, speeches, conferences, workshops and media relations.

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