

ECONOMIC COUNCIL OF CANADA

Sixth Annual Review

PERSPECTIVE 1975

September 1969

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Sixth Annual Review

PERSPECTIVE 1975

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General Notes on Tables and Charts

Unless otherwise noted, all dollar data are in current dollars.

Detail in tables may not add to total because of rounding.

Symbol used in tables:

— Not significant in terms of the unit involved.

1

The Goals

THE CANADIAN economy achieved an enormous expansion in the 1960's. This Review indicates that a rapid rate of growth could continue through the mid-1970's. The potential rate of growth to 1975 can be at least as large as in the 1960's—and a good deal larger than that in most other industrial nations over the next few years. This is a matter of central importance to both government and private decision-making in this country.

The social and economic benefits to Canadians of grasping the opportunities which this potential offers could be very large indeed. Conversely, the costs of any significant shortfalls could run into billions. The continued rapid growth in the economy's capacity to produce goods and services could provide for one of the biggest surges in consumer spending that Canada has ever experienced. At the same time, it could provide for a very large expansion in public services, social capital and housing, and for growing opportunities for all Canadians to share more equitably in national prosperity. What is ultimately at stake in the attainment of such growth is not merely improvement in the material welfare, but also enhancement of the quality of life, of Canadians.

But the exciting prospects arising out of the medium-term *potentials* described in this Review must be tempered by several cautions. First, they will not be achieved easily or automatically. They will not be achieved at all without generally favourable international conditions over which Canada has little or no control. They will require substantial and widespread improvements in public and private policies that have a major bearing on the performance of the Canadian economy.

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Second, even high standards of overall national economic performance will not necessarily lead to adequate progress towards resolving some of our serious present problems—for example, the problems of regional imbalance and poverty.

Third, rapid overall growth will itself generate new and intensified problems. Some of these are associated with the swift, uneven, and frequently unanticipated processes of change that are the hallmark of economic expansion. Others reflect the fact that under such conditions, human wants and aspirations tend to be high, demanding and growing. Rising prosperity generates new desires, new preferences and a growing awareness of the disadvantages and inequities suffered by some people. Expectations escalate sharply. Demands on economic resources intensify. Choices and options are widened, and in many ways it becomes more, rather than less, difficult to determine priorities among many competing claims, and to match available resources to such priorities. Obviously, the challenges to Canadian decision-makers will be very great.

From its inception, the Council's major concern has been to clarify, and to some extent quantify, the basic economic and social goals to which Parliament has directed our attention: full employment, a high and sustained rate of economic growth, reasonable price stability, a viable balance-of-payments position, and an equitable sharing of rising incomes. This work is carried forward in this Review.

These goals are essentially *performance* goals that Canada shares with many other modern industrial states. They relate to the attainment and maintenance of strong, sustained and widely shared economic growth at high levels of employment—the kind of growth that can put a rapidly growing volume of goods and services at our disposal to meet the needs and wants of Canadians for social progress and accelerated human development.

During the 1930's and 1940's, under conditions of depression and war, there was a widespread consensus among Canadians about national goals and priorities—essentially those of restoring economic prosperity and re-establishing peace and international stability. But increasingly, as the events of those turbulent years recede into the past—events which have dominated so much of the thinking of adult Canadians—concerns have emerged about a wide variety of new needs and objectives.

Such concerns cannot be easily translated into goals and priorities in our kind of society. This process, for example, cannot be readily advanced merely by focusing attention on problems that can be easily dramatized. Nor will satisfactory results emerge from a fragmented

The Goals

approach to a wide range of possible objectives, accompanied by ad hoc policies involving duplication and conflict—conflict among programs, among government agencies and different levels of government, or between private and public interests. What is required is a new and comprehensive framework of goals and objectives to serve as a basis for policy planning.

Such a framework should encompass not only the economy's *performance* goals, but also what may be broadly described as *achievement* goals—that is, goals relating to the ways in which our growing resources are used. Achievement goals—many of which are related to performance goals—range over many areas: advancing education, better housing, the elimination of poverty, improvements in health, the maintenance of national security, increased international aid, rising standards of living and wider consumer choice, and an improved quality of life in our vastly changed and increasingly urban society. Even broader social, cultural and political goals might be included.

The Council has no illusions about the difficulty of compiling such goals and ordering the priorities among them. But the priorities will be established in any event. The real question is whether they will be established in a comprehensive, systematic and forward-looking manner, or in a wasteful, ad hoc and frequently short-sighted manner.

Setting the goals and priorities will require hard choices among competing demands. In a democratic system such as Canada's, it is not the role of professional experts or advisers to make basic decisions about the allocation of resources or about the priorities among competing demands for available resources. Such decisions are properly made by governments, business firms, labour unions, consumers and other decision-makers operating within the broad framework of our political, economic and social system—and ultimately subject to the ratification or rejection by the Canadian public in their dual role as consumers and voters. Good decisions about these matters require good information and analysis prepared by experts. They also require an informed public dialogue and public understanding of the issues involved. One of the Council's principal aims since our inception has been to provide a growing volume of information and analysis to stimulate such dialogue and understanding.

THE PERFORMANCE GOALS

Even the performance goals are of rather recent origin in Canada. For example, the federal government's acceptance of responsibility for employment policy only began to emerge in the late 1930's and was

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not made explicit until the mid-1940's. A national commitment to the active use of fiscal policy to stabilize the economy dates back only to 1945, when it emerged from the process of postwar reconstruction planning and from new thinking about the disastrous economic conditions of the 1930's. The goal of a high rate of economic growth is of even more recent origin, having emerged in the last decade or so.

The frustrations and problems associated with persistent high unemployment and slow growth in the late 1950's and early 1960's, together with a foreign exchange and balance-of-payments crisis in 1961-62, led to the incorporation of the several performance goals in the Economic Council Act of 1963.

These goals, unfortunately, are more complex than is generally realized. First, they should not be interpreted as goals for current conditions, or for the coming year. The Council's terms of reference clearly indicate that its attention is to be focused on medium- and longer-term goals, and for good reasons. Instabilities and strains of a shorter-term nature frequently make it difficult to define realistic short-term objectives that would be acceptable as standards for the longer-term performance of the economy. Perhaps more important, once poor performance exists in relation to such goals as full employment and price stability, it frequently cannot be remedied quickly by any set of policies.

Second, the goals as defined by the Council are neither forecasts of likely or probable future conditions, nor quantitative projections based merely on past performance. The goals have been deliberately defined to reflect a challenging set of objectives which in some respects at least require better performance in the future than in the past, and whose attainment will require improved decision-making and other qualitative changes in all parts of our society.

The performance goals would enter much more easily into public dialogue if they could be set out solely in simple, clear-cut quantitative terms. But in fact this cannot be done for various reasons. For example, the goals of full employment and a high rate of economic growth have important dimensions that cannot be easily quantified.

Nor can the goals be considered separately. Growth is not satisfactory unless it can be consistent and sustained. It is unlikely to be sustained unless it is stable and balanced. This requires the Council to direct attention to price stability and a viable balance of payments.

Again, even a high and balanced rate of growth is not necessarily adequate. Growth goes hand in hand with structural change, and imbalances and distortions inevitably tend to arise in this process. We have been explicitly directed in our Act to be concerned that all

The Goals

Canadians should share in rising living standards. Hence our concern with the problems of regional disparities and poverty.

Economic Growth

A large part of the Council's work has been devoted to gaining a better understanding of the sources of Canadian economic growth and its most essential element, productivity growth—that is, the growth of output in relation to the resources used to produce it. This work provides the basis for the analysis of potential output to 1975 in Chapter 2 of this Review.

We now estimate the average growth rate, from actual output in 1967 to potential output in 1975, at about 5.5 per cent a year. The calculations underlying this estimate do not differ in any major way from those provided in the *Fourth Annual Review* in 1967, except that they take account of major revisions in the underlying data. They allow for a wide variety of factors contributing to growth in potential output—the growth of potential employment and the continued expected reduction in average hours of work, the changing quality of labour (as influenced by rising educational attainments and changes in the age and sex composition of the labour force) and an assumed rise in the capital stock (buildings and equipment) roughly in line with potential output.

More important, after examining many factors that bear on it, we have again assumed that total factor productivity will continue to follow its postwar trend. This trend has now been adjusted upward, by revisions to the basic data used in our analysis, the *National Accounts*. But even the maintenance of this past performance will require consistent emphasis on policies designed to promote strong productivity gains.

A Viable Balance of Payments

The balance-of-payments goal should not be cast in terms of a particular structure of international payments and receipts, nor in terms of a particular deficit or surplus on current account, as estimated later in this Review. Rather, the goal as we see it should recognize the need to:

- assure that Canada's international receipts are adequate to cover our international payments obligations;
- strengthen our international competitive position over the medium term. This implies improvement in the capacity to export and to meet import competition, based on rising productivity, and that

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the current account payments deficit should be lower in relation to total output (and that the corresponding net capital inflow should be smaller in relation to domestic investment) than has been the case under past conditions of rapid economic growth. The successful achievement of this is, however, still consistent with some *absolute growth* in the current account deficit and the net capital inflow.

—maintain good access to external sources of capital.

Equitable Distribution of Rising Incomes

The goal of an equitable distribution of rising incomes is the most complex of the basic goals and defies any simple, easily grasped quantitative measurement. In Canada it involves at least the narrowing of regional income disparities, and the elimination of poverty.

The Council has not yet attempted any comprehensive or regular appraisal of performance in these two areas both because of their complexity and because they involve structural shifts that can only be assessed over longer time periods. What the Council has done is to delineate the problems—the large and long-standing disparities among regions in incomes, productivity and resource utilization; and the widespread nature of poverty as a major economic and social problem in a generally prosperous country.

In both cases, too, the Council has worked towards broad policy guidelines to deal more effectively with these problems in the future. Better regional balance, we have suggested, may be obtained first by accelerating the growth of productivity in the lagging regions, and second by assuring the fullest and most efficient use of each region's material and human resources. In both areas—regional imbalance and poverty—our suggestions involve a shift towards relatively more emphasis on programs of self-generating development, with traditional programs of income transfers and income support playing an essential, but less dominant, role.

Full Employment and Reasonable Price Stability

The essential elements of the goals of full employment and reasonable price stability are to be found *not* so much in the numerical targets used to summarize them—3 per cent unemployment, or price constraint within a certain range—as in the additional dimensions of these goals essential for making the simple quantitative measure attainable. We cannot emphasize this point too strongly. Evidence that these underlying determinants are sometimes overlooked in public

The Goals

discussion is to be found in the frequency with which the two goals are wrenched out of context. For this reason we wish to underscore here the discussion in previous Reviews.

In defining the *employment goal*, careful attention is required to the wide variety of factors affecting employment—including external conditions and influences, regional and other structural factors, and seasonal and cyclical fluctuations. The goal assumes favourable international conditions for the maintenance of high employment in Canada. It assumes a reduction in regional disparities; it is not consistent with very high unemployment in low-income regions along with very low unemployment in high-income regions. It assumes a reduction in employment disparities among various age groups and some moderation in seasonal fluctuations in employment. It is not consistent with continuing, significant chronic unemployment.

Obviously, such broad considerations imply improvement in policy performance on many fronts. Maintenance of strong, aggregate demand is necessary, but not by itself sufficient, to attain this goal in the existing circumstances in the Canadian economy. What would be required, in addition, is a whole series of supply-oriented policies—including more effective policies to moderate structural and regional disparities and distortions.

Originally, in the Council's *First Annual Review*, the definition was translated into a target of a 97 per cent employment rate (or 3 per cent unemployment rate) for 1970. By the Fourth Review, the Council reconsidered this time horizon and reset the target—again not as one which we should aim to attain within a year or two, but in the medium-term future—that is, by the mid-1970's. We believe that this goal, having regard to the various aspects mentioned above, is still valid. This is not, of course, an ultimate goal, satisfactory for all time to come. We continue to hope that with sustained improvement in our economic performance, an even better employment performance may ultimately be a realistic aim.

The *price stability goal* has been illustrated in previous Annual Reviews in terms of keeping the average rates of change in prices and costs over the medium-term future within the limits of the movements over the decade 1953 to 1963. Once again, the emphasis is on the medium-term nature of the goal and, like the employment goal, it is not meant to be satisfactory in perpetuity. Given substantial improvements in both background information and policy, an even better performance than that in our illustrative period may eventually be realized.

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But with this said, we hasten to emphasize also that any price goal defined only in terms of the aggregative indicators—such as the Consumer Price Index and the broader Gross National Product price index—is not sufficient. Again, the goal must be defined with regard to a variety of underlying considerations and additional dimensions including: reasonable international price stability; the statistical deficiencies of our price indexes (the general indexes tend to overstate the price increases actually taking place within the economy); the need to preserve a flexible system of prices responding to underlying demand and supply changes in a dynamic economy; the need for some price *declines* as well as increases; and the need to avoid situations not only of substantial, but also of persistent and widespread price and cost increases. To put it another way, we believe that a satisfactory price performance would involve reducing the rates of increase in the general price indexes as soon as possible to less than 2 per cent per year, but that this would be neither the sole nor the ultimate criterion in the sense that this would require some price declines and a marked reduction in the range of price advances.

OUTLINE OF THE REVIEW

The central part of this Review consists of a new and more detailed appraisal of the economy's medium-term potential for growth. Chapter 2 estimates the growing capacity of the economy to supply goods and services, and describes a possible pattern of demand that would be consistent with this potential output. Chapters 3 to 6 then examine various aspects of this demand—government spending, consumer spending, international trade, and the nation's requirements for investment and savings.

Chapters 7 and 8 carry forward two aspects of our earlier work. Chapter 7 is designed to stimulate public discussion about a new emphasis in our approach to the complex problem of poverty. Chapter 8 is essentially a descriptive review of recent progress in education in Canada, from both national and provincial perspectives.

Chapter 9 provides our annual appraisal of the economy's performance in relation to the basic economic and social goals with which we have been asked by Parliament to be centrally concerned. Chapter 10 draws together our recommendations and views on policy arising from the previous Chapters, and emphasizes the very complex framework of policies required to facilitate the simultaneous achievement of all of the basic goals over the medium-term future.

Supply and Demand to 1975

THE COUNCIL estimates that a growth rate of 5.5 per cent a year would be required to move the economy from its actual level of production in 1967 to potential output in 1975. Such a growth rate would be high by both historical and international standards, and would imply an expansion of over 50 per cent in the volume of Gross National Product, from \$66 billion in 1967 to \$100 billion in 1975 (in 1967 dollars). It would, among other things, provide for one of the biggest surges in consumer spending that Canada has ever seen.

Whether we achieve this potential gain in production and incomes will depend crucially not only on improved management by Canadians of their collective and individual economic affairs, but on the maintenance of favourable international conditions. Any disruption in world economic stability and growth—and especially any adverse economic developments in the United States—would materially affect the prospects for Canadian growth. One of the key assumptions underlying our analysis is that over the 1967-75 period real output in the OECD countries as a group¹ will grow at an average annual rate of about 4½ per cent.

Our earlier estimates of potential Canadian growth, contained in the *Fourth Annual Review*, called for an average annual rate of increase in the volume of output of 5.0 per cent for 1965-70 and 4.8 per cent for

¹ The 21 member countries of the Organization for Economic Co-operation and Development (OECD) are: Austria, Belgium, Britain, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and United States.

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the period 1970-75. Since they were made, however, the basic statistical framework from which they were developed, the National Accounts, has been revised to include adjustments reflecting the results of the 1961 Census and other new sources of data. These revisions, incorporated throughout the analysis in this Review, have substantially altered the basic underpinnings for any analysis of past or future growth performance in Canada. On the basis of the new estimates, the current level of Gross National Product has been raised by over \$3½ billion, or by about 5 per cent, and the average postwar *rate* of growth by about one-half of 1 per cent a year in real terms. Many of the growth rates of particular components of Gross National Product have undergone even greater changes. In view of these revisions, considerable care should be used in any attempts to link the analysis in this Review with that in the Council's previous Reviews (see the Note at the end of this Chapter).

The reader will note that 1967 is used as the base year for our projections of output and demand to 1975. This is unfortunate from the standpoint of timeliness, but unavoidable; at the time of writing, revised National Accounts data for 1968 were not available. Use of the year 1967 has certain other unsatisfactory features, including the fact that the rate of expansion slowed considerably after several years of rapid growth, and that the balance-of-payments position was strongly affected by developments associated with Expo 67 and other Centennial events. These features, as well as underlying postwar trends and significant developments since 1967, have been taken into account in our medium-term assessment of output and demand.

POTENTIAL OUTPUT TO 1975

"Potential output" is a measure of the supply of goods and services that the economy could be capable of producing under conditions of relatively full and increasingly efficient utilization of resources. The periodic calculation of this potential output for the medium-term future is, we believe, one of the most important contributions the Council has been able to make towards setting out a challenge for good future economic performance. It essentially embodies the medium-term economic and social goals with which we have been centrally concerned since the inception of our work—at least in the broad sense that it encompasses the full utilization of available economic resources, and a rate of growth that is not only high, but also balanced, and hence sustainable. Moreover, its measurement provides

Supply and Demand to 1975

not only a way of expressing, in quantitative terms, requirements for good overall economic performance, but also a standard against which the actual performance of the economy can be judged and evaluated. Is the economy moving forward adequately in relation to its growing supply capabilities? Are there substantial or persistent shortfalls from its rising potential?

Although there are several ways in which the growth process may be viewed, one of the most useful for both the calculation of potential output and the study of policy options is to consider, separately, increases in the *quantity* of the nation's productive resources, changes in the *quality* of these resources, and possible improvements in the *efficiency* with which they are used and combined—that is, in the productivity of the factors of production.

As for the *quantity* of the basic factors of production, Canada continues to have one of the most rapid rates of labour force growth (close to 3 per cent per year in 1967-75) of any Western industrially advanced country, and we estimate that to provide this labour force with the necessary capital facilities to operate in the environment of the 1970's will require a rate of growth in such facilities—that is, in the country's "stock" of business structures and equipment—in excess of 5½ per cent per year over the period 1967-75 (Table 2-1).

TABLE 2-1—CHANGE IN LABOUR FORCE AND STOCK OF BUSINESS STRUCTURES AND EQUIPMENT

(Average annual percentage change)

	1960-67	1967- 1975 Potential
Labour force.....	2.6	2.8
Stock of business structures and equipment.....	4.6	5.8

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

The most important single element affecting the *quality* of our resources is the average level or "stock" of formal education in the labour force. Although it takes many years of rising enrolments and graduations from high schools and universities to have much of an impact on this educational stock of the whole labour force, nevertheless Canada now can expect substantial gains—in pure economic terms alone—in the years ahead from the large increase in the number of

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young, better-educated people moving from schools to jobs. The economy's gain from this source will likely be partly offset, however, by a continuing slight decline (though not as sharp as in the last decade or so) in average hours worked per week. Since the mid-1950's, changes in the age and sex composition of the labour force have tended to have a retarding effect on Canada's economic growth. On the basis of the anticipated changes in the labour force to 1975, however, no such retarding effects are envisaged.

Factor productivity, the final growth element to be considered, is essentially a measure of the increased *efficiency* with which labour and capital are used in the production process. In our projections to 1975, we have assumed that productivity growth will continue at about the same rate as the underlying postwar trend for Canada. Such a rate would be slightly below that experienced in the 1960-67 period, when the economy was moving up from an initial large volume of economic slack. Although the subject is not discussed at length in this Review, the Council wishes to repeat its emphasis on the central importance of measures to improve productivity growth. We expect to return to this matter in the *Seventh Annual Review* in 1970.

The results of melding all of these growth elements into a calculation of potential output are shown in Table 2-2. Increases in labour and capital inputs account for about two-thirds of the indicated growth rate of 5.5 per cent, and productivity improvement for about one-third.

TABLE 2-2—CONTRIBUTIONS TO GROWTH OF REAL OUTPUT

	1955-67	1960-67	1967- 1975 Potential
Average annual percentage increase in real Gross National Product.....	4.9	5.5	5.5
(Percentage points)			
Factor input.....	2.9	3.5	3.7
<i>Labour</i>	2.0	2.4	2.5
<i>Capital</i>	0.9	1.1	1.2
Factor productivity.....	2.0	2.0	1.8

NOTE: The estimates in this Table are based on an analysis of various sources of economic growth. The contribution to output growth of each factor of production is measured by the growth in the factor itself weighted to reflect its share in Net National Income.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

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Viewed in another way, that part of the 5.5 per cent growth rate accounted for by the taking up of the slack that existed in 1967 would perhaps contribute about one-quarter of a percentage point to the growth rate. Thus the underlying growth of "potential" output itself over the period 1967-75 would be in the neighbourhood of $5\frac{1}{4}$ per cent a year.

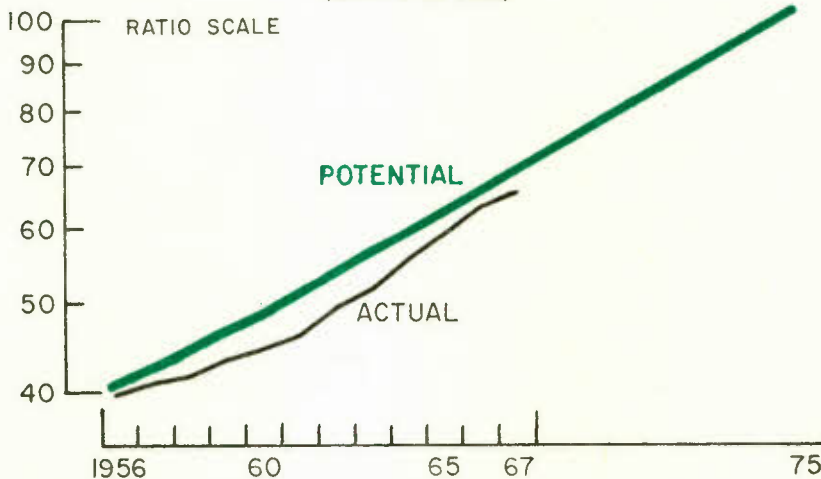
The achievement of such a high rate of growth will be neither easy nor automatic. As the Council has emphasized in previous Reviews, the realization of potential economic performance in Canada requires the existence of favourable economic conditions abroad, and especially in the United States, as well as improvements in both public and private policies within Canada. Policies for realizing potential output are discussed in Chapter 10.

Some appreciation of what is involved here may be gained by considering the position of the Canadian economy at the beginning of the 1960's, when the economy was operating far below its potential capacity (Chart 2-1). Our calculations indicate that actual output in the Canadian economy in 1960 and 1961 was falling short of its real potential by 6 or 7 per cent. The unemployment rate in each of these years was in the neighbourhood of 7 per cent of the labour force, and

CHART 2-1

ACTUAL AND POTENTIAL GROSS NATIONAL PRODUCT

(Billions of 1967 dollars)



Note: The potential output line is drawn heavily in this Chart to convey the impression that it is a rough calculation and that its value depends on both the method of calculation and the assumptions used.

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there was also substantial underutilization of productive capacity. Translated into today's levels of production, a gap of this size between actual and potential output would represent a loss to the nation equivalent in round terms to about \$4 billion or \$5 billion per year, a loss that would be cumulative for every year in which such a gap persisted. Moreover, a waste of resources on a scale such as occurred in the early 1960's not only represents a massive curtailment of opportunities for achieving higher standards of living and improvements in the quality of life, but also introduces imbalances and problems that take at least several years to correct.

DEMAND TRENDS TO 1975

The possible pattern of demand considered below is one that would match the economy's supply capabilities at potential output. This is not the only possible pattern of demand that might emerge by 1975; but we believe that it is realistic and in keeping with present underlying trends and forces in the economy, with our assumptions about the world economic outlook, with prospective levels of income per capita, and with the anticipated increases in urbanization and in new family and household formation.

Table 2-3 sets out the basic configuration of demand to 1975 in constant dollar terms, and indicates the rates of growth in the major expenditure categories that would be involved in moving from actual output in 1967 to the potential level in 1975. For purposes of comparison, the actual growth rates recorded over the period 1961-67 are also shown.

Our analysis is affected by past and prospective changes in the financing of hospital and medical care services. The revised National Accounts now include the major part of hospital care outlays, beginning with the year 1961, in government current expenditure on goods and services (in accordance with the federal-provincial hospital insurance program) whereas prior to 1961 they are included in the official statistics with consumer expenditure. To minimize the possibility of misunderstanding, we have selected the period 1961-67 for comparison with our projection period. In addition, we have assumed that universal medical care schemes will be in force in Canada on a nation-wide scale in 1975, and that expenditures under such schemes will be treated as a part of government expenditure on goods and services in the National Accounts. This allowance for medicare adds about one percentage point to the growth rate of government current expenditure on

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goods and services in 1967-75, and correspondingly reduces the rate of growth of consumer expenditure by about two-tenths of a percentage point.

TABLE 2-3—ESTIMATES OF DEMAND TO 1975

	1967	At Potential in 1975	1967-75	1961-67
	(Billions of 1967 dollars)		(Average annual percentage change)	
Consumer expenditure.....	39.0	59.0	5.3	5.3
Government expenditure on goods and services.....	13.9	22.3	6.1	4.8
<i>Current expenditure</i>	10.9	17.1	5.8	4.1
<i>Gross fixed investment</i>	3.0	5.2	7.0	7.0
Business gross fixed investment.....	12.5	19.7	5.9	8.1
<i>New residential construction</i>	2.8	4.5	6.1	4.1
<i>Business plant and equipment</i>	9.7	15.2	5.8	9.4
Non-residential construction.....	(4.5)	(6.8)	(5.2)	(6.9)
Machinery and equipment.....	(5.2)	(8.4)	(6.2)	(11.9)
Value of physical change in inventories.	0.4	1.1		
Balance on exports and imports of goods and services.....	- 0.6	- 1.4		
<i>Exports</i>	14.7	26.7	7.8	9.2
<i>Imports</i>	-15.3	-28.1	7.9	8.3
Gross National Expenditure.....	65.6*	100.7	5.5	6.0

*Includes residual error of estimate of \$0.4 billion.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

These are the main points that emerge from our demand projections:

- The volume of output and demand would be half as big again at potential in 1975 as the actual level in 1967 (an increase of about 54 per cent, or close to 50 per cent over 1968).
- This increase would imply a rise in average Canadian living standards, as measured by the per capita volume of goods and services available, of about 35 per cent in eight years.
- The volume of consumer spending on goods and services would continue to grow very rapidly, by 5.3 per cent per year. On a per capita basis, the projected increase would be 3.6 per cent a year,

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one of the most rapid rates of advance of any time in the postwar period. Such an increase (see Chapter 4) would open vast new markets for practically all types of consumer goods, and particularly for durables (such as cars and appliances).

- The rate of increase in expenditure on goods and services by all levels of government would be higher over the 1967-75 period than in 1961-67, and higher than the increase in real Gross National Product. Governments will thus be absorbing a larger share of the nation's total output in 1975 than in 1967. An important contributing factor in the rise in this growth rate is the anticipated extension of universal medical care schemes and the resulting shift in the bulk of medical care outlays from consumer to government expenditure. More broadly, the estimates reflect the rising demand for government services of all types, and the nation's mounting needs for social capital, associated with rapid urbanization and heavy demands in the education, health, urban renewal, and transportation fields. The figures in Table 2-3 relate only to government expenditure on goods and services, and do not include transfer payments (such as family allowances and various welfare payments) which are expected to grow at a rate somewhat below that for goods and services, after allowing for price factors.
- The rate of growth of residential construction required to meet the nation's housing needs would be half as large again as that achieved in the 1961-67 period, when housing lagged badly. This need for a very high rate of new housing construction is one of the most important of all requirements to 1975. If significant shortfalls recur, so that very low vacancy rates prevail in major metropolitan areas, there will inevitably be serious distortions and high increases in housing costs and prices. Over the whole decade of the 1970's, we estimate that Canada will require about 2.4 million new housing units. Along with this, there is a need for many measures that would improve the basis for rising efficiencies in residential construction. Our calculations provide for a rate of increase of 6.1 per cent per year in the volume of residential construction expenditures—a rate that is substantially above anything yet achieved for an extended period over the postwar years. The 1950-67 average was 3.7 per cent per year.
- Business plant and equipment outlays would continue to rise faster than real Gross National Product, although they would be increasing less rapidly than in 1961-67 when a three-year burst of

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extraordinarily strong, and indeed excessive, investment demand pushed the rate of advance up to an unusually high level. Over the projection period, the increase that we anticipate, 5.8 per cent a year, would be about in line with the postwar average.

- The overall deficit on exports and imports of goods and services incorporated in these estimates is calculated at \$1.4 billion¹ in 1975. In 1967, the deficit was \$0.6 billion, but if the effects of Expo 67 and other Centennial events were to be removed from the figures, the deficit would be somewhat above \$1 billion. The Canadian economy will be growing more rapidly from 1967 to 1975 than the economies of Canada's major trading partners; consequently, in the absence of offsetting factors, there would be a tendency for imports of goods and services to rise somewhat more rapidly than exports of goods and services, with a significant widening of the deficit on services account anticipated over the projection period. At 1975, on the basis of our assumptions, the deficit on current account might be expected to fall in a range of 1.0 to 1.5 per cent of Gross National Product.

If an overall price-increase assumption of 2 per cent a year for Gross National Product is built into the estimates, Gross National Product in 1975 would be approximately 20 per cent larger than the figure expressed in constant 1967 dollars; that is, in terms of current dollars, the Gross National Product would be close to \$120 billion, compared with \$66 billion in 1967.

Table 2-4 sets out the configuration of demand as it emerges from our analysis in terms of percentage shares of Gross National Product expressed in current dollar values.² What is postulated in these projec-

¹ In terms of 1975 dollars, the deficit on a National Accounts basis that is incorporated in the framework of statistics on which this Chapter is based is \$1.5 billion. The figure corresponds to the \$1.3 billion (balance-of-payments basis) which is the middle of the range of possibilities discussed in Chapter 5. In moving from the balance-of-payments basis of presentation to the National Accounts basis of presentation, an adjustment of \$0.2 billion is involved at 1975.

² It is emphasized that these percentages are expressed in terms of shares of current dollar values. In moving to 1975, we have assumed an average overall Gross National Product price increase of 2.0 per cent per year. Working within this control total, we have retained the broad differential rates of price change in the various components of demand which have tended to persist throughout the postwar period. For purposes of our analysis to 1975, the rates of price change are as follows: consumer expenditure, 1.6 per cent per year; government current expenditure on goods and services, 3.5 per cent per year; government gross fixed investment, 2.0 per cent per year; business gross fixed investment, 2.0 per cent per year; exports and imports of goods and services, 1.5 per cent per year.

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tions is a high-consumption economy at 1975, but one in which consumer spending would nevertheless continue to fall as a proportion of Gross National Product. The share of resources going to fill public needs—that is, the community's "collective consumption" of resources as measured by government purchases of goods and services—would continue to rise. Also, there would be a slight rise in the share of resources taken up by investment in business structures and equipment from 1967, to above the postwar average. The need to draw upon resources from abroad to supplement the nation's own supply capabilities (as measured by the deficit on the current account of the balance of payments in relation to Gross National Product) would decline somewhat from the average of the postwar years.

TABLE 2-4—DEMAND COMPONENTS AS PERCENTAGE OF GROSS NATIONAL PRODUCT

	1949	1956	1961	1967	At Potential in 1975
Consumer expenditure.....	66.8	62.0	64.3	59.4	56.6
Government expenditure on goods and services.....	13.4	17.8	20.5	21.2	24.2
<i>Current expenditure.....</i>	<i>10.6</i>	<i>14.1</i>	<i>16.2</i>	<i>16.6</i>	<i>19.1</i>
<i>Gross fixed investment.....</i>	<i>2.8</i>	<i>3.7</i>	<i>4.3</i>	<i>4.6</i>	<i>5.1</i>
Business gross fixed investment....	18.3	21.9	17.0	19.0	19.5
<i>New residential construction.....</i>	<i>4.9</i>	<i>5.8</i>	<i>4.6</i>	<i>4.3</i>	<i>4.4</i>
<i>Business plant and equipment.....</i>	<i>13.4</i>	<i>16.0</i>	<i>12.4</i>	<i>14.7</i>	<i>15.1</i>
Non-residential construction...	(5.7)	(8.2)	(6.5)	(6.8)	(6.7)
Machinery and equipment.....	(7.7)	(7.8)	(5.9)	(7.9)	(8.4)
Value of physical change in inven- tories.....	0.5	3.1	0.3	0.6	1.0
Balance on exports and imports of goods and services.....	0.9	— 4.2	—2.1	— 0.9	— 1.3
Residual error of estimate.....	0.1	— 0.6	—	0.6	—
Gross National Expenditure.....	100.0	100.0	100.0	100.0	100.0

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Alternative combinations of demand that would match the economy's growing supply capabilities but provide a different mix of consumer expenditures, government spending, and capital investment,

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could of course be postulated in this analysis—but only within certain constraints. The use of fiscal policy could readily achieve a slower rate of growth in consumer expenditures and a higher rate of growth in government expenditures on goods and services if society's preferences were to be expressed in this way. Alternatively, a larger share of resources could be channeled into housing or into business fixed investment if consumers or governments were prepared to reduce their demands on the available supply of resources—provided always that the capital markets were in good working order and the underlying physical demand for such goods was present. There is, however, a maximum limit to the share of resources required to build up the country's stock of business structures and equipment, since further additions to the stock of capital beyond the point required to produce "potential" output would simply result in excess capacity.

At the same time, there are certain areas in which it would not be feasible for society to reduce its expenditures. Basic needs for food, shelter and clothing, and for those government services and facilities without which the existence of an organized society would not be possible, set certain constraints on the extent to which resources can be shifted to alternative uses. These constraints impose limits on the main choices, which lie essentially among requirements for business fixed investment, new housing, consumer spending, and government expenditures on goods and services.

The balance of payments provides an additional element in this "mix", for it is possible (and typical in Canada's case) for the level of aggregate demand to be somewhat above the nation's output of goods and services as measured by Gross National Product, especially in periods of strong and sustained economic expansion, and for this extra margin of resource requirements to be met by drawing upon net resources from abroad. Balance-of-payments constraints from the financial side, however, have tended to set rather careful limits to the size of this deficit, and it is appropriate in any case that Canadians should work towards reducing the degree of their dependence on the net import of resources from abroad through the development of an increasingly efficient and productive economic system.

Regarding the price assumptions used in the demand projections (Table 2-4), we have postulated an overall average rate of advance in the Gross National Product price index of 2.0 per cent per year over the period 1967-75. We recognize that this calls for a performance on prices that will be extraordinarily difficult to achieve—indeed it has not been achieved, on average, over the full postwar period, and the rate of advance in 1961-68 has been about 3 per cent. Moreover, the

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increase in the implicit deflator in 1968 was about $3\frac{1}{2}$ per cent, and the increase in 1969 may not differ much from this rate. To achieve a performance of 2.0 per cent per year over the full period 1967-75 would thus imply a rate of advance below 2.0 per cent per year in the six years 1969-75. The longer the recent rates of price advance continue, the more difficult it will be to attain any such performance. Moreover, while this objective is not impossible to achieve, we believe that it would be virtually impossible to attain *consistently with our other basic goals* in the absence of early implementation of much more effective supply policies (see Chapter 10).

The analysis in this Review deals essentially with the main features of the Canadian economy at the national level. The conclusions we have reached indicate that the basis exists for a large expansion of production, employment, and demand to 1975. Within this broad setting of advancing potential, however, there continue to exist major problems of poverty and regional disparity. Vigorous growth at the national level will provide a stronger base for moving ahead to meet such problems. But it will not be sufficient—policies will need to be designed and developed to deal specifically with these problems.

Despite such problems, our analysis shows that the potential growth of the Canadian economy could be both strong and better *balanced*, from the point of view of demand expansion, than in the past. The rate of advance would be about the same as in the 1960's to date. But the expansion would be powered not by one dominating factor, such as heavy investment, but rather by most of the main growth engines pulling more evenly together.

This would be something new for Canada: our immediate postwar advance was based on reconstruction and the filling-in of backlogs of consumer and investment needs left over from the Depression and the War; in the mid-1950's upward pressure in the economy was particularly associated with a massive investment boom; more recently the advance has been founded on the taking-up of the substantial economic slack that existed at the beginning of the 1960's, a sustained surge in exports, the business investment boom of 1963-66, and the strong surge in government spending in the mid-1960's.

At the present time, we have much less slack in the economy than in the early 1960's, and the structure of demand is not characterized by major and fundamental economic imbalances that require correction. The first half of the 1970's could therefore contrast sharply with these past periods of rapid growth. In a few areas such as housing and some kinds of government spending, growth could and should proceed at

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very high rates. But among the broad sources of demand strength—consumption, business investment, trade, and overall government expenditure—the rates of advance *should* be moving closer together, *and more smoothly*, than in the past. Whether they *will* move that way depends on whether we can avoid serious imbalances on the road to 1975. Therein lies the fundamental challenge for economic policy.

NOTE

The basic national income and expenditure accounts are, in every country, subject to periodic revision. A major revision of the Canadian Accounts incorporating the 1951 Census data was published in 1958; it was an historical revision of the time series extending to 1926—the first year of the official estimates. Another major revision has now been undertaken. The generous co-operation of the Dominion Bureau of Statistics has made it possible to base the analysis in this Review on the revised Accounts.

The revised Accounts contain not only major statistical revisions, incorporating the results of the 1961 Census and other new data sources, but also changes in concepts and presentation. Among the changes, the following are of particular relevance to the analysis in this Review:

- changes in concept and presentation have been made to saving and investment, to include government investment as an item within total gross fixed capital formation (and hence explicitly as an element in the demand for savings), and to show foreign capital as a source of saving;
- reflecting the fact that hospital expenditure has been increasingly financed by government transfer payments, particularly since the enactment of the Hospital Insurance and Diagnostic Services Act, current expenditures of hospitals, previously included in consumer expenditure, have (with the exception of direct purchases by persons) been shifted, from 1961, to current expenditures of governments; similarly, capital expenditures of hospitals, previously included in business gross fixed investment, have been shifted to capital expenditures of governments;
- construction expenditures in constant dollars have been substantially revised to incorporate an allowance for productivity in construction activity—in other words, new methods have been used for deflating construction expenditures.

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The table below compares new and old (in *italics*) rates of growth in the value, volume and price of Gross National Product.

	1926-67		1950-62		1950-67	
GNP in current dollars.....	6.4	<i>6.3</i>	7.4	<i>7.0</i>	7.9	<i>7.6</i>
GNP price index.....	2.1	<i>2.2</i>	2.5	<i>2.8</i>	2.7	<i>2.9</i>
GNP in constant dollars.....	4.2	<i>4.0</i>	4.8	<i>4.1</i>	5.1	<i>4.5</i>

In current prices the rate of growth of the *value* of Gross National Product has increased 0.3 percentage points (from 7.6 to 7.9 per cent per annum) over the period 1950-67, but the change in the growth rate over the whole period 1926-67 has been less (from 6.3 to 6.4 per cent per annum). Largely as a result of revisions in the construction price indexes, the increase in the Gross National Product price index for the years 1950-67 has been reduced from 2.9 to 2.7 per cent per annum. Both of these adjustments tended to raise the growth rates of the *volume* of Gross National Product—by 0.6 percentage points in the postwar years and 0.2 percentage points since 1926.

The increases in the real volume of output as measured by Gross National Product give rise to larger productivity gains in Canada than the earlier data suggested. The growth in real Gross National Product per person employed for 1950-67 is now estimated at 2.7 per cent per annum, compared with 2.1 per cent on the basis of the old data.

Chapter 2 of the *Fifth Annual Review* compared the growth of output and factor productivity in Canada with Edward F. Denison's estimates for the United States and Northwest Europe.¹ The following table compares new estimates for Canada, based on the revised National Accounts, with those given in Table 2-1 of the *Fifth Annual Review*.²

The figures in the table indicate that the upward revision in the growth rate of Canada's national income was reflected in the estimates of factor productivity, not factor input. On the basis of the revised

¹ See Edward F. Denison, assisted by Jean-Pierre Poullier, *Why Growth Rates Differ: Postwar Experience in Nine Western Countries*, Washington, The Brookings Institution, 1967.

² A supplementary study will provide revised and updated data for the major summary tables on growth.

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Accounts, factor productivity in Canada rose from 1.1 to 2.1 percentage points. About three-quarters of this one percentage point increase is reflected in the residual—"other" factor productivity.

CONTRIBUTIONS TO GROWTH OF REAL NATIONAL INCOME, 1950-62

	Canada*	United States	North-west Europe	Britain	
Average annual percentage increase in real national income.....	4.8	3.8	3.3	4.8	2.3
	(Percentage points)				
Contribution of:					
Total factor input.....	2.7	2.7	1.9	1.7	1.1
Labour.....	1.5	1.4	1.1	0.8	0.6
Employment.....	1.5	1.5	0.9	0.7	0.5
Education.....	0.3	0.2	0.5	0.2	0.3
Age-sex composition.....	-0.1	-0.1	-0.1	—	—
Hours of work.....	-0.2	-0.2	-0.2	-0.1	-0.2
Capital and land.....	1.2	1.3	0.8	0.9	0.5
Enterprise capital.....	0.9	1.0	0.6	0.8	0.5
Residential capital.....	0.3	0.3	0.2	0.1	—
Factor productivity.....	2.1	1.1	1.4	3.1	1.2
Effect of demand pressures.....	-0.3	-0.4	—	—	-0.1
Effect of weather on farm output	0.1	0.1	—	—	—
Resource shifts.....	0.7	0.6	0.3	0.7	0.1
Economies of scale.....	0.6	0.5	0.4	0.9	0.4
Other.....	1.0**	0.3	0.7	1.5	0.8

NOTE: A detailed description of the assumptions underlying these calculations is found in Staff Study No. 23, *Canadian Income Levels and Growth: An International Perspective*, by Dorothy Walters.

*Italicized figures are from Table 2-1 in the *Fifth Annual Review*.

**Includes the effect of the construction productivity adjustment of about 0.3 percentage points, which must be taken into account in the international comparison.

It is tempting to conclude that over the 1950-62 period Canadian productivity performance was better than in the United States and much closer to the European performance than the earlier data suggested. There is, however, an important new element to be considered in these international comparisons. As noted earlier, the new Canadian estimates incorporate a productivity adjustment to the construction estimates—a methodological advance that has *not* been made in the

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National Accounts of other countries with the exception of France. Denison estimated that this improvement accounted for about 0.2 to 0.3 percentage points of the French growth rate. (The effect of this adjustment on "other" factor productivity in Northwest Europe as a whole is of course statistically slight.) It appears that this revision to the Canadian data accounts for some 0.3 percentage points of the net residual or "other" factor productivity item. It is reasonable to assume therefore that about half of the measured increase (from 0.3 to 1.0 percentage points) in "other" factor productivity reflected these new productivity adjustments in construction in Canada which have not, as yet, been incorporated into the historical estimates of most other countries. On this basis, residual productivity growth in Canada, as indicated by the new National Accounts, was at a level comparable to that in the United States and Britain, but still well below the level in Northwest Europe.

3

Governments in a Growing Economy

BETWEEN 1961 and 1968 the expenditures of all levels of government in Canada—federal, provincial and municipal—almost doubled, reaching roughly \$24 billion. They now are the equivalent of about one-third of national output compared with just over one-quarter at the end of the Korean War.

Where do we go now? Here in brief is what this Chapter suggests:

- Even without allowing for major new programs, government expenditure will almost double again to \$43 billion in 1975.* The very large new programs introduced in the last decade, especially in the fields of hospital care, medical care, education and social welfare, will inevitably continue to expand through to the mid-1970's.
- Government revenues would also advance very strongly as the economy moves to potential output in 1975.* Taxable income grows steeply in a swiftly growing economy and produces a so-called "fiscal-dividend" for governments, even without increases in tax rates. Indeed, on the assumption that there would be no general advance in tax rates beyond those in effect in the spring of 1969, total government revenues would also approximately double between 1967 and 1975. However, a large proportion of this fiscal dividend would be pre-empted by the expansion of existing government spending programs.
- Our estimates involve some increase in the relative size of the government sector of the economy, implying a continuation of the shift from private to collective consumption of goods and services*

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that has been evident for many years (though still consistent with the extraordinarily large consumer spending boom outlined in the following Chapter). Governments will be absorbing or redistributing about 37 per cent of the nation's total income by 1975 compared with 33 per cent in 1967. However, this increase includes transfer payments by governments to individuals and businesses—for example, pension payments, educational transfers, payments under the Canada Assistance Plan and capital assistance to industry—as well as spending on goods and services. In terms of the latter—that is, in terms of government demands on the growing volume of goods and services produced in the economy—the ratio of government spending to total output is much less, but it is also expected to advance from about 21 per cent in 1967 to about 24 per cent in 1975.

Some curtailment and abandonment of various existing government programs will be required to meet the needs allowed for in our estimates. But since we believe that it is vitally important to have an approximate balance in the fiscal position of all levels of government taken together at potential output in 1975, one of the most important implications of our estimates is that major new government spending programs requiring large additional resources can only be accommodated through *large* cutbacks in existing programs, through greatly increased efficiency in major government programs (an objective that is in itself highly desirable), or through tax increases leading to a larger shift of resources than we have indicated from the private—mainly the consumer—sector to the government sector of the economy.

The economy's capacity to provide the resources to satisfy expanding needs—either private or government—is not unlimited. Even under the high rate of growth of potential output through the mid-1970's, we anticipate strong competition for resources. Governments and the public will have to face up to many hard choices about the use of these resources.

Such choices will be tough, and those faced by governments will be among the most difficult of all. They would be politically and socially delicate even in some centrally governed state in an advanced stage of economic development. They are even more difficult in Canada with its decentralized decision-making, its sharp regional differences, its federal constitutional system, and its maturing but still-developing economy. They will require informed public discussion of the issues. They will also require widespread public, political and institutional participation in clarifying, defining and ordering public priorities and keeping such priorities under review. It will also be necessary to

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strengthen the basis for intergovernmental co-ordination about these matters, and to work towards a more cohesive framework of government and private decisions. This Chapter is designed to assist this discussion and co-ordination.

THE EXPANDING ROLE OF GOVERNMENT

Government activity is ultimately related to the public's goals and aspirations as they emerge and shift over time in response to changing social and economic conditions. From Confederation to the First World War, for example, the dominant objective was economic development, and it was sought through Western settlement, industrialization by protective tariffs, and railway-building. The bulk of these development services was provided by the federal government; the provinces and municipalities had been left in 1867 with functions that were not then expected to grow rapidly—civic government, local public works, administration of justice, education and welfare.

After the war, the pattern changed, with new emphasis on economic stabilization and income redistribution. The most rapidly increasing costs of government in the 1920's were for public welfare and highways, provided largely by the provinces and municipalities. In the late 1920's about two-thirds of total government spending in Canada could be attributed to these two levels of government (Table 3-1).

TABLE 3-1—PERCENTAGE DISTRIBUTION OF EXPENDITURE OF
ALL GOVERNMENTS, BY LEVEL OF GOVERNMENT
(National Accounts basis)

	Federal	Provincial	Municipal
1926.....	37.8	20.2	42.0
1930.....	33.1	25.0	41.9
1935.....	34.7	33.8	31.6
1940.....	56.5	22.4	21.1
1945.....	82.3	9.3	8.4
1950.....	51.9	26.0	22.1
1955.....	58.1	19.8	22.1
1960.....	50.5	24.8	24.7
1965.....	43.3	30.6	26.2
1967.....	41.9	32.9	25.2

SOURCE: Based on data from Dominion Bureau of Statistics.

In the early years of the Great Depression, government expenditures rose sharply in relation to Gross National Product; governments sought to combat massive unemployment with public works and

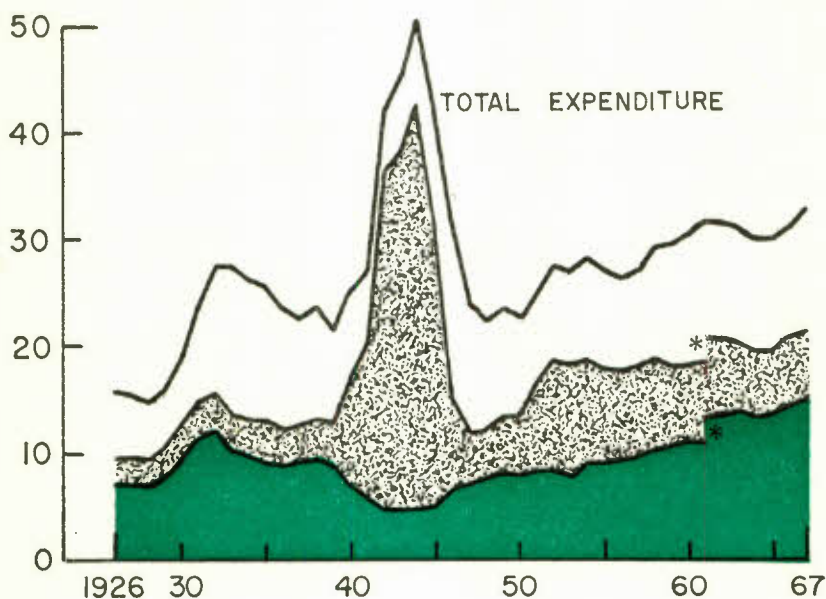
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stepped-up welfare services while private spending was curtailed (Chart 3-1). A large part of the responsibility for social assistance was permanently assumed by senior governments before the next upsurge of local government spending after the Second World War. When defence expenditures subsided after the war, total government spending bore roughly the same relation to national output as in the late 1930's.

CHART 3-1

EXPENDITURE OF ALL GOVERNMENTS AS PERCENTAGE OF GROSS NATIONAL PRODUCT

(NATIONAL ACCOUNTS BASIS)



□ TRANSFER PAYMENTS TO PRIVATE SECTOR

▨ FEDERAL EXPENDITURE ON GOODS AND SERVICES

■ PROVINCIAL AND MUNICIPAL EXPENDITURE ON GOODS AND SERVICES

*Hospital expenditures are included in government goods and services from 1961; transfer payments are lower by a roughly corresponding amount.

Source: Based on data from Dominion Bureau of Statistics.

Through the period from the early 1930's to the mid-1950's, there was relatively little change in the allocation of government expenditures except for defence and debt charges. By 1955, total government

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expenditures for education, health and social welfare combined took roughly the same share of government expenditures as in 1933, and a slightly smaller share of national output (Table 3-2).

TABLE 3-2—EXPENDITURE OF ALL GOVERNMENTS, BY FUNCTION

	1933	1939	1945	1950	1955	1960	1965	1967
<i>As Percentage of Total Expenditure</i>								
Defence.....	1.6	9.9	44.3	14.7	24.6	14.1	9.9	8.7
Health.....	3.7	3.7	1.2	5.6	5.2	7.8	9.9	11.7
Social assistance (including veterans' benefits).....	19.4	16.9	12.5	20.5	17.7	17.7	16.8	16.5
Education.....	11.3	10.1	3.3	10.7	11.4	14.6	16.4	20.9
Transportation and commu- nications.....	9.4	12.8	3.0	11.4	11.8	13.3	12.8	11.7
Net debt charges.....	31.5	20.8	8.6	11.2	7.7	7.9	7.9	6.8
All other.....	23.1	25.8	27.1	25.9	21.6	24.6	26.3	23.7
Total functional expendi- ture.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>As Percentage of Gross National Product</i>								
Defence.....	0.4	2.3	21.2	3.4	6.3	4.1	2.9	2.7
Health.....	1.0	0.8	0.6	1.3	1.3	2.2	2.9	3.7
Social assistance (including veterans' benefits).....	5.3	3.9	6.0	4.8	4.6	5.1	4.9	5.2
Education.....	3.1	2.3	1.6	2.5	2.9	4.2	4.8	6.6
Transportation and commu- nications.....	2.5	2.9	1.4	2.6	3.0	3.8	3.7	3.7
Net debt charges.....	8.6	4.7	4.1	2.6	2.0	2.3	2.3	2.1
All other.....	6.3	5.9	13.0	6.0	5.6	7.0	7.6	7.5
Total functional expendi- ture.....	27.2	22.7	47.9	23.1	25.6	28.7	29.0	31.4

NOTE: The figures in this Table are based on the Dominion Bureau of Statistics financial management accounts series of government expenditures by function. This framework differs somewhat from that used in the National Accounts; for example, the former series excludes transactions of the Canada and Quebec Pension Plans, government employee pension funds, and some government trust funds.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Since the mid-1950's, however, the largest single increase has been for education; by 1967 education took a larger share of total government expenditures than any other service including social assistance, and more than twice the share of defence. Health expenditures have also risen substantially as a proportion of both national output and total government spending.

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The rapid increases in expenditures for education and health care have been associated with rapid increases in employment in these activities. Since 1960, employment in noncommercial community services, which largely comprise health and education services, has risen by over 70 per cent, compared with an increase of only about 25 per cent for total civilian employment. Contrary to public opinion, however, employment in general public administration (for all levels of government combined) has not increased very rapidly relative to total civilian employment in the 1960's—or even over the past two decades (Table 3-3).

TABLE 3-3—EMPLOYMENT IN PUBLIC ADMINISTRATION AS
PERCENTAGE OF TOTAL CIVILIAN EMPLOYMENT

	Percentage
1950.....	5.2
1955.....	4.9
1960.....	5.8
1965.....	5.9
1968.....	6.1

SOURCE: Based on data from Dominion Bureau of Statistics.

In summary, there has been—not only in the general categories mentioned above, but in many specific programs at all levels of government—a shift towards what might be called human resource development: programs intended to raise the potential capacity of people to contribute to, and share in, economic growth. We expect this trend to continue.

THE EVOLVING NEEDS OF THE ECONOMY

As we approach the 1970's, we see evidence of concern with the quality of life and with the uses to which our growing, though still limited, resources are put. Increasingly, the demands for the development of our human resources to their full potential are being reflected in the pattern of services provided by our governments. Moreover, even on the basis of existing programs, the shift in emphasis will become much more apparent in the early 1970's.

Even if government activities were to expand sufficiently to provide only existing standards of services for an increasing population, sub-

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stantial increases in spending would be required in many fields. Canada's population is expected to increase from 20.4 million in 1967 to 23.3 million in 1975 and to over 25 million by 1980. The most rapidly growing part of the population in the coming decade will be the young adult group—those at the stage of family and household formation. However, there will still be a substantial increase in the numbers of school-age children. Also, the over-65 group will grow somewhat more rapidly than total population through the 1970's. Increasingly, Canada's growing population will be living in urban centres, and particularly the larger cities. Indeed, it is anticipated that these larger cities will account for all of Canada's population growth in the 1970's. In addition, the average income of our population will be growing very swiftly.

There are also a number of gaps and deficiencies in present programs that should be taken into account in the coming period. These do not necessarily imply, of course, that further increases in government expenditures will be necessary. To meet some needs, regulations or incentives for the private sector may well be more appropriate. For others, there should be an accommodation of new and more urgent needs through curtailment or abandonment of existing programs that were originally designed to meet the needs of earlier years. More generally, the clarification of goals of all programs—both new and old—would help both in the development of a more rational ordering of priorities in spending and in the efficient and effective designing of programs.

Estimates of Expenditure for 1975

Table 3-4 shows our estimates of government expenditures at potential output in 1975. As in previous Reviews, the figures are based on a review of expenditure by all levels of government using functional classifications that indicate the general purpose of government programs.

The figures indicate the increased outlays that might be expected under conditions of rapid economic growth on the basis of existing policies, population increases, and, where they exist, continuing trends towards improved standards. They also include adjustments to wages and salaries of government employees, as well as to income-maintenance payments, in line with the rising productivity of the economy. Our estimates do not, however, allow for the introduction of any *major* new government expenditure programs, although they do anticipate expansion in areas of such particular needs as pollution abatement and urban development.

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Table 3-4 suggests that more than 40 per cent of the total increase in government expenditures from 1967 to 1975 will be absorbed by health and education. The share of government funds available to meet other needs is obviously limited by strong growth in these important fields, and by other "built-in" factors including some anticipated growth in debt charges.

TABLE 3-4—EXPENDITURE OF ALL GOVERNMENTS, BY FUNCTION

	Estimated 1967	At Potential in 1975	Increase	Average Annual Percentage Change 1967-75 <i>Compound</i>
	(Billions of 1967 dollars)			
Health.....	2.4	4.9	2.5	9.3
Education.....	4.3	8.3	4.0	8.6
Social assistance (including veterans' benefits).....	3.4	5.4	2.0	6.0
Transportation.....	2.4	4.2	1.8	7.2
Defence.....	1.8	2.0	0.2	1.3
Net debt charges.....	1.4	2.0	0.6	4.6
All other.....	4.9	8.4	3.5	7.0
Total functional expenditure.....	20.6	35.2	14.6	6.9
Net adjustment to National Accounts basis				
—Canada and Quebec Pension Plans.	—	0.5	0.5	
—Other adjustments.....	0.9	1.6	0.7	
Total expenditure (in 1967 dollars), National Accounts basis.....	21.5	37.3	15.8	7.1
Adjustment for price.....		6.2	6.2	
Total expenditure (in current dol- lars), National Accounts basis...	21.5	43.5	22.0	9.2

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Frequently, discussions of such projections have focused more on the resources going into government programs than on the objectives of those programs. The following section outlines the main elements of the estimates for 1975 against a background of various emerging needs and problems that we believe should be taken into account in setting objectives. The discussion does not attempt to present a comprehensive

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or detailed assessment of all needs or problems—such important matters as regional disparities and housing are, for example, not even touched on directly. But we have sought to illuminate a limited number of areas including health, education, poverty, defence, transportation, urban development and environmental pollution.

Health Services

Canada's health expenditures, private and government combined, are already among the highest in the world on a per capita basis. Over the last decade, there has been a rapid rate of growth in government spending on health services, largely although not entirely reflecting a shift from private to government payments. Such expenditures are expected, even on fairly conservative assumptions, to increase more rapidly than any other area of government spending to 1975. By 1975, they may total nearly \$5 billion in 1967 dollars, about double the 1967 level.

Roughly half of the increase in total spending on health is associated with the assumed adoption of medicare by all provinces. The medicare projections allow for both population increase and more intensive use of doctors' services, but they are based on the assumption of a marked slowing in recent advances in doctors' fees. They do not allow for any change in the 1969 "mix" of medical services, such as increased resort to specialists.

The estimates of hospital expenditure, which account for roughly two-fifths of the total increase, are based on a small increase in hospital utilization and a growth in bed capacity in line with population. Some allowance is also made for upgrading the quality of hospital services through the use of increasingly sophisticated equipment and larger hospital staff. Some economies should be realized in hospital services through such developments as improved regional organization of hospital care and less-costly facilities for patients requiring less-intensive care by both doctors and hospitals.

Expenditures at the estimated rate in 1975 will provide the average Canadian with access to a relatively high standard of both hospital and doctor services. The growth of medical care insurance plans has helped some lower-income individuals to gain access to increased medical care, and universal medicare will further accentuate this process. Medicare may also contribute to preventive action in the health sphere and should reduce some of the regional disparities now apparent in health services.

Expenditures on health care have expanded sharply in Canada since the mid-1950's. In 1953, Canadians devoted less than 3 per cent of

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Gross National Product to personal health care, about the same as the United States and Britain. By 1966, however, these expenditures amounted to $4\frac{1}{2}$ per cent of Gross National Product in Canada, compared with 4 per cent in the United States and about $3\frac{1}{2}$ per cent in Britain. This expansion was accompanied by an increase in the share of spending for hospital care, particularly in active-treatment hospitals, and a sharp rise in the share of hospital expenses financed by governments from about one-third in 1953 to over 85 per cent today. The share of health in total government expenditures in Canada rose from about 5 per cent in the mid-1950's (compared with less than 4 per cent in the late 1930's) to approximately 12 per cent today.

Hospital bed space increased faster than population in the early 1960's, though recently it has been more in line with population growth. Hospital personnel have expanded considerably faster than population. Utilization of hospital facilities also increased in the early 1960's, although more recently it has stabilized and in some cases declined. Even in the case of mental hospitals, in which the bed occupancy rate has been relatively high (this rate provides an indication of overcrowding though not necessarily the quality of care), there has been a substantial easing in pressures on facilities over the past two decades.

While recent increases in resources devoted to health services may have improved the standard of care in Canada to date, changes in the size and structure of population will bring further requirements over the coming years. The apparent easing in the demand for bed space and utilization of hospital facilities will, if it persists, help to offset the impact of further increases in population, but requirements for hospital space will continue to be substantial. The Council is undertaking a further study of hospital costs.

In order to resist further rapid escalation in the prices of health services, emphasis in the treatment of nonactive cases may shift away from costly active-treatment hospitals, to greater use of auxiliary services such as chronic care and rehabilitation hospitals, out-patient clinics, nursing homes and home care. At the same time, it will also be necessary to maintain, indeed to strengthen, key regional medical centres to supply intensive treatment. There will also be a particular need for more chronic hospitals and nursing homes and more geriatric treatment and research since the over-65 group will grow faster than total population. Industrial health should receive increasing attention.

There are other factors that might be considered in defining the objectives of our health programs. The life expectancy of a Canadian male at birth is less than for a number of other countries, including

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Israel, Denmark, Norway, Sweden, the Netherlands and Switzerland. Life expectancy at birth in Canada increased by more than eight years for men and 12 years for women between 1931 and 1961. However, most of the improvement had taken place by 1951 and since then gains have been very slow. The life expectancy for a man of 60 increased by less than six months over the period 1931 to 1961. Regional variation in life expectancy appears to be somewhat less in Canada than in the United States. There are some notable departures from the averages in Canada, however, with particularly low life expectancy among Indians, Eskimos and Métis.

Despite our relatively high expenditures on health care, Canada's infant mortality rates in 1966 were higher than those of 11 other countries, although slightly lower than those in the United States. Moreover, there was substantial variation among provinces, from a low of 20.2 per 1,000 live births in Ontario to a high of 28.0 in Newfoundland. In the North, these rates were much higher—46.5 in the Yukon and 70.3 in the Northwest Territories in 1964-66. At least 14 countries have lower maternal mortality rates than Canada.

We do not suggest that there is any simple explanation for these differences—indeed, international comparisons must always be treated with caution—nor do we see any simple solution for improvement.

It may well be that changes in various factors—smoking, drinking, overeating, lack of exercise, rapid growth in automobile ownership and use, the tensions of urban life and various forms of environmental pollution—have offset the effects of increased medical knowledge and expanded health services. For example, the fastest-growing segment of Canada's population will be the young adults coming into the labour force. Since accidents, particularly automobile accidents, are the major cause of death in this group, possibly their death rate could be reduced and life expectancy increased more effectively by larger resources devoted to reducing the frequency and severity of accidents than by larger resources devoted to health care. Some further illustrations of environmental factors that may have a bearing on health are discussed in a later section.

Education

Education will remain the largest single item of government expenditure to 1975. Total public and private expenditures on education are presently in excess of \$5 billion a year. Public expenditures alone were \$4.3 billion in 1967 and are expected to be well in excess of \$8 billion in 1975 (in 1967 prices), with the most rapid increase in expenditures anticipated at the postsecondary level (Table 3-5).

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TABLE 3-5—EXPENDITURE OF ALL GOVERNMENTS ON EDUCATION
BY LEVEL OF SCHOOLING

	Estimated 1967	At Potential in 1975	Average Annual Percentage Change 1967-75
(Billions of 1967 dollars)			
Elementary and secondary.....	3.1	4.7	5.3
Universities.....	0.9	2.7	14.7
Other.....	0.3	0.9	14.7
Total.....	4.3	8.3	8.6

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Since the early 1950's, the numbers of elementary school students have doubled, the numbers of secondary school students have tripled, and full-time university students have quadrupled. The Council's estimates of total enrolment to 1980 suggest that pressure from increases in numbers will moderate at the elementary, secondary and university levels between now and the mid-1970's, although in absolute terms the additions to secondary and postsecondary enrolment will still be substantial (Chapter 8). The "other" category shown in Table 3-5 makes allowance for a very rapid enrolment escalation in postsecondary institutions other than universities and in manpower training and retraining programs.

Total expenditures on education are not likely to reflect the slower growth in total enrolment for the next few years for several reasons. First, the "mix" of education activities is growing increasingly expensive as the leading edge of the postwar baby boom moves into higher levels of education. On average, operating costs per student in secondary schools are twice as high—and those in universities, perhaps eight or nine times as high—as those in elementary schools. Second, the continuing shifts of population from rural to urban areas and from the central city areas to suburbs is keeping the level of school construction higher than the change in total enrolment would imply. Third, there is increasing emphasis on upgrading the quality of education. Finally, there is a need for greatly strengthening the volume of research in education—it is clearly inadequate for an "industry" that is now absorbing resources on such a large scale (see Chapter 10).

The projected increases in enrolment, particularly at the secondary and postsecondary levels, will require more classroom space and teach-

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ing staff, and this could be accelerated by the very considerable pressure to reduce the size of classes. Apart from the size of the teaching force, there are also both pressures and needs to upgrade teachers' qualifications; there will also be increasing opportunities to do so, on the basis of the greatly increased prospective flow of young people emerging from the educational system with relatively high educational qualifications.

The strong demand for expanded supporting services, frequently involving the use of specialists, along with the employment of more expensive equipment, is leading to increased emphasis on school consolidation so that it becomes feasible to provide services not available in smaller schools. While this should result in economies eventually, it also adds to levels of school construction expenditure.

In addition, a revolution is taking place in education technology. The development of audio-visual techniques, educational television, access to computers for classroom use, programmed learning and other innovations, appear to be greatly broadening the possibilities for improving the quality and effectiveness of education. But they are very costly to introduce on a large scale.

There is also likely to be pressure to fill in some of the gaps outside the formal school system. There is considerable evidence to suggest that home environment, including parents' income and educational level may influence the educational attainment of children, at least as much as the quality of the school system itself. It may well be that considerably greater emphasis will be required in the future on educational programs to give underprivileged children a better basis for educational attainment that may have large long-term benefits, not only for the individuals themselves, but for our whole society. No less important, adult education and re-education will also require increasing emphasis because of the accelerating expansion of knowledge and the accompanying need to retrain all levels of manpower to adjust flexibly to rapidly changing occupational, industrial, technological and locational patterns of activity.

Our estimates allow for some further decrease in student-teacher ratios, for the introduction of more supporting services and further school consolidation, for a further upgrading of teacher qualifications and for somewhat greater utilization of teaching aids. The estimates reflect the expansion of community colleges and technological institutes that has begun to fill the previous deficiencies in formal education at the non-university postsecondary level. And they allow for substantial increases in adult education and retraining (included in Table 3-5 under "Other").

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At the same time, we emphasize that the estimates presented here are by no means extravagant. They imply some moderation in the rate of growth of government expenditure on education over recent years. They make no allowance for expanded preschool or compensatory training, or for large-scale adoption of new educational technology, such as computers, for classroom use. Moreover, they imply some narrowing, but not a disappearance, of regional disparities.

Clearly, there is a formidable array of potential demands for education services. Effective allocation of resources will require a view of education as a flexible, lifetime process running from early home life through the formal schooling system to provision for adult training and retraining. From this perspective, it will be important to avoid overconcentration of attention and resources on the formal school system that could blind us to a variety of ways of getting more effective results at less cost. Especially with large and rapidly growing resources flowing into education, it will be extremely important to be as concerned here, as elsewhere in the economy, with goals and with costs and productivity in relation to those goals: for this, we need improved measures of educational output and performance. The payoff from substantially increased research in this field is potentially very great. This is a matter to which we return in Chapter 10.

Poverty

In our *Fifth Annual Review* we estimated that about one Canadian nonfarm family in four was living in poverty in 1961. The long and strong economic expansion since then has reduced this proportion and the potential high rate of economic growth to 1975 would bring a further decline. But the numbers in 1975 would still be very large, if adequate remedial action is not taken.

The problem is very complex, but the Council feels that elimination of poverty is a vital need—on social, humanitarian and economic grounds—and must be attacked on a broad front. Poverty will not be eliminated by regional development programs, since most poverty exists in the more highly developed regions. Nor can it be eliminated by rural development, old age assistance programs or even sustained high economic growth and appropriate general demand policies.

The basic strategy should follow two lines of approach. First, there will be a continuing need for programs to maintain income and provide services for those unable to participate fully in economic activity. Second, there must be greater emphasis on programs to upgrade the earning capacity of the poor who do have earning potential, but who are held back by lack of opportunity.

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The first of these could be met to a substantial extent by our estimates of expenditure on social assistance as well as such things as wider public financing of health services.

Social assistance expenditures are expected to grow somewhat less rapidly than health or education expenditures, but we estimate that they would total over \$5 billion by 1975 in terms of 1967 dollars (compared with about \$3½ billion in 1967). The growth in payments under the Canada Assistance Plan can be expected to account for the largest share of the increase.

The second of these is explored in further detail in Chapter 7. The analysis in the latter points to the lack of strong attention in Canada in the past to the development of policies and programs aimed particularly at larger investments in human capital among the low-income groups, and at "opportunity policies" that would provide easier access by such groups to jobs with adequate levels of income. Such programs would cut across a wide variety of functional categories of government spending, including education and health. Large increases in government spending may not be needed for the development of such human investment and opportunity policies, especially over the next few years when considerable attention should be focused on experimental and pilot-project activities to determine more clearly what specific programs might yield high returns. Once such programs have been identified and can be implemented on a substantial scale, it might be appropriate to move certain existing social welfare programs to a more selective basis for low-income families, and use the resources thereby released for more effective antipoverty measures in the directions suggested here and in Chapter 7.

Defence

Defence spending declined from over 6 per cent of Gross National Product in the mid-1950's to less than 3 per cent by 1967. Our estimates imply that this relative decline will continue, with defence expenditures in 1975 of about \$2 billion in 1967 prices.

Canada's defence objectives are at present under review by the federal government and it is difficult at this time to evaluate the possible course of future expenditures in this field. However, our estimates recognize a trend towards less military involvement in Europe and more concentration on the other objectives, including increased mobility of our armed forces. This would imply, in turn, that the armed forces must be equipped with the most modern technological capacity required for mobile forces, so that capital expenditures will undoubtedly need to be expanded from now to 1975.

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Transportation

The Canadian transportation scene has been marked by three prominent features over the last decade or so. In the urban areas, there has been a marked decline in the use of public transportation facilities (not only per capita but also absolutely) and correspondingly increased use of the private automobile. Intercity movement of both goods and passengers has been rising more rapidly than national output, with increasing shares of the total carried by automobiles, airlines and pipelines. At the same time, public expenditures on transportation have grown somewhat more slowly than other major areas of government spending like health and education.

Our estimates suggest that the growth in transportation expenditures should become somewhat more rapid than it has been in the 1960's, though still less than the growth in health and education. By 1975, governmental spending on transportation may exceed \$4 billion (in 1967 prices).

Spending on highways, roads and bridges, which now takes up four-fifths of transportation expenditures, is expected to show a rapid rate of growth with the largest increase projected for urban areas. With the completion of the Trans-Canada Highway program, the number of large-scale highway projects contemplated is considerably reduced. However, urban requirements, particularly arterial roads and bridges in a number of cities, remain very pressing.

In Canada, construction of roads and streets now absorbs 3 per cent of national output. Some increase in this proportion is anticipated to accommodate the increasing volume of road traffic—both intercity and urban—the increasing demand for access to recreation areas arising from higher incomes, and the probable requirements for multilane limited-access highways to link major urban centres. However, our projections are conservative; the backlog of urban transportation projects may well continue to rise against a background of increased traffic congestion in many locations. In these circumstances it is important to develop better planning of urban transportation systems and to acquire appropriate rights of way to facilitate the improvement of mass urban transit facilities.

In the field of air transportation too, the continuing high rates of increase in both passenger and freight traffic is likely to generate increasing pressure for expanded facilities to handle passengers, freight and traffic control. The advent of the Jumbo Jet and supersonic aircraft in the early 1970's will further reinforce this pressure. The growth of air traffic will also have important implications for connecting roads and perhaps other transportation facilities.

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Government expenditure on rail transportation is expected to ease further except for the possible development of high-density lines in the more heavily populated areas. There is a growing tendency also for government expenditures on water transport to shift towards more self-sustaining investments, such as harbour facilities, that can be operated largely as commercial enterprises.

Urban Development

Our estimates of expenditure (Table 3-4) contain an "All other" item that covers a wide variety of government services. These include general government expenditure, and spending on natural resources and primary industries, trade and industrial development, and international assistance (see Chapter 5). But, in addition, the "All other" category covers a high proportion of programs—including police and fire protection, sanitation and waste removal and other measures relating to pollution abatement, and parks and recreation—that bear heavily on urban development.

The "All other" category as a whole is expected to increase only as rapidly as government expenditure in general. However, within this category our estimates allow for a somewhat more rapid increase in these urban development programs, including public assistance for low-income housing, and the stepping-up of programs to deal with environmental pollution.

By 1980, eight of every ten Canadians—some 20 million people—may be living in urban areas, with almost two-thirds of the population in about 29 major cities. In the past, our urban growth has generally proceeded in a haphazard, unplanned manner. In the future, we need greater attention focused on the adaptation of cities to people and not the other way around. Such an emphasis can be translated into demands for collective services and social capital of many kinds—for transportation, health, education, public utilities, recreational facilities, protective services, waste disposal and pollution abatement—demands that tend to increase more rapidly than income.

Some of these requirements will be met through implementation of programs for health, education and transportation. But particular attention will have to be paid to the broad impact of these diverse programs in urban areas. For this reason we commend the work initiated by the Canadian Council on Urban and Regional Research to develop an urban information system. Such a system is essential for the establishment of goals and objectives for urban development, and for improved efficiency and effectiveness in municipal government expenditures.

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A great need also exists for the development of standards of urban services. Preliminary work indicates considerable variation across the country in standards of fire and police protection, street and road building and maintenance, recreation facilities, sanitation and waste collection and disposal facilities. These services lack the dramatic potential of many other areas of government spending, but this should not blind us to the fact that they have an immense impact on the quality of life. We are convinced that it is possible to set out and compare standards of urban service despite wide variations in such factors as climate and terrain.

Environmental Pollution

Our estimates make some allowance for stepped-up programs to deal with pollution. What is far more important, however, is that better management of the environment be considered for inclusion among the several broad goals of our society and brought into planning processes without delay, both government and private.

The Council recognizes that environmental pollution is far too complex a problem—with a wide variety of technical, economic and social aspects—to be dealt with adequately in a few pages. What follows is merely a preliminary attempt to sketch the dimensions of two of our pollution problems—air and water pollution—as a beginning towards the setting of objectives in this troublesome area. In our future work, we intend to undertake a more extensive and systematic analysis of these and other pollution problems.

Although we recognize that some significant efforts and contributions are already being made to pollution abatement by various governments and business firms, examples of serious environmental pollution in Canada are not difficult to document. Moreover, not only are there some serious problems now; in the absence of additional effective abatement programs, they will tend to intensify in the future with increasing population, urbanization and industrial output. Yet in reaching for constructive solutions it will be important to avoid the temptation merely to play up the dramatic impact of these problems, and to begin to analyse them in an increasingly comprehensive framework that will cover the environment as a whole and allow for a variety of approaches including both public and private expenditures, incentives and regulations.

This framework must recognize the complex technical relationships among the various forms of pollution. It must also recognize the complex economic and social nature of the problems. Pollution entails costs—frequently costs to society that are not readily apparent. On

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the other hand, it is also important to recognize that pollution abatement also entails costs—here, too, costs that may not be readily apparent. It will therefore be important to set out reasonable objectives of pollution abatement, having careful regard to a balance of both the costs and benefits of such abatement within the larger framework of social and economic goals.

Water Pollution—The consequences of water pollution include inadequate water supplies, the menace to health, destruction of fish and other aquatic life, loss of recreation areas and the creation of a generally disagreeable environment. The primary sources of such pollution are domestic and industrial wastes.

The effects of inadequate facilities for disposal of these wastes are not confined to a few large urban areas or to a few regions of the country. Table 3-6 indicates the widespread nature of the problem. It should be emphasized, however, that the intensity of the problem differs substantially from place to place, and at different times and under different conditions.

**TABLE 3-6—SELECTED WATER BASINS SIGNIFICANTLY AFFECTED
BY POLLUTION**

Region	Water Basin
Atlantic Region.....	Saint Croix River Basin Annapolis River Basin Saint John River Basin Miramichi River Basin
Eastern Ontario and Quebec.....	Rideau River Basin Ottawa River Basin St. Lawrence River Basin Upper Yamaska Watershed
Great Lakes Region.....	Maitland River Basin Don River Basin Lake Erie Lake Ontario
Prairie Region and Western Ontario.....	Rainy River Basin North Saskatchewan River Basin Bow and South Saskatchewan River Basin Red River Basin
British Columbia.....	Fraser River Basin

NOTE: Various water uses, such as fisheries and spawning grounds, recreational activities, aquatic life and industrial water supplies, are impaired or threatened collectively in at least some parts of the above water basins, although each water basin has its own particular problems and these vary also within each basin.

SOURCE: Based on data from Departments of Energy, Mines and Resources; Fisheries and Forestry; and National Health and Welfare.

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This Table does not pretend to be comprehensive; it is merely illustrative, and could also have included rivers such as the Grand and the Thames in Southern Ontario where, at certain points, bacterial counts have at times been as high as in raw domestic sewage. Similarly, in the other regions of the country, there are a multitude of examples of water pollution, particularly in the vicinity of high population density and of substantial industrial activity.

Industries and even single firms contribute to the level of pollution in remote as well as heavily populated areas; indeed the polluting effluents of saw-mills, pulp and paper mills, mining firms and agricultural product processing plants frequently arouse more comment because their isolation singles them out for attention. Efforts to control harmful plants and insects that destroy forests and crops, to

TABLE 3-7—SEWAGE TREATMENT IN SELECTED URBAN AREAS, 1969

Metropolitan Area	Wastewater Flow	Percentage of Wastewater Flow Subject to:		
		No Treatment	Primary	Secondary
	(Million gallons per day)			
St. John's.....	12.7	100.0		
Halifax-Dartmouth....	9.9	99.0	1.0	
Saint John.....	5.4	99.8		0.2*
Quebec.....	42.0	100.0		
Montreal.....	290.2	91.6	2.6	5.8
Ottawa.....	40.0		100.0	
Toronto.....	194.0			100.0
Hamilton.....	60.0		100.0	
Sudbury.....	11.0			100.0*
London.....	28.0			100.0
Windsor.....	4.0	85.0	**	15.0
Winnipeg.....	46.3	4.0		96.0*
Regina.....	12.0			100.0*
Saskatoon.....	10.0	93.0		7.0*
Edmonton.....	37.5		46.5	53.5*
Calgary.....	38.8		100.0	***
Vancouver.....	100.0	59.0	41.0	
Victoria.....	18.0	98.9		1.1

NOTE: Primary treatment removes 30-50 per cent of nonsuspended solids; secondary treatment removes about 80-85 per cent of total solids and reduces the biological oxygen demand by about the same proportion.

*Part or all of the treatment is in lagoons, which can be regarded as close to secondary treatment.

**Primary treatment plant to be completed in late summer 1969.

***Secondary treatment facilities being constructed.

SOURCE: Based on data from Department of National Health and Welfare and the Metropolitan Corporation of Greater Winnipeg.

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improve agricultural yields by fertilizing land, and to reduce winter driving hazards by salting streets and highways, also contribute to the pollution of rivers and lakes.

Many municipalities have little or no sewage treatment capacity, and simply dump raw sewage. Moreover, in many other municipalities that have sewage treatment facilities, these do not appear to be adequate for the rising demands placed on them. Table 3-7 illustrates the very uneven pattern of sewage treatment capabilities in leading Canadian metropolitan areas.¹

The fact that these problems exist now is worrisome. But water consumption tends to rise more rapidly than population. Moreover, rising demands of both households and industries have usually been accompanied by the emergence of more complex pollutants, such as detergents and other synthetic chemicals. Consequently, the existing problems can be expected to intensify unless present programs for abatement are further accelerated.

Air Pollution—Less information is available on air than water pollution. Available information, sparse as it is, suggests that some of the major air pollutants exist at damaging levels in parts of Canada at certain periods.

The Air Pollution Control Service in Ontario has indicated that air pollution problems occur in most of that province's industrialized cities as shown in Chart 3-2. Unfortunately, similar data do not appear to be publicly available for cities in other provinces, with a few exceptions such as Vancouver.

It has been estimated that roughly 60 per cent of urban air pollution can be traced to the automobile. In Montreal, during the transit strike of October 1967, health department tests showed downtown peaks of carbon monoxide concentrate approaching dangerous levels.

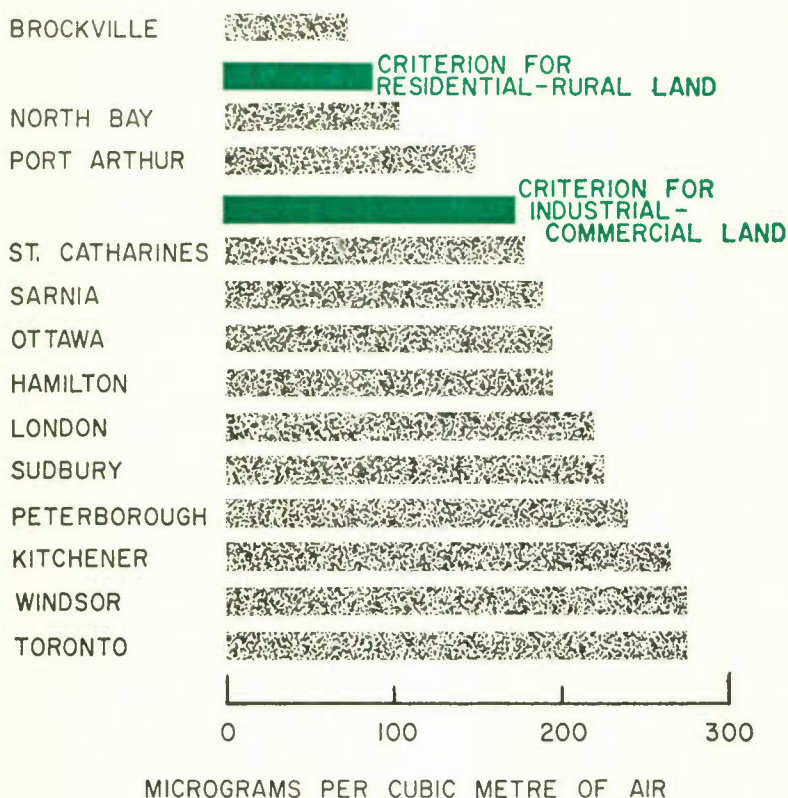
Evidence suggests that damage to certain crops in Southern Ontario in recent years—notably white beans and tobacco—is due to pollutants from Detroit, Windsor, Sarnia, Cleveland, Toledo and Pittsburgh and other distant centres.

In attempts to deal more effectively in the future with pollution problems, several points must be borne in mind. Many pollution problems, perhaps particularly air pollution, cross jurisdictional boundaries. Moreover, the various forms of pollution are highly interdependent. What goes into our system of production and consumption must,

¹Obviously, these figures do not tell the whole story. The possibility of sufficiently diluting wastes is greater for seaports, in rivers where the ratio of population to mean flow is low, and in rivers where the minimum flow is a high percentage of the mean flow.

CHART 3-2

A MEASURE OF AIR POLLUTION
OVER SELECTED ONTARIO CITIES
1968



Note: This Chart depicts comparable measures of suspended particulate matter which is only one of several possible measures of air pollution. Suspended particulates comprise small air-borne particles of solids and low-volatility liquids. These readings represent conditions at specific locations, not over the entire city at all times. Air samples are taken over 24-hour periods at various times throughout the year. The criteria shown are set by the Ontario Air Pollution Control Service. For example, to meet the criterion for industrial-commercial land, 90 per cent of the samples should be below a level of 175 micrograms per cubic metre of air.

Source: Based on data from Ontario Department of Health.

apart from recycling or addition to inventories, come out as waste in some form. Any reduction in some form of waste discharge is normally accompanied by an increase in another kind—incineration of municipal and industrial refuse, for example, can easily lead to air pollution. Effective measures for dealing with pollution problems can therefore develop only within a framework that achieves adequate and consis-

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tent co-ordination among all jurisdictions involved and that has careful regard to the complex interrelationships between the various forms of pollution.

The sparsity of the information available shows the urgent need for greater research effort and inspection programs. Our estimates for government expenditures make allowance for stepped-up efforts to deal more adequately with these problems. But increased private efforts will also be needed. We believe that it is vitally important to move in this direction to maintain the quality of the human environment, and it is important that we proceed to build up efforts in this field over the next few years to avert the possible development of major "pollution crises" at some future time.

REVENUE AND EXPENDITURE ESTIMATES IN THE NATIONAL ACCOUNTS FRAMEWORK

Earlier in this Chapter, we set out estimates of government spending in 1975 by broad expenditure *functions*. However, to examine the effects of these expenditures on the economy, and to allow comparisons with anticipated changes in other major sectors, it is useful to trans-

TABLE 3-8—REVENUE AND EXPENDITURE OF ALL GOVERNMENTS
(National Accounts basis)

	1967	At Potential in 1975	Average Annual Percentage Change
(Billions of dollars)			
Revenue			
Canada and Quebec Pension			
Plan receipts.....	0.9	1.8	9.1
All other*.....	20.9	42.2	9.2
Total revenue.....	21.8	44.0	9.2
Expenditure			
Canada and Quebec Pension			
Plan payments.....		0.5	
All other*.....	21.5	43.0	9.1
Total expenditure.....	21.5	43.5	9.2
Surplus (+) or Deficit (-)			
Excluding Pension Plans.....	-0.6	-0.8	
Including Pension Plans.....	+0.3	+0.5	

*Includes allowance for depreciation on government capital assets.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Perspective 1975

late these estimates into the comprehensive framework provided by the National Accounts.

On the basis of our assumptions about the rate of growth in the value of total output to 1975, and assuming no change in the tax rates in effect in the spring of 1969, total revenues of federal, provincial and municipal governments could amount to \$44 billion in 1975 on the National Accounts basis (Table 3-8). Total expenditures are estimated at about \$43.5 billion on the same basis, implying an approximate overall fiscal balance (in fact, a small surplus). The analysis assumes that the annual average increase in prices for total government expenditures would be about 2 per cent from 1967 to 1975. These estimates include an allowance for the receipts and payments of the Canada and Quebec Pension Plans. The estimates could, of course, be affected greatly by policy changes and, in addition, by a price performance that differed significantly from our assumption.

Total revenue is expected to increase at an average annual rate of more than 9 per cent to 1975, somewhat faster than the increase in Gross National Product. This is due largely to the fact that the progressive rate structure of personal income tax, the largest single contributor to government revenues, produces increases in revenue that are proportionately greater than advances in income, a feature that

TABLE 3-9—SOURCES OF GOVERNMENT REVENUE

	At 1967	Potential in 1975	Increase 1967-75	Average Annual Percent- age Change	Percent- age Distribu- tion of Total Increase
(Billions of dollars)					
Personal income tax.....	5.1	12.8	7.7	12.2	34.7
Corporation income tax.....	2.2	4.3	2.1	8.7	9.5
Provincial sales tax.....	1.3	2.7	1.4	9.6	6.3
Real property tax.....	2.3	4.3	2.0	8.1	9.0
All other revenue*.....	10.9	19.9	9.0	7.8	40.5
Total.....	21.8	44.0	22.2	9.1	100.0

NOTE: The 1975 calculations incorporate actual revenue experience to 1968 and tax rate changes to the spring of 1969.

*Includes excise taxes, investment income, customs duties, pension and other employee and employer contributions, and other sources.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Governments in a Growing Economy

was discussed in some detail in our *First Annual Review*. And it implies, of course, that in the absence of tax cuts, a larger share of Gross National Product automatically flows into the government sector.

Table 3-9 shows the major components of the anticipated increase in revenue from 1967 to 1975. The largest single component of the increase is provided by personal income tax. Revenues from both income taxes and provincial sales taxes are expected to increase considerably more rapidly than revenues from real property taxes.

Total government expenditure in current dollars is expected to grow at roughly the same rate as revenue. This implies that government expenditure will also be equivalent to a rising proportion of national output. For National Accounts purposes, however, these expenditures are broken down into current goods and services, gross fixed investment, and transfer payments, and it is useful to examine each of these separately.

In real terms (Table 3-10), total government expenditures are expected to grow at slightly over 7 per cent a year to 1975. Within this total, however, expenditure on goods and services (other than capital) will grow at only 5.8 per cent a year. Moreover, medicare expenditures account for a full percentage point of this figure.

TABLE 3-10—EXPENDITURE OF ALL GOVERNMENTS
(National Accounts basis)

	1967	At Potential in 1975	Average Annual Percentage Change	
			1967-75	1961-67
(Billions of 1967 dollars)				
Current goods and services				
Including medicare.....	10.9	17.1	5.8	4.1
<i>Excluding medicare.....</i>	<i>10.8</i>	<i>15.7</i>	<i>4.8</i>	<i>4.1</i>
Gross fixed investment.....	3.0	5.2	7.0	7.0
Transfer payments.....	7.6	15.0	8.9	9.9
Total expenditure.....	21.5	37.3	7.1	6.7

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Government capital formation is expected to increase somewhat more rapidly than current expenditure on goods and services in constant dollars—at 7 per cent a year. This reflects further substantial expenditure for schools, hospitals, transportation, water and sewage facilities and other forms of social capital.

Perspective 1975

Transfer payments are also expected to grow more rapidly than Gross National Product. One formerly important contributor to the growth in these payments—transfers to hospitals—is now largely reflected instead in government expenditure on goods and services. However, substantial increases are projected for transfers to universities, in social assistance payments under the Canada Assistance Plan, and benefit payments under the Canada and Quebec Pension Plans.

Our assessment of the nation's growing needs for publicly provided goods and services, and of the resources available to meet these needs, makes it eminently clear that governments in Canada today are facing massive problems of choice from among competing objectives. Because the share of the nation's resources that is now being channeled through the public sector has become so large, and because the revenues and expenditures involved have such widespread ramifications for economic and social welfare, it has become urgent that decisions to allocate resources be carefully weighed and balanced within a more coherent framework of national goals and priorities. All too frequently in the past, priorities have been identified and objectives established in isolation, on an ad hoc basis, and without reference to any overall framework of goals and objectives; and programs have been established on the basis of a welter of ad hoc decisions. In a rapidly changing world in which a continuing shift is taking place in the composition of demand in favour of collective services—such as education, health, transportation, pollution abatement, urban development and recreational facilities—it is no longer adequate to operate in this way. We return to this subject in Chapter 10.

Moreover, the cost of government is now so large that "efficiency" in the delivery of public goods and services must become an overriding consideration. In those areas of government expenditure which we have discussed in this Chapter, there is no profit incentive to set standards of performance and efficiency. If it were possible to deliver the same standards of education or health care services, for example, with a smaller use (input) of resources, the savings so achieved could be used to accommodate many of the new and urgent programs that governments are likely to be called upon to undertake in the future. Moreover, it is especially important that programs be phased out and eliminated when they are no longer serving the purposes for which they were originally conceived. The mindless perpetuation of obsolete programs is a tragic waste of scarce resources which could be used to meet the changing needs of our highly complex, urban, industrialized society.

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Finally, it has been our wish in this Chapter to develop the view that governments at all levels will have to learn to anticipate and to cope with the problems of change before they emerge into full-blown crises in future years. It is clear, for example, that much could have been done to prepare for an orderly build-up of school and university facilities and to better accommodate the nation's growing needs for housing, if sufficient attention had been given to the fact that very large needs in these areas would be emerging in the 1960's. Many of the problems which we have drawn attention to in this Chapter—problems of environmental control, urban development, transportation, pollution abatement—are all now clearly visible as areas that will require a major involvement by governments over the next decade. We believe that it is essential to prepare now to meet such problems, to adapt the structure of our revenue and expenditure programs accordingly, and to make decisions regarding the allocation of resources to these areas on the basis of a deliberately chosen and explicitly articulated framework of national goals and priorities.

4

Consumer Expenditure

AVERAGE consumer expenditure is an indicator—although neither a perfect nor the sole indicator—of the average standard of living. In the postwar period, total consumer expenditures have amounted to about 60 per cent of the goods and services produced in the economy, and have increased from \$27 billion to \$39 billion over the eight years from 1959 to 1967 (in 1967 dollars). Prosperity or hard times for countless business enterprises and their employees depends upon how they adjust to the changing distribution of such vast sums among various goods and services. This Chapter estimates consumer expenditures to 1975 in a way that is intended to aid private and public policy-makers in their future planning. The estimates set out here are more detailed than in any of our previous Reviews, and we hope that they may be of particular value in many business enterprises.

Total consumer expenditure is expected to rise by more than 50 per cent between 1967 and 1975, a higher rate of increase than in the comparable period of strong economic growth in 1959-67 (Table 4-1). At the same time, the rate of Canada's population growth is likely to be somewhat slower in 1967-75 than in the preceding eight years. The average standard of living would therefore increase as much in the eight-year period 1967-75 as it did in the preceding 13 years (Chart 4-1).

Perspective 1975

TABLE 4-1—CONSUMER EXPENDITURE

	Total						
	1959	1967	At Potential in 1975	1967 1959	1975 1967	1967 1959	1975 1967
	(Millions of 1967 dollars)			(Percentage change)		(Average annual percentage change)	
Durables.....	3,007	5,058	8,795	68.2	73.9	6.7	7.2
Furniture, carpets, etc.....	566	780	1,279	37.8	64.0	4.1	6.4
Household appliances.....	325	495	881	52.1	78.0	5.4	7.5
Personal transportation equip- ment, auto repairs, and auto parts and accessories.....	1,691	2,841	4,971	68.0	75.0	6.7	7.2
Recreational durables.....	404	655	1,159	61.9	77.1	6.2	7.4
Sales tax.....	64	288	504	352.8	75.5	20.8	7.3
Adjusting entry.....	-43						
Semidurables.....	3,163	4,298	6,433	35.9	49.7	3.9	5.2
Clothing, footwear, etc.....	2,693	3,399	4,772	26.2	40.4	3.0	4.3
All other semidurables.....	428	674	1,320	57.5	95.9	5.8	8.8
Sales tax.....	54	225	341	319.0	51.4	19.6	5.8
Adjusting entry.....	-12						
Nondurables.....	10,288	15,269	22,225	48.4	45.6	5.1	4.8
Food and nonalcoholic bev- erages.....	5,414	6,730	8,641	24.3	28.4	2.8	3.2
Alcoholic beverages.....	966	1,436	2,197	48.7	53.0	5.1	5.5
Tobacco.....	792	995	1,330	25.7	33.6	2.9	3.7
All other nondurables.....	3,092	5,792	9,566	37.3	65.2	3.2	6.5
Sales tax.....	73	316	492	332.6	55.4	20.1	5.7
Adjusting entry.....	-49						
Services.....	10,936	14,372	21,547	31.4	49.9	3.5	5.2
(Services incl. all health care services).....	(10,936)	(15,780)	(25,127)	(44.3)	(59.2)	(4.7)	(6.0)
Housing.....	3,399	5,493	8,974	61.6	63.4	6.2	6.3
Health.....	1,523	1,113	688	-26.9	-47.2	-3.8	-7.7
(Health incl. all health care services).....	(1,523)	(2,521)	(4,168)	(65.6)	(65.3)	(6.5)	(6.5)
Education.....	246	687	2,465	178.7	258.7	13.7	17.3
All other services.....	5,936	7,079	9,520	19.2	34.5	2.2	3.8
Adjusting entry.....	-168						
Adjusting entry.....	-106						
Total consumer expenditure..	27,288	38,998	59,000	42.9	51.3	4.6	5.3
(Total consumer expenditure incl. all health services)....	(27,288)	(40,406)	(62,580)	(48.1)	(54.9)	(5.0)	(5.6)
(Thousands of persons)							
Population.....	17,483	20,405	23,285	16.7	14.1	2.0	1.7

NOTE: Percentage change calculated from unrounded figures.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Consumer Expenditure

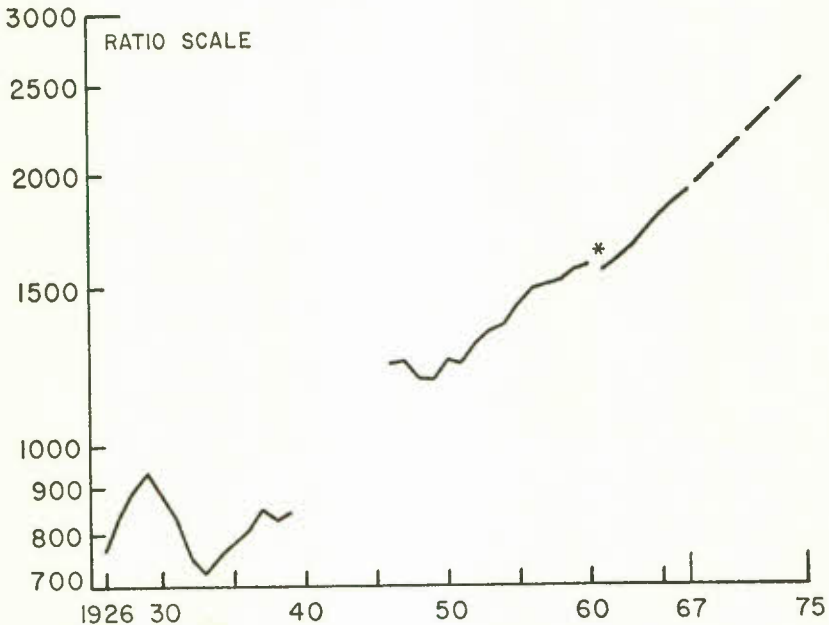
TABLE 4-1—(cont'd.)

Per Capita							
1959	1967	At Potential in 1975	1967 1959	1975 1967	1967 1959	1975 1967	
(1967 dollars)			(Percentage change)		(Average annual percentage change)		
172	248	378	44.1	52.4	4.7	5.4	Durables
32	38	55	18.0	43.7	2.1	4.6	Furniture, carpets, etc.
19	24	38	30.4	55.9	3.4	5.7	Household appliances
							Personal transportation equip- ment, auto repairs, and auto parts and accessories
97	139	214	44.0	53.3	4.7	5.5	Recreational durables
23	32	50	38.7	55.2	4.2	5.6	Sales tax
4	14	22	238.2	53.8	18.5	5.5	Adjusting entry
-2							
181	211	276	16.4	31.2	1.9	3.4	Semidurables
154	167	205	8.2	23.0	1.0	2.6	Clothing, footwear, etc.
24	33	57	34.9	71.6	3.8	7.0	All other semidurables
3	11	15	259.3	32.6	17.3	3.6	Sales tax
-1							Adjusting entry
588	748	955	27.2	27.6	3.0	3.1	Nondurables
							Food and nonalcoholic bev- erages
310	330	371	6.5	12.5	0.8	1.5	Alcoholic beverages
55	70	94	27.4	34.1	3.1	3.7	Tobacco
45	49	57	7.7	17.1	0.9	2.0	All other nondurables
177	234	411	60.5	44.7	6.1	4.7	Sales tax
4	16	21	270.8	36.2	17.8	3.9	Adjusting entry
-3							
626	704	925	12.6	31.4	1.5	3.5	Services
							(Services incl. all health care services)
(626)	(773)	(1,079)	(23.6)	(39.5)	(2.7)	(4.2)	Housing
194	269	385	38.5	43.2	4.2	4.6	Health
37	55	25	-37.4	-53.7	-5.7	-9.2	(Health incl. all health care services)
(87)	(124)	(179)	(41.9)	(44.9)	(4.5)	(4.7)	Education
14	34	106	138.8	214.4	11.5	15.4	All other services
340	347	409	2.2	17.8	0.3	2.1	Adjusting entry
-10							
-6							Adjusting entry
1,561	1,911	2,534	22.4	32.6	2.6	3.6	Total consumer expenditure
(1,561)	(1,980)	(2,688)	(26.9)	(35.7)	(3.0)	(3.9)	(Total consumer expenditure incl. all health services)

CHART 4-1

REAL CONSUMER EXPENDITURE PER CAPITA

(IN 1967 DOLLARS)



*From 1961 on, government-financed health care services are excluded from consumer expenditure.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

The annual growth of consumer expenditure per capita is estimated at 3.6 per cent for the 1967-75 period (Chart 4-2). This would produce a 1975 level of consumer expenditure of over \$2,500 per person in terms of the purchasing power of the dollar in 1967, when consumer expenditure averaged \$1,910 on the same statistical base. If estimated outlays for medicare and hospital insurance are also counted as consumer expenditure (as they are prior to 1961), the increase in consumer expenditure per person becomes 3.9 per cent annually.

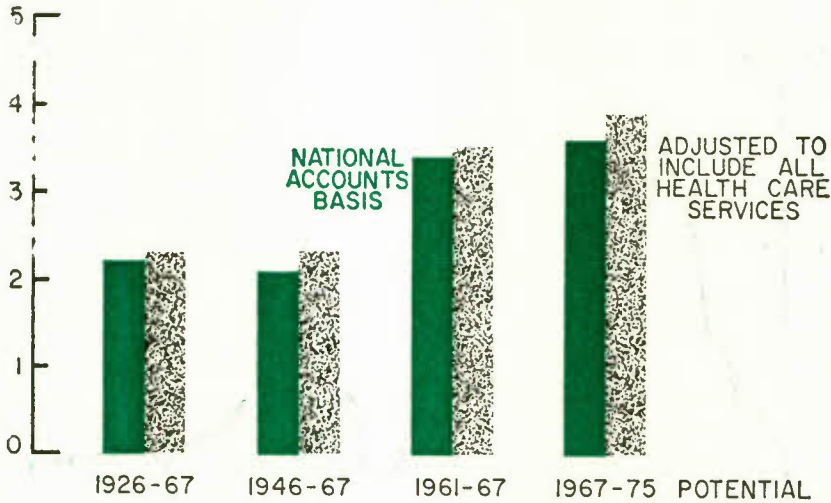
This growth rate is impressive by any historical standard. Coupled with the 1961-67 high-growth period, it represents the longest and steepest sustained increase in consumer expenditure over the four decades for which statistics are available.

Consumer Expenditure

CHART 4-2

CHANGE IN REAL CONSUMER EXPENDITURE PER CAPITA

(AVERAGE ANNUAL PERCENTAGE CHANGE)



Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

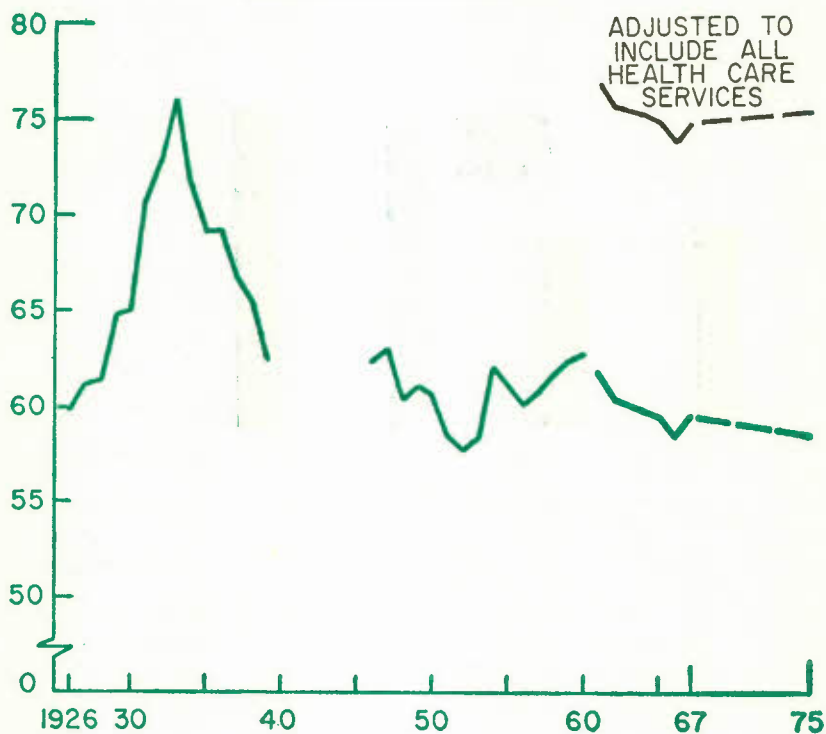
Nevertheless, this astounding potential increase in private consumption is in line with the estimated growth in total output—provided the economy attains the 1975 potential and the approximate pattern of demand possibilities outlined in Chapter 2. Indeed, this large growth in consumption is consistent with stability or even a decline in consumer spending as a percentage of Gross National Product. As was emphasized in Chapter 2, however, the share of potential output available to the consumer sector depends on the factors governing the growth of government expenditures, foreign trade and investment—factors discussed further in Chapters 3, 5 and 6. Chart 4-3 also shows what consumption as a percentage of Gross National Product would have been in 1961-67, and is estimated to be to 1975, if all health care services (including those paid for by governments as well as by individuals) were included in consumption.

Rising after-tax real income affects the volume of consumption of consumer goods and services in different ways. The demand for some items, such as housing, automobiles and health services increases at a faster rate than the growth of average incomes. The consumption of others, such as food, clothing and furniture, usually lags behind the

CHART 4-3

CONSUMER EXPENDITURE AS PERCENTAGE OF
GROSS NATIONAL PRODUCT

(BASED ON CONSTANT DOLLAR DATA)



Note: The levels of the lines in Charts 4-3 to 4-7 depend on the choice of the base year (in our case 1967). However, the general trend of the lines is little influenced by the choice.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

growth rate of income. In still other cases—alcohol, for example—consumption tends to remain a fairly steady proportion of income. The estimates of various categories of consumption to 1975 in this Chapter are based on a study of how individuals have allocated their rising income among various goods and services in the past, and therefore reflect individual tastes and preferences. Other factors influencing the consumption of a particular product or service include prices, the age composition of the population and social habits. We recognize that changing combinations of factors will affect future spending patterns, but we believe that reasonable and useful estimates

Consumer Expenditure

of future consumer expenditures can be calculated on the basis of past consumer preferences.¹

DEMAND COMPONENTS

The actual pattern of average consumer expenditure on particular commodities and services for 1967 and estimates for 1975 are summarized in Table 4-2.

TABLE 4-2—COMPOSITION OF CONSUMER EXPENDITURE
PER CAPITA

	1967	At Potential in 1975	Percentage Change 1967 to 1975
	(1967 dollars)		
Housing.....	269	385	43
Food and nonalcoholic beverages.....	330	271	13
Transportation equipment.....	139	214	53
Clothing, footwear, etc.....	167	205	23
Health services*.....	124	179	45
Alcohol and tobacco.....	119	151	28
Education.....	34	106	214
Sales tax.....	40	57	42
Other semidurables (chiefly glassware, chinaware and household textiles).....	33	57	72
Furniture, carpets, etc.....	38	55	44
Recreational durables.....	32	50	55
Household appliances.....	24	38	56
All other nondurables.....	284	411	45
All other services.....	347	409	18
Total.....	1,980	2,688	36

*Adjusted to include all health care services.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

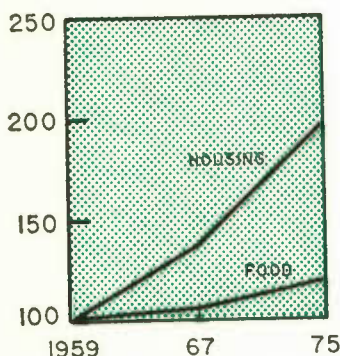
¹A series of Staff Studies on this subject are in preparation; included will be a detailed description of the methodology used as a basis for the estimates presented in this Chapter.

Perspective 1975

The following notes on each of these expenditure components are accompanied by small charts showing, on the basis of 1959 equaling 100, the recent and estimated future growth in consumption on a per capita constant-dollar basis.

Housing expenditures are expected to grow rapidly over the 1967-75 period, reflecting rapidly rising incomes and the tendency of Canadians to spend more than a proportionate amount of the increase in their incomes on housing. By 1975, housing—defined to cover most forms of shelter, including the rental value of owner-occupied houses—is expected to supplant food as the largest single item of consumer

expenditure. Total expenditure on housing is expected to rise from \$5.5 billion in 1967 to nearly \$9 billion in 1975 (in 1967 dollars).



Food consumption, including non-alcoholic beverages, is expected to grow on a per capita basis only 1.5 per cent a year between 1967 and 1975. This increase, although the smallest for any individual component of consumer expenditure discussed in this Chapter, would nevertheless be greater than in the preceding eight-year period. The estimate makes allowance for the tendency of consumers

to upgrade the quality of their food purchases in prosperous times and also for the continuing shift towards frozen, processed and prepackaged products.

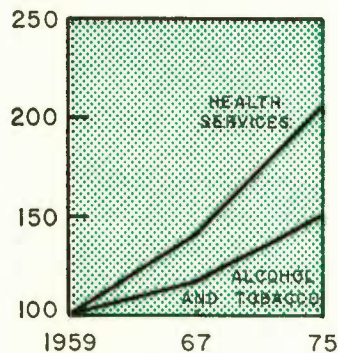
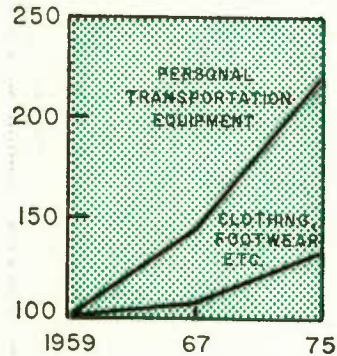
Transportation equipment will surpass clothing and footwear as the third most important consumer item by 1975. This category includes automobiles, trailers, motorcycles, bicycles, auto parts and accessories. The impressively high growth trend in the past—an increase in per capita consumption averaging 4.7 per cent a year over the 1959-67 period—created a huge, relatively new, car stock in 1967. However, consumer spending on cars tends to rise as a proportion of growing incomes, and a further increase in the growth rate is expected, to 5.5 per cent a year on average from 1967 to 1975. On this basis the total consumer market for personal transportation equipment would approach \$5 billion in 1975, compared with less than \$2 billion at the start of the 1960's.

Consumer Expenditure

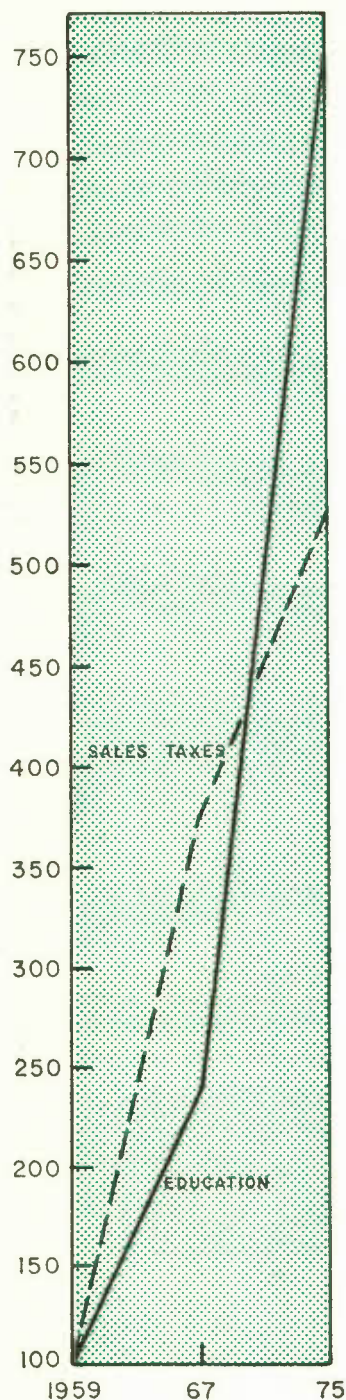
Clothing and footwear, although a very substantial component of consumer expenditure, has displayed a relatively sluggish growth rate, well below that of total consumption. However, rising average incomes will have a substantial effect on this group and an acceleration of per capita consumption to 2.6 per cent is expected, compared with an annual increase of 1.0 per cent in the 1959-67 period. Even this, however, will not be sufficient to prevent a further decline in the relative importance of this group.

Health services have taken an ever-increasing share of total consumption. With the growth in personal after-tax income, Canadians tend to increase their spending more than proportionately on medical, dental and hospital care, prepaid medical schemes, accident and sickness insurance and similar services. This trend is expected to continue to 1975. The tendency of the demand for health services to grow faster than income has important implications for government-financed health schemes and these are discussed in Chapter 3.

Alcohol and tobacco took almost as great a portion of the consumer's dollar as health services did in 1967. Consumption of alcohol tends to grow roughly in line with income, but there is expected to be an increasing per capita growth rate to 1975, as a rising proportion of Canada's population reaches the legal drinking age. On the other hand, tobacco consumption has shown a relatively moderate growth trend in recent years. The longer-term historical experience of a growth rate of about 3 per cent per year has been moderated to 2 per cent for the 1967-75 period in view of increasing public concern over the adverse effects of smoking on health (and even this estimated rate could prove, if anything, to be too high).



Perspective 1975



Education expenditures in the consumer sector are expected to exceed the breath-taking advances in the 1959-67 period and will outpace all other items discussed here. It should be noted that the chart showing education spending is drawn to the same scale as the others in this section. The education category includes all current expenses of universities (including the contribution of governments), plus all private expenditures on schools and educational courses, including school materials and supplies. It does *not* include the public school system or university capital expenditures. The most important factor contributing to the stepped-up rate of per capita education spending to over 15 per cent per year for 1967-75 (compared with 11½ per cent per year in the preceding eight years), is the extraordinarily high growth rate anticipated in university enrolment. Projections prepared for the Council indicate that university enrolment would more than double over the eight-year period.

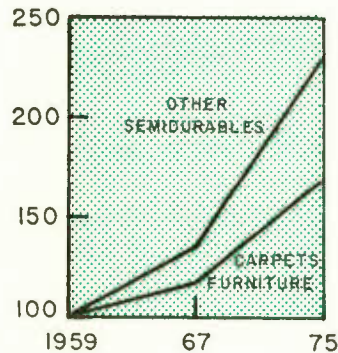
Retail sales taxes have taken a rising share of the consumer's dollar due to the very sharp increase of such tax rates in recent years. The analysis in this Chapter has not allowed for any further increase in sales tax rates between 1969 and 1975. Nor have we assumed any extension of such taxes to items not presently covered. Therefore the growth of retail sales taxes has been assumed to be roughly proportionate

Consumer Expenditure

to the consumption of goods on which they are now levied.

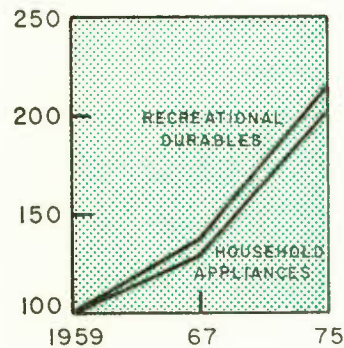
Other semidurables consist mainly of glassware, chinaware and household textiles. While these items take only a modest part of the consumer's total expenditures, they are fairly sensitive to changes in average income. The expected growth rate of this group, an average of almost 9 per cent a year to 1975, is one of the highest among those discussed in this Chapter.

Furniture and carpets are items on which the average Canadian consumer has shown little tendency to increase his spending. Certainly the increase has been well below that of his real income over the longer run. However, the increase that did occur was mainly concentrated in years of substantial income increases. Thus, under the conditions of rapid income growth anticipated for 1967-75, an increased rate of spending on furniture and carpets is indicated, to about 6.4 per cent a year compared with 4.1 per cent in the preceding eight-year period.



Recreational durables include radios, televisions, record players, pleasure boats, sporting and camping equipment, cameras and similar items. The increasing material well-being of Canadians is reflected in the growing demand of leisure-time goods. This demand shows a past growth rate considerably in excess of income growth and it is reasonable to expect that this will hold true in the 1967-75 period as well.

Household appliances are another group on which consumers tend to spend a rising proportion of their incomes as the latter grow. It is noteworthy that even this group, the smallest one discussed in this section, can be expected to constitute a market of nearly a billion dollars (in 1967 purchasing power) by 1975.



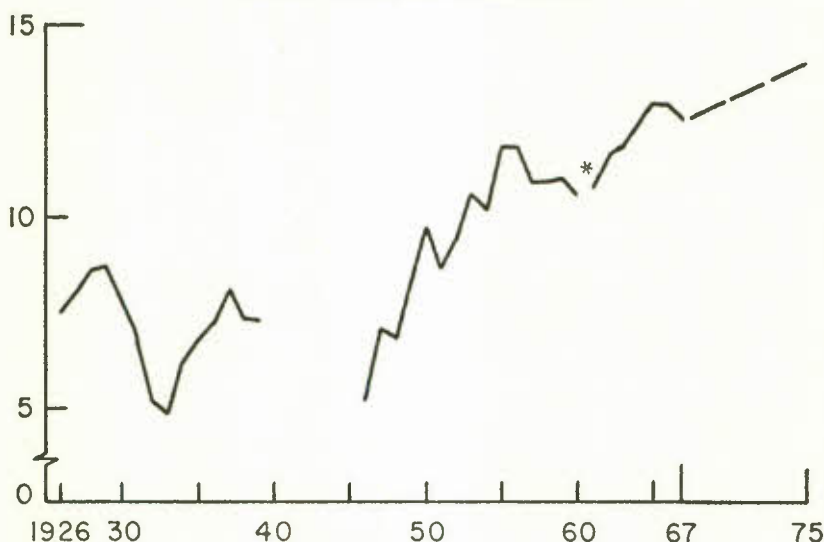
SUMMARY BY MAJOR AGGREGATES

The main trends in consumer expenditure emerge more clearly when the various items considered above are regrouped under the broader headings of durables, semidurables, nondurables and services.

Durables—The consumption of durable goods such as automobiles and major appliances is expected to show very strong increases in the 1967-75 period, surpassing the large gains of the preceding eight years. Expenditures on durables will continue to rise as a share of total consumption.

CHART 4-4
DURABLES AS PERCENTAGE OF TOTAL CONSUMER
EXPENDITURE

(BASED ON CONSTANT DOLLAR DATA)



Note: See Note to Chart 4-3.

*From 1961 on, government-financed health care services are excluded from the consumer expenditure total used as a basis for the calculations in this Chart.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Chart 4-4 shows that consumption of durables has increased much faster than total consumption, particularly in the postwar years. This reflects the tendency for the demand for durables, at least under generally strong and sustained growth conditions, to outstrip growth

Consumer Expenditure

in incomes. It should be noted that while total consumer expenditures grow in a relatively stable manner, expenditures on consumer durables are highly volatile. Because of their durability, replacement of old items is usually postponable. The purchase of "big ticket" items is usually bunched in years of strong income growth. Once purchased, further outlays on the same item are unnecessary for a number of years.

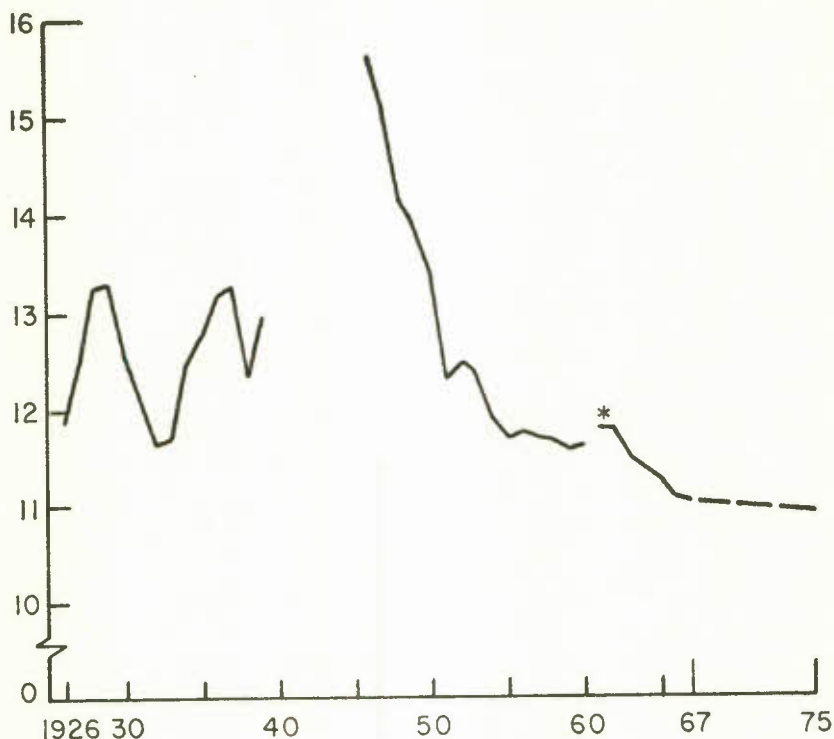
In addition, the postwar decline in the price of durable goods in relation to the price of consumer services encouraged consumers to substitute durable goods for services. For example, automobiles are a partial substitute for public transportation, household appliances for domestic services, recreational durables for entertainment services. A continuation of shifts in relative prices would continue to produce similar substitution in the future.

Semidurables—These include china, silverware, footwear, clothing, other household textiles and similar goods. They have many characteristics in common with durables, but generally they are neither as long-lasting nor as expensive. Over the past 40 years they have tended to decline as a percentage of total consumption and we expect a further decline in the 1967-75 period (Chart 4-5). The primary reason is the tendency of clothing and footwear consumption to grow at a rate which is somewhat below that of total consumption generally; nevertheless, the growth rate for these items could be considerably higher than in the preceding eight years. Total consumption of all semidurables is expected to rise by almost 50 per cent over the projection period.

It may be argued that the unprecedented increase in the rate of net family formation—expected to be twice as large in the next eight years as it was in the 1959-67 period—will create strong demand for durable and semidurable goods. High and rising levels of new household formation will undoubtedly be a significant factor tending to increase demand, but it may be questioned whether the effect is as great as generally believed. There are presently more than five million households in Canada. Our projections indicate that new households will be formed at the rate of about 180,000 per year from 1970 to 1975, a rate that is more than 50 per cent higher than in 1960-65. But this stepped-up growth is still small in relation to the existing stock of households. Rising incomes should therefore be seen as a much more powerful factor than family formation in determining the demand for durables and semidurables.

CHART 4-5
SEMIDURABLES AS PERCENTAGE OF TOTAL
CONSUMER EXPENDITURE

(BASED ON CONSTANT DOLLAR DATA)



Note: See Note to Chart 4-3.

*From 1961 on, government-financed health care services are excluded from the consumer expenditure total used as a basis for the calculations in this Chart.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

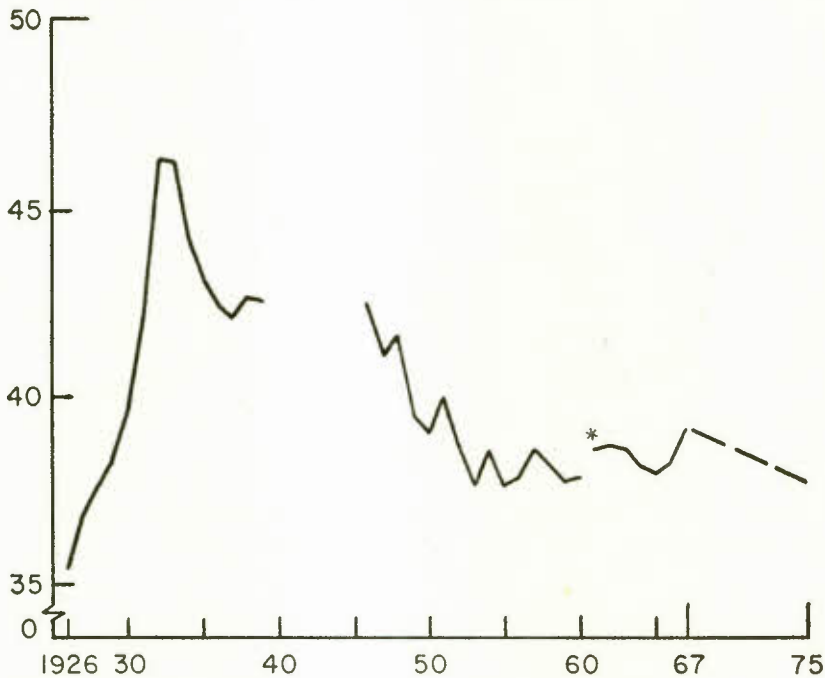
Nondurables—These include food, liquor, tobacco, fuel, cosmetics, and other items. The demand for these items tends to adjust only gradually to income changes. Their share of total consumption has fallen in the postwar period. Although the rate of decline can be expected to moderate somewhat, it would appear to be highly doubtful that there would be a reversal of the general trend (Chart 4-6).

Services—Consumer services cover a wide range of elements. Some—for example, health care, housing, education and communication—tend to grow faster than incomes. Others such as public trans-

Consumer Expenditure

portation and entertainment services have lost ground. Whether some of these declines may end is open to speculation.

CHART 4-6
NONDURABLES AS PERCENTAGE OF TOTAL
CONSUMER EXPENDITURE
(BASED ON CONSTANT DOLLAR DATA)



Note: See Note to Chart 4-3.

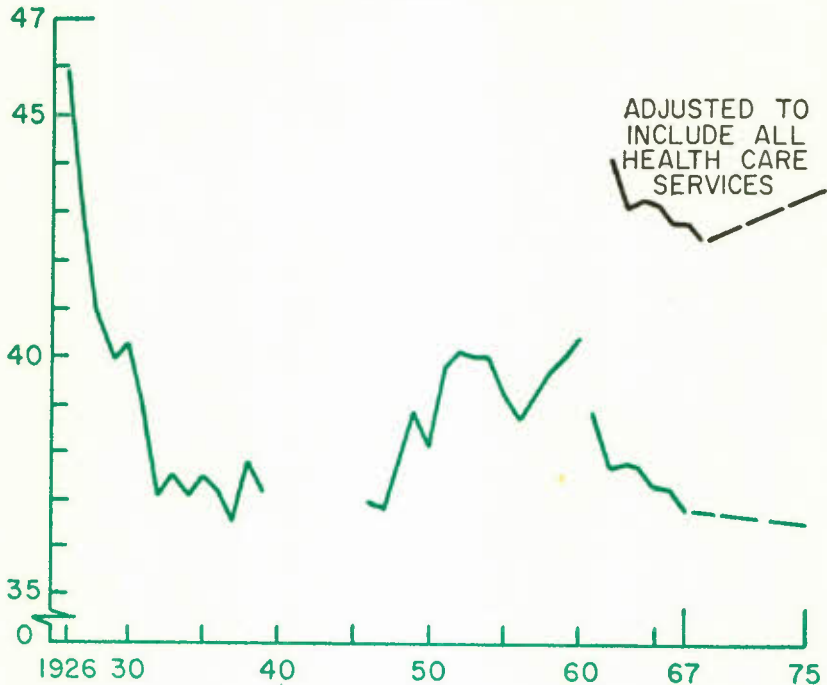
*From 1961 on, government-financed health care services are excluded from the consumer expenditure total used as a basis for the calculations in this Chart.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Consumer expenditures on services are expected to grow about in line with total consumption. This may seem at variance with historical experience, which suggests that spending on services usually grows faster than total consumption. However, the discrepancy is explained by the transfer of medicare and hospital insurance to the government sector. Had these items remained in the private consumption sector, consumer expenditure on services by 1975 could return to around the levels achieved in the early 1960's (Chart 4-7).

CHART 4-7
SERVICES AS PERCENTAGE OF TOTAL CONSUMER
EXPENDITURE

(BASED ON CONSTANT DOLLAR DATA)



Note: See Note to Chart 4-3.

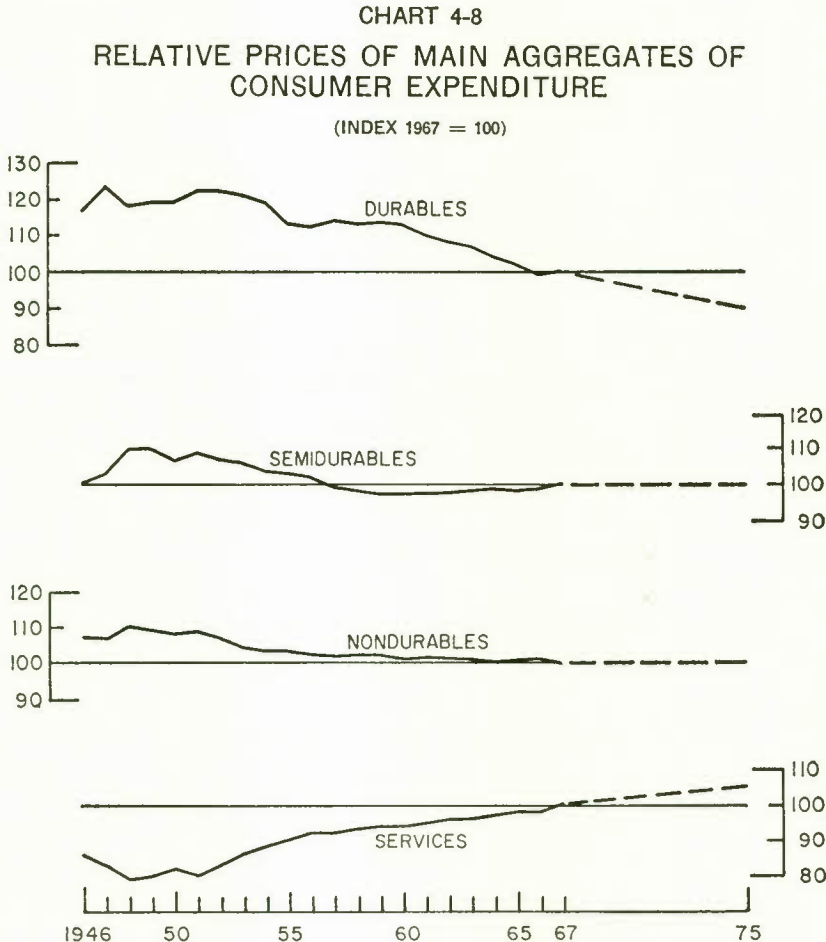
Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

DISTRIBUTION OF CONSUMER SPENDING

The discussion so far has dealt with consumption only in real or volume terms. To project the distribution of the consumer's dollar by 1975 it is necessary to take into account changes in relative prices between individual goods or product groups. Chart 4-8 indicates that in the early postwar period, the prices of durables were very high compared with the prices of all consumer goods and services. There was a huge, pent-up demand for durables, a legacy of the Great Depression and the Second World War. By the early 1950's, consumers had greatly reduced this great accumulated backlog of demand for durables. During the 1950's, many factors—including the effect of automated production methods—contributed to large productivity gains in Canadian manufacturing, and were increasingly

Consumer Expenditure

reflected in price levels. The price of durables, in relation to total consumer expenditures, began to fall. It is reasonable to assume a continuing decline during the 1967-75 period, though at a less steep rate.



Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

In the earlier part of the postwar period, with automobiles, other durables and housing in short supply, semidurables and nondurables were the main outlet for the large volume of accumulated wartime consumer purchasing power. Therefore, it is not surprising that these products were also relatively expensive at that time. From 1951 on, however, they experienced relative price declines and since 1958 they

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have moved roughly in line with the prices of all goods and services consumed. It is reasonable to assume that the relative price of semi-durables and nondurables will continue to reflect this trend over the projection period.

The consumer services group was relatively cheap in the immediate postwar years. Rents were controlled; public transportation, telephone and postage prices were slow to adjust to the inflationary atmosphere of those times, and the same was true for health and educational services.

The catching-up period began in 1951 and proceeded at high speed until 1956. Since then the relative price of services has continued to rise. But it is worth noting that the price increases in the services sector, in relation to total consumer expenditures, have more recently been less steep than those of the early 1950's. The rate of price increases in the service sector should continue to moderate in the 1967-75 period, in part as a result of a continuing heavy inflow of labour into the service industries. As more people fill the shortages that have existed in the past, the tendency to bid up the price of services will be reduced.

The joint effect of changes in real consumption and relative prices on the distribution of consumer spending in current prices is summarized in Table 4-3. It must be emphasized that the 1975 distribution applies to a total consumption level that will be about 70 per cent higher than in 1967.

TABLE 4-3—PERCENTAGE DISTRIBUTION OF CONSUMER
EXPENDITURE BY MAIN AGGREGATES

(Based on current dollar data)

	1967	At Potential in 1975
Durables.....	13.0	13.4
Semidurables.....	11.0	10.9
Nondurables.....	39.2	37.5
Services.....	36.8	38.2
Total.....	100.0	100.0

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

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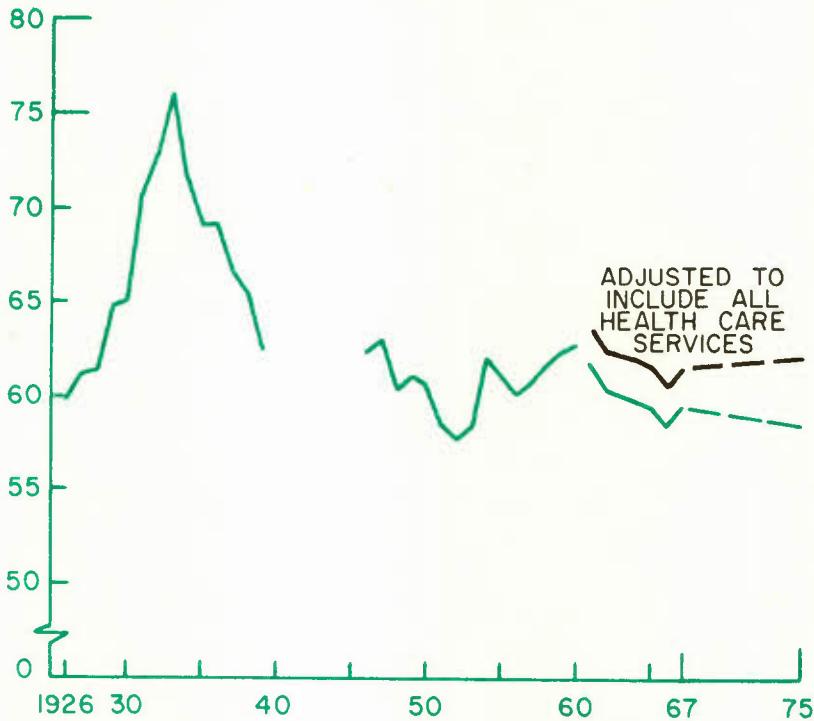
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CHART 4-3

CONSUMER EXPENDITURE AS PERCENTAGE OF GROSS NATIONAL PRODUCT

(BASED ON CONSTANT DOLLAR DATA)



Note: The levels of the lines in Charts 4-3 to 4-7 depend on the choice of the base year (in our case 1967). However, the general trend of the lines is little influenced by the choice.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

growth rate of income. In still other cases—alcohol, for example—consumption tends to remain a fairly steady proportion of income. The estimates of various categories of consumption to 1975 in this Chapter are based on a study of how individuals have allocated their rising income among various goods and services in the past, and therefore reflect individual tastes and preferences. Other factors influencing the consumption of a particular product or service include prices, the age composition of the population and social habits. We recognize that changing combinations of factors will affect future spending patterns, but we believe that reasonable and useful estimates

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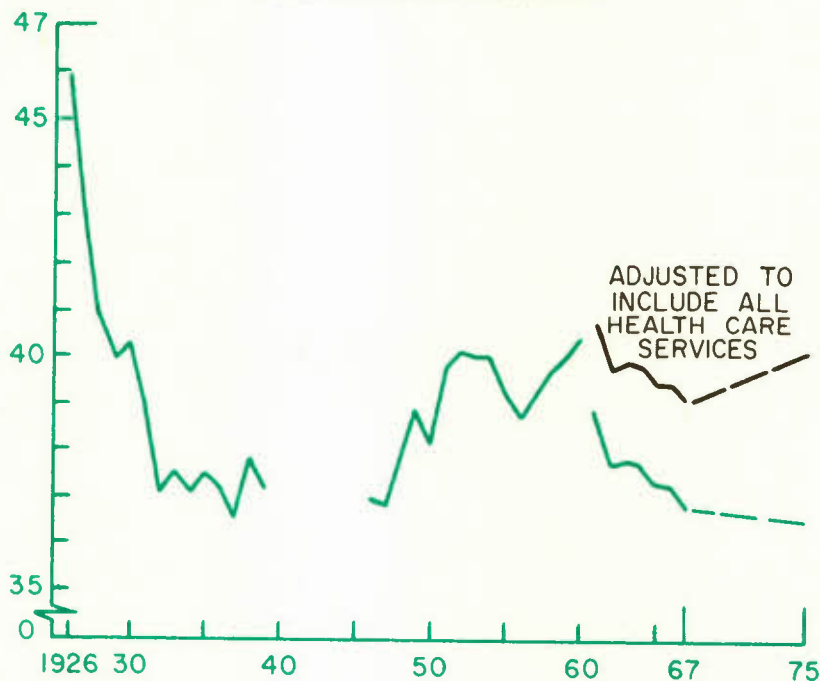
These pages 58 and 68 replace corresponding pages.

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CHART 4-7

SERVICES AS PERCENTAGE OF TOTAL CONSUMER EXPENDITURE

(BASED ON CONSTANT DOLLAR DATA)



Note: See Note to Chart 4-3.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

DISTRIBUTION OF CONSUMER SPENDING

The discussion so far has dealt with consumption only in real or volume terms. To project the distribution of the consumer's dollar by 1975 it is necessary to take into account changes in relative prices between individual goods or product groups. Chart 4-8 indicates that in the early postwar period, the prices of durables were very high compared with the prices of all consumer goods and services. There was a huge, pent-up demand for durables, a legacy of the Great Depression and the Second World War. By the early 1950's, consumers had greatly reduced this great accumulated backlog of demand for durables. During the 1950's, many factors—including the effect of automated production methods—contributed to large productivity gains in Canadian manufacturing, and were increasingly

Consumer Expenditure

The high rate of potential growth in consumer purchasing power to 1975 will offer great opportunities both for expanding markets for existing goods and services and for opening up markets for new types of consumer goods and services, especially for consumer durables and household semidurables. Moreover, this potential growth will give very considerable scope for increased specialization and the lengthening of production runs, which are among the chief sources of productivity growth.

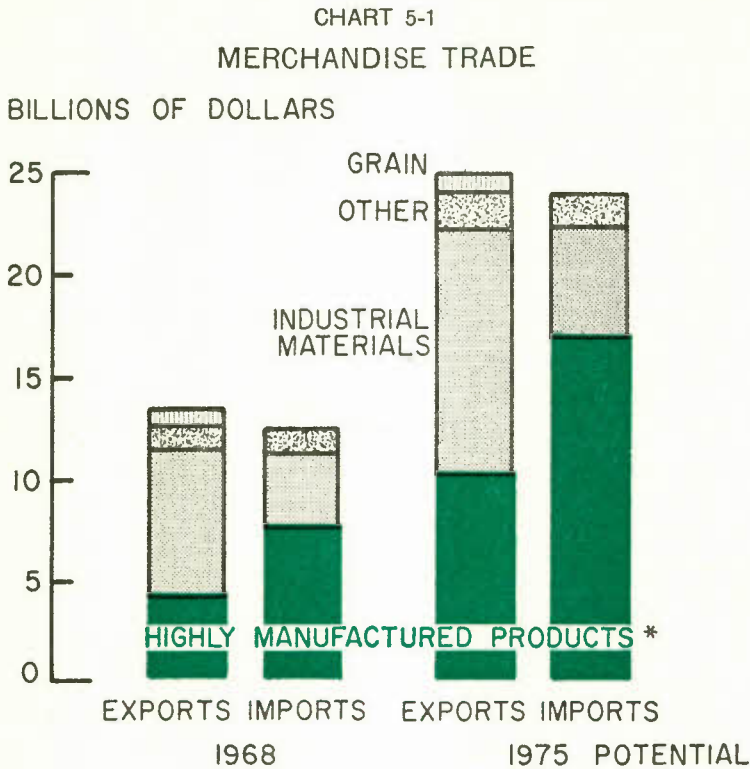
Trade and the Balance of Payments

THE GREAT increase in total demand for goods and services in Canada from now to 1975 will arise, in part, beyond our boundaries—that is, in the foreign demand for Canadian exports. At the same time, rapid economic expansion at home will mean more pressure for imported goods and services, including many that enter into production for exports. On balance, for all goods and services, we expect imports to exceed exports at potential output in 1975, with a deficit of well over \$1 billion on the current account of the balance of payments.

This deficit must be viewed in the context of Canada's increasing economic capabilities. It would, for example, represent a smaller share of total output—about 1 per cent of Gross National Product compared with 2 per cent in 1966, thus continuing a declining trend in evidence for many years. The deficit would have to be financed, of course, through a net inflow of foreign capital to Canada. The role of such foreign investment in relation to total savings and investment in Canada to the mid-1970's is discussed in the following Chapter.

Within this broad picture, we envisage the following patterns of development:

—The total value of merchandise exports is projected to rise at an average rate of about 9 per cent a year between 1968 and 1975 with imports growing at about 10 per cent a year over the same period. By 1975, exports are expected to exceed imports by approximately \$1 billion, compared with the slightly higher 1968 trade surplus of \$1.3 billion (Chart 5-1).



*Excludes food products.

Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

—This surplus will be more than offset, however, by an anticipated 1975 deficit of approximately \$2.3 billion on Canada's international exchanges in the so-called "services" such as travel, freight and shipping, inheritance and migrants' funds, business services, and interest and dividend payments. This compares with a 1968 services deficit of \$1.5 billion.

We recognize that these estimates are subject to many uncertainties. For example, Canada's trade will continue to be greatly affected by the movement of price levels in this country relative to those in the United States and elsewhere, the maintenance of competitiveness through productivity improvement, and above all the existence of a generally favourable international environment.

Our specific assumptions are as follows:

—Canada will achieve her potential annual growth rate of 5.5 per cent a year, on average, between 1967 and 1975.

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- The volume of total output in the OECD countries will rise on average by about 4.5 per cent a year over the same period.
- Canadian export and import prices will be fairly stable (rising by 1.5 per cent per year on average during 1967-75).
- Domestic Canadian prices of tradable goods will rise no faster than such prices in foreign countries, particularly the United States.
- Existing trade agreements to reduce tariffs between countries will be implemented, and the viability of the international financial system maintained. No allowance is made for any changes in policy (such as free-trade arrangements) that might conceivably occur.

Various factors affecting Canada's trade outlook are considered below. These are discussed in two main sections—the influences that are largely international in nature, and those that pertain more closely to Canadian events—although the two sets of influences are closely intertwined. The estimates are then presented in more detail.

CANADA AND THE INTERNATIONAL ECONOMY

International forces shape Canada's trade performance in basic ways. The great export-led expansion of the Canadian economy in the 1960's could not have happened without strong growth in foreign countries, especially in the United States. This section discusses foreign growth, tariffs and other trade restrictions, the world financial system, technology in international competition, and aid to developing countries.

Foreign Growth

A view of growth prospects in the big industrial countries is an essential element in judging our future export potential. We do not yet have the benefit of an OECD evaluation of growth prospects for the 1970's. There are, however, some authoritative national estimates to draw upon. On the basis of these estimates, we consider it reasonable to make a "foreign growth" assumption that the total output of the OECD countries would advance at an average annual rate of about 4.5 per cent to 1975. This would be close to the 4.8 per cent growth rate for combined Gross National Product of all OECD countries in 1960-67 (Table 5-1).

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TABLE 5-1—GROWTH OF TRADE AND PRODUCTION

(Average annual percentage change)

	1960-67		
	Trade Volume*	Industrial Production	Real Gross National Product
United States.....	6.6	5.5	4.7
Japan.....	15.0	12.7	10.2
European Economic Community.....	8.7	5.2	4.5
Britain.....	3.4	2.5	2.9
All OECD countries.....	7.8	5.7	4.8

*Average of merchandise export and import growth rates.

SOURCE: Based on data from United Nations and Organization for Economic Co-operation and Development.

The potential for further trade expansion is large. Trade volume of developed countries has doubled in a decade, and a continuation of strong growth would further stimulate trade, which grows faster than production. But the developed countries are also aiming at goals of reasonable price stability and external balance. Thus Canada's price performance will continue to affect our ability to exploit export opportunities and compete with imports. This subject is considered below in the section on Canadian trade expansion.

International Commercial and Financial Policies

Progress towards freer movements of goods and capital has been substantial during the postwar period. For most nonagricultural products, the multilateral tariff reductions of the Kennedy Round now offer the prospect of benefits of a similar nature to those emerging as a result of tariff removal in the large regional free-trade groups—that is, increased industrial specialization, better use of existing plant, and a more economic organization of new investment. Canadian industry will have to continue to adjust to more competition and to freer export opportunities if the economy is to benefit substantially from these changes.

Less progress has been made in freeing trade in agricultural products, and in modifying the use of nontariff restrictions on trade. Nontariff trade barriers have become relatively more important as tariffs have been reduced. Although they have clearly not stifled the growth

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of world trade in recent years, they are not subject to the same degree of international agreement as tariffs. Thus open or hidden subsidies, restrictive border taxes, discriminatory purchasing, and other governmental practices have operated to retard desirable trade expansion. In the private sector, the problems of meshing the activities of multinational corporations with national goals will require international consultations. We believe that it is very much in Canada's interest that these subjects should enter substantively into future trade negotiations, and that the encouragement of early international preparations for such negotiations should have a high place in Canadian commercial policy.

Monetary arrangements are an integral part of the framework of freer trade. The removal of restrictive trade quotas by "soft" currency countries in the 1950's was achieved only when their balance-of-payments position became sufficiently strong. The 1960's have proved to be a period of strain on the international monetary system; the net supply of gold flowing into official reserves has vanished, while at the same time the levels of world trade and capital flows have risen at a rapid pace. The strains have been reflected in volatile movements of short-term capital, crises of confidence in the exchange parities of particular currencies, and speculation in gold. These have been met by a substantial degree of co-operation among the major countries. In addition, restrictions on capital flows and some trade restrictions have been employed.

Although agreement on sharing the burdens of adjustment between countries with surpluses and deficits in their balances remains a controversial subject, governments appear clearly aware of the vulnerabilities of the system. It is evident that Canada cannot have a good economic performance if the international financial system itself does not work reasonably well, and it is in our interest to promote the viability of this system, along with freer trade and capital movements.

Technology and Trade

It is increasingly recognized that an important link exists between a country's trade performance and its technological and innovative capability. The application of "best practice" techniques in Canadian industry, whether developed in Canada or abroad, is an essential part of the strategy for improving productivity performance and competitiveness in world markets. Moreover, as has been indicated in previous Annual Reviews, the products of the science-based industries are now the fastest growing elements in world trade, and the evidence is accumulating that countries which acquire leadership capabilities in

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such industries can, in some cases, also gain important competitive advantages based on a technological head start. It should therefore also be an important part of our strategy to seek out and exploit areas of technology where the possibility exists for developing strong leadership capabilities—for carving out specialized niches in selected areas.

Canada is too small, however, to be a leader across the board, and there is a clear need for measures to adapt and diffuse foreign advances in technology *rapidly* for the purposes of Canadian production. The economies of small countries are becoming more and more integrated with those of large industrial countries. This process involves increasingly the exchange of parts and accessories used in the production of complex products, or product systems. The ability of a relatively small country to share in the growth of trade and productivity in this way depends largely on the degree to which efficient technology is being applied in its industries. Canadian industry must be able to meet *rising* standards of specification and quality, if it is to participate adequately in the growth of trade in manufactured products.

But there is clearly also room for some truly Canadian specialties in manufactured exports, whether such "unique" products appear from the ingenuity of manufacturers employing well-known technology in a new way, or from innovations based on really new discoveries. To carry out these processes successfully, requires entrepreneurial capacities, able management, skilled labour, and effective application of technology, as well as a general environment conducive to practical innovation. A substantial involvement in international trade in many of these "new product" areas may be especially important for a country such as Canada, in order to spread the costs of innovative activities over a sufficient volume of production to justify the expenditures required to bring such new technologies into production and use.

Finally, it must be stressed that the application of advanced technology to the resource industries is a matter of real and continuing importance in a Canadian trade context. This is a vast and varied subject, ranging from aerial prospecting for exploitable raw materials all the way to measures to reduce unit costs in transporting, processing, and manufacturing resource materials.

Aid to Developing Countries

The 1960's have been named the "Development Decade" to highlight the UN objective of transferring 1 per cent of the Gross National

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Product of advanced countries to developing countries, and achieving a 5 per cent rate of growth of total output in the latter group. The growth and aid targets are being carried forward into the 1970's, as a second Development Decade.

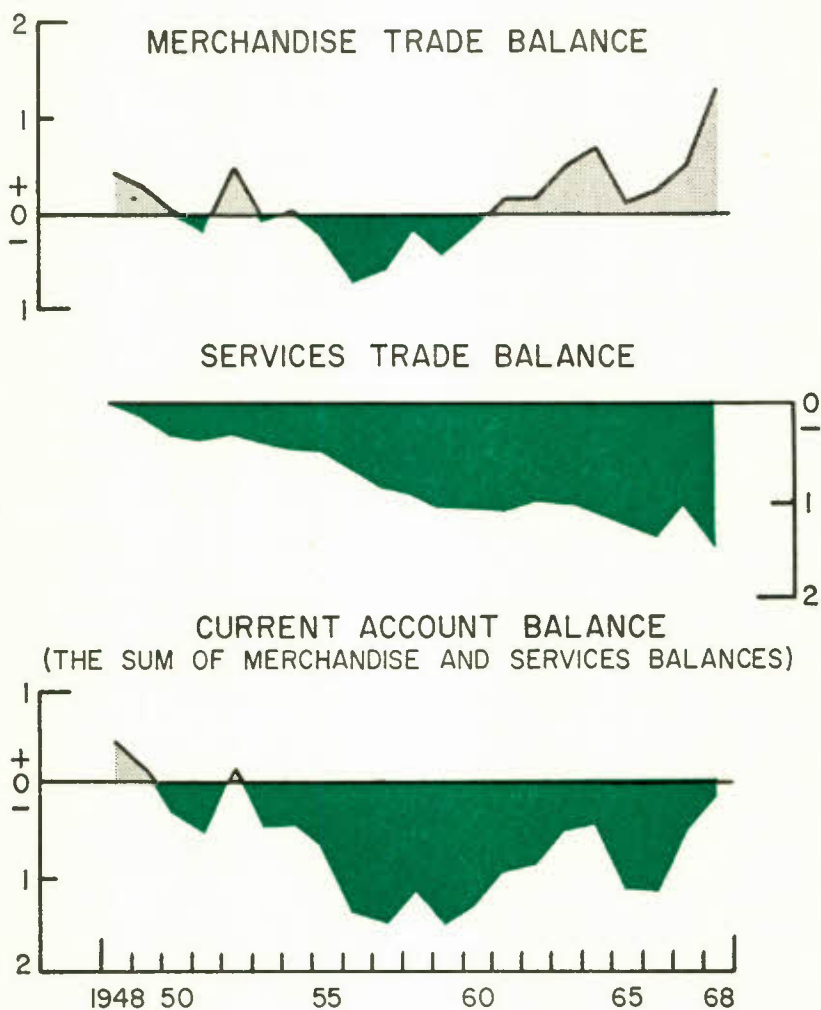
The flow of aid (official and private) from the OECD industrial countries to the developing countries in 1967 amounted to about three-quarters of 1 per cent of their combined Gross National Product, short of the overall target. Because these funds were available, the imports of the aid recipients were no doubt increased. However, much of the trade thus created is tied to particular donor countries as suppliers. The reasons for this are partly political, but they also include balance-of-payments considerations. The donor countries are in general reluctant to allow their funds to be used to purchase supplies from any other source.

Canadian government policy is to strive to meet the UN aid target, "... as quickly as economic and financial conditions permit. . .". Canada's disbursements of roughly \$275 million (official and private) in 1967 amounted to less than one-half of 1 per cent of Gross National Product. A rapid build-up of aid is therefore in prospect over the medium-term future if we are to move towards this target, especially in view of the high rate of growth of potential output. The balance-of-payments effects of a large aid program would depend in part on the way in which aid is given. Presumably Canada could not provide the bulk of its funds for untied aid if the larger donor countries were not doing so. The balance-of-payments results would also be influenced by the proportions of outright grants, easy loans, and harder-term loans in our aid flows. In general, it seems clear that increasing aid will involve a growing outflow of goods and services from Canada, and that resources will need to be freed within the economy to provide for such an outflow.

TWO DECADES OF CANADIAN TRADE EXPANSION

Chart 5-2 below summarizes Canada's overall trade experience since the late 1940's. The deficit on services or "invisibles" increased persistently, with a few exceptions such as 1967 when Centennial Year attractions improved the travel balance by about half a billion dollars. In 1968, the overall invisible deficit was about \$1.5 billion. As a proportion of Gross National Product, it has declined from a peak of nearly 3 per cent in 1959 and 1960 to about 2.3 per cent in each year during 1963-68 (apart from 1967). The principal contributing factors

CHART 5-2
BALANCES IN MERCHANDISE TRADE, SERVICES TRADE,
AND CURRENT ACCOUNT
(BILLIONS OF DOLLARS)



Source: Based on data from Dominion Bureau of Statistics.

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to the persistent growth in the deficit on services have been interest and dividends and business services.

The merchandise trade pattern has changed dramatically. In 1953-60, the goods *deficit* averaged \$300 million annually, while in 1961-68 this became an average *surplus* of \$450 million—a turnaround of \$750 million at annual rates. In this section we consider various influences on these developments, such as the effects of changes in price levels, the automotive agreement with the United States, grain exports and other special factors contributing to a changing pattern of trade.

Price Effects on Trade

One of the most significant aspects of the trade turnabout between the 1950's and the 1960's was that it occurred during a record period of growth of Canadian output. Typically, when the Canadian economy grows more rapidly than the economies of its major trading partners, imports tend to rise more rapidly than exports. That an enlarged trade deficit did not emerge under these conditions in the 1960's is due in part—perhaps in large part—to the influence of relative prices. But other factors also played some role, including the widening supply capabilities of Canadian industry, and a growing confidence among Canadian businessmen in their ability to be internationally competitive.

Import flows were moderated, and export flows stimulated, by the rise in U.S. prices relative to Canadian prices for manufactured goods. This “relative price” change was associated with a movement of the rate of exchange, from a premium on the Canadian dollar in the 1950's to a discount in the 1960's, in terms of the U.S. dollar. Despite the powerful influence of the change in the exchange rate which affected highly manufactured products the most, Canadian trade has developed essentially as a pattern of surpluses for primary products, and of deficits for highly manufactured products¹ (the lower part of Table 5-2).

The effects of price changes are not immediately apparent in the figures in Table 5-2. Canadian exports of highly manufactured products, however, which had averaged only 16 per cent of the value of such imports in 1953-60, moved up to 37 per cent in the 1961-68 period. Moreover, this figure was 55 per cent in 1968. The upward movement of this percentage in recent years is due in part to the effects of the auto agreement on levels of trade (see below). It is,

¹ Throughout this Chapter the term “highly manufactured products” excludes food products.

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nevertheless, quite clear that changes in this percentage followed the movement of the exchange rate from 1950 to 1965, before the auto agreement became important.

TABLE 5-2—MERCHANDISE TRADE AND TRADE BALANCES

	Five-Year Averages				Year
	1949-53	1954-58	1959-63	1964-68	1968
(Millions of dollars)					
Merchandise exports.....	3,717	4,577	5,957	10,476	13,574
Merchandise imports.....	3,602	4,920	5,915	9,886	12,367
Trade balance.....	115	-343	42	590	1,207
Trade balance by sector					
Farm and fish products.....	729	500	560	920	694
Crude materials.....	-325	80	445	946	1,344
Fabricated materials.....	806	988	1,358	1,885	2,421
Highly manufactured products.....	-1,108	-1,942	-2,383	-3,192	-3,384
Other products.....	13	31	62	31	133

SOURCE: Based on data from Dominion Bureau of Statistics.

Chart 5-3 suggests that changes in the exchange rate were strongly associated with subsequent changes in the volume of exports of highly manufactured products. Analysis of the influence of growth and price changes on Canadian trade flows confirms the pattern of influence suggested by the Chart, and also indicates that the exchange rate strongly affected imports of these products.

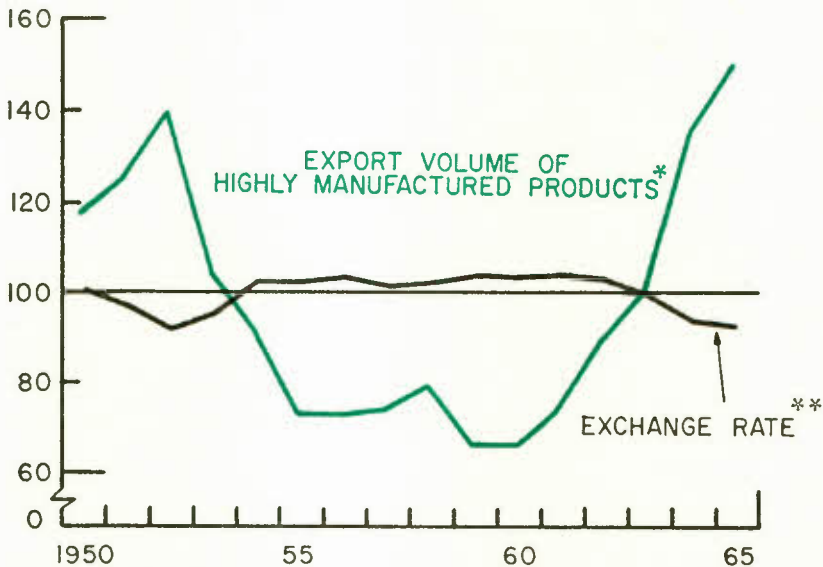
It must be emphasized, however, that there is nothing automatic about the effects of a reduction in the exchange value of the Canadian dollar like that of 1960-62. At that time, the Canadian economy was slack, and although internal prices rose after devaluation, they remained lower relative to foreign prices than in the 1950's. Thus much of the impact of devaluation was felt in a higher level of foreign prices relative to Canadian prices, stimulating exports and moderating imports.

The relatively better price posture of Canadian producers of manufactured products in the 1960's greatly facilitated the processes of specialization via rising two-way trade, both generally and in the "special" cases of defence production-sharing and the auto agreement with the United States. In turn, the altered structure of Canadian

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industry suggests a basic and long-lasting improvement in our competitive ability. There is no doubt, however, that the potential for further rationalization of Canadian manufacturing is large.

CHART 5-3
CHANGE IN EXPORT VOLUME
OF HIGHLY MANUFACTURED PRODUCTS
AND THE EXCHANGE RATE



*Trend equal to 100.

**The Canadian dollar in U.S. cents, plotted with a lag of two years.

Source: Based on data from Bank of Canada and Dominion Bureau of Statistics.

For the purposes of the trade projections in this Chapter, we have assumed that Canadian prices for manufactured goods will be stable relative to such foreign prices. This is a key assumption in the trade balance estimates for 1975. With the increasing flow of manufactured products in world trade, a major route to improving on the trade performance indicated in the estimates is through greater specialization in manufacturing industries to obtain the various economies of scale in production (such as longer runs), and the achievement of a more competitive price performance through improved efficiency in the use of resources. If Canadian prices for manufactured products were to decline relative to foreign prices—particularly vis-à-vis the United States, Europe and Japan—the projected trade balance could increase,

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perhaps substantially. On the other hand, if Canadian prices were to rise relatively, the projected trade surplus could shrink.

Although statistical analyses of Canada's historical experience provide illuminating insights into the role of influences that can be broadly termed "growth" and "relative prices", we must not ignore the fact that these are reflections of deeper realities. These include the quantity and quality of export effort, a systematically professional attitude towards unit cost control in production, and towards export development. They include the ways in which public and private interests manage to diffuse new technology throughout the economy so as to upgrade our productive ability in relation to that of leading industrial countries.

The Automotive Trade Agreement with the United States

The auto pact of 1965 with the United States has also affected the level and apparently the balance of trade. In 1964, Canadian data show a trade deficit in respect of automotive products of about \$650 million, and in 1968 of about \$420 million, although these figures do not take account of other imports of goods and services that may have been generated by developments under the agreement. Between 1964 and 1968, automotive trade has become the most important component of trade in highly manufactured products, rising from 16 per cent to 60 per cent of exports of such goods, and from 23 per cent to 40 per cent of such imports. Thus the agreement has contributed to the trade turnabout during the 1960's. The main economic criteria by which the agreement should be judged, however, are its effects on productivity and on relative prices and costs of products, rather than its effects on the balance of trade or payments. The progress achieved so far in these areas suggests that there are important economic benefits. The outlook appears to be for further increases in two-way trade, based upon further modernization and continuing integration of the Canadian industry into a North American market.

Special Factors

Special influences helped increase Canadian exports in the 1960's, as compared with the 1950's. Among these were two very large wheat sales to the Soviet Union, and the defence production-sharing arrangement with the United States (which closely involves two-way trade). It has often been overlooked that other special factors have tended to reduce exports in the 1960's, as compared with the 1950's—for exam-

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ple, the decline in uranium sales by nearly \$300 million between 1959 and 1967, and the changeover of U.S. strategic materials policy from stockpiling to disposal. *On balance*, these special factors can have contributed relatively little to the movement from trade deficit to trade surplus between the two decades. Canadian grain exports constitute a particular case meriting closer attention.

Canadian Grain Exports

In the earlier part of the postwar period, Canadian grain exports reached a peak of nearly \$1 billion in 1952. From that year until 1960, however, they stagnated. World grain acreage and output rose more than effective demand, under the stimulus of protection and import restrictions in many countries and large-scale export subsidies, particularly by the United States. Although Canadian grain exports moved up sharply over the first half of the 1960's, these adverse influences are still being felt, especially since additional countries have begun to subsidize exports. Despite intensive efforts to liberalize trade in agricultural products, little progress has been made in this direction, although certain international commodity agreements have been concluded. Such agreements are intended to maintain orderly commercial markets, and may be used to provide food as aid. But international trade in agricultural products, including grain, remains distorted by restrictions and subsidization.

The rise in grain exports from 1960 to 1966 stems from the appearance of Communist countries as new importers (Table 5-3). Since

TABLE 5-3—GRAIN EXPORTS

	Annual Averages				Single Years	
	1952-53	1954-60	1961-63	1964-66	1967	1968
(Millions of dollars)						
Wheat and flour						
<i>To Communist markets..</i>	<i>11</i>	<i>20</i>	<i>212</i>	<i>505</i>	<i>248</i>	<i>272</i>
<i>To other markets.....</i>	<i>692</i>	<i>465</i>	<i>532</i>	<i>553</i>	<i>555</i>	<i>471</i>
Total wheat and flour.	703	485	744	1,058	803	743
Oats, barley and rye.....	224	97	53	70	91	53
Total grain.....	927	583	797	1,128	894	796

SOURCE: Based on data from Dominion Bureau of Statistics.

Perspective 1975

China has continued to import, some of this gain can no doubt be retained. But sales to Russia have fallen off more rapidly than expected, mainly as a result of increased Russian farm output—a factor also tending to reduce Canadian grain exports to East and West Europe. At the same time, new seeds, new methods, and favourable weather have contributed to substantial increases in grain output in developing countries. Bumper crops in many countries (including importers) and a softening world market have resulted in large carryovers of wheat, and in a decline in prices. In general, Canada's share of the wheat imports of most countries has declined in the 1960's. At the same time, a massive rise has occurred in the stocks of wheat in exporting countries. These circumstances have brought about a very serious economic situation in the Prairie Provinces, aggravated by unfavourable weather.

Some of the adverse factors are no doubt temporary. But on the basis of a careful review of world production, consumption and potential trade in grains over the medium-term future, the prospects for Canadian grain exports to 1975 do not appear to be encouraging. Indeed, such exports may well be no higher than the 1967 level. In other words, the present Canadian situation reflects basic underlying changes in the world grain economy that could produce virtual stagnation for future grain exports. Prospects for world trade in feed grains are better than those for bread wheat; and Canada's historic concentration on the latter implies that the marketing and adjustment problems may be especially difficult in this country.

This sobering situation raises fundamental questions. It is clearly necessary to seek international restraints on subsidized trade, and to seek a closer tailoring of Canadian products to buyers' requirements. In a buyers' market, it becomes more important than ever to seek all feasible methods to satisfy importers' particular needs. But even more may be required—including shifts of resources within agriculture to alternative efficient uses, and a continuing shift of manpower from agriculture to other sectors of the economy. Particularly in the circumstances discussed above, it will be important to facilitate shifts of both kinds, so that inequitable burdens of adjustment do not fall on individuals. Organizations such as the new Canada Grains Council should be encouraged to maintain a continuous review of long-term developments and prospects on a thoroughgoing basis, so as to provide the best possible advice on how the grain economy ought to adjust to rapidly changing world grain conditions.

Trade and the Balance of Payments

THE BALANCE OF PAYMENTS TO 1975

The merchandise trade estimates in our *First Annual Review* five years ago considerably underestimated the growth of trade after 1963, and the actual improvement in the trade balance. An analysis of the main reasons for these differences will add perspective to the problems of making new estimates to 1975, and will also emphasize the point that these projections are not forecasts; they are based on analysis that is intended to help policy decisions. Table 5-4 compares the early trade projection with subsequent developments. No similar comparison is necessary for services, since the services balance behaved much as was anticipated earlier.

The Table shows that a large part of the general *increase* is attributable to the auto trade agreement, whose effects were not allowed for in the early projection. It also shows that actual growth of output in foreign countries and Canada was greater than assumed in the early projection, thereby generating a higher rate of growth of exports and imports. These two factors account for most of the general difference in *level* of trade. The auto agreement, however, made a relatively small contribution to the favourable trade *balance* in 1968, since imports rose nearly as much as exports.

Part 5 of Table 5-4 is of particular interest for the trade *balance*, since it indicates that prices for Canadian exports rose more rapidly, and prices of imports rose less rapidly, than the early projection assumed. These price movements—which reflect a variety of factors—would appear to explain a major part of the rise in the trade surplus between 1963 and 1968. The faster rise of export than of import prices in the 1963-68 period does not reflect a loss of competitiveness, since Canada increased its share of foreign markets for most exports in this period. Industrial material prices have risen in world markets. Some imported food prices have fallen dramatically. Export and import prices for highly manufactured products have increased at about the same rate.

The effects of the devaluation of the dollar in the early 1960's have persisted and, by stimulating exports and retarding import growth, have contributed more to the export surplus than was allowed for in the early projection. Moreover, the unusually high rate of growth of U.S. industrial production during 1963-68 contributed something to the increased Canadian trade surplus.

Perspective 1975

TABLE 5-4—COMPARISON OF 1963-70 ESTIMATES* OF TRADE WITH EXPERIENCE DURING 1963-68, AND RELATED DATA

1. Merchandise Trade and Trade Balance		
	1970 Estimate	1968 Actual
	(Millions of dollars)	
Merchandise exports.....	10,800	13,574
Merchandise imports.....	11,000	12,367
Trade balance.....	-200	1,207

2. Trade in Automotive Equipment		
	1963	1968
	(Millions of dollars)	
Exports.....	90	2,638
Imports.....	686	3,056
Trade balance.....	-596	-418

3. Growth of Foreign Industrial Production		
	1963-70 Estimate	1963-68 Actual
	(Average annual percentage change)	
United States.....	5.0	5.9
OECD industrial countries**.....	5.5	5.9

4. Growth of Real Gross National Product, Canada and United States		
	1963-70 Estimate	1963-68 Actual
	(Average annual percentage change)	
United States.....	4.7	5.1
Canada.....	5.0	5.5

5. Unit Values of Trade, and Terms of Trade		
	1963-70 Estimate	1963-68 Actual
	(Average annual percentage change)	
Export price index.....	1.3	2.4
Import price index.....	1.3	1.0
Terms of trade***.....	—	1.4

* Economic Council of Canada, *First Annual Review*.

** OECD countries excluding Greece, Portugal, Spain, and Turkey.

*** The ratio of the export price index to the import price index.

SOURCE: Based on data from Organization for Economic Co-operation and Development; U.S. Department of Commerce; and Dominion Bureau of Statistics.

Trade and the Balance of Payments

Table 5-5 presents a possible pattern of trade and payments for 1975 consistent with the assumptions stated at the beginning of the Chapter. The value of total exports of goods is expected to rise rapidly, more than doubling between 1967 and 1975 (at an average annual rate of 10.2 per cent). Strong growth is expected in exports of industrial materials, and especially of highly manufactured products, including automotive and a wide range of other products. The value of total

TABLE 5-5—BALANCE OF PAYMENTS ON CURRENT ACCOUNT

	1957	1966	1967	1968	1975*
(Millions of dollars)					
Merchandise exports					
Grain.....	537	1,215	894	796	900
Industrial materials.....	3,431	5,960	6,338	7,326	12,000
Highly manufactured products.....	369	2,119	3,107	4,244	10,200
Other.....	553	1,031	1,072	1,208	1,800
Total.....	4,890	10,325	11,411	13,574	24,900
Merchandise imports					
Industrial materials.....	2,340	3,320	3,310	3,560	5,400
Highly manufactured products.....	2,510	5,605	6,434	7,630	16,900
Other.....	638	1,146	1,133	1,177	1,600
Total.....	5,488	10,072	10,877	12,367	23,900
Merchandise trade balance.....	-598	253	535	1,207	1,000
Merchandise trade balance adjusted**	-594	224	481	1,295	1,000
Services					
Payments.....	2,492	4,456	4,722	4,985	8,000
Receipts.....	1,635	3,070	3,698	3,509	5,700
Services balance.....	-857	-1,386	-1,024	-1,476	-2,300
Current account balance**.....	-1,451	-1,162	-543	-181	-1,300
			(-1,100)***		

*Based on assumptions stated in the text.

**Adjusted to balance-of-payments basis (i.e. adjusted to reflect timing of financial transactions).

***Adjusted for Centennial effects, including tourism and spending by foreign governments for Expo facilities.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Perspective 1975

imports of goods is also expected to rise rapidly (at an average annual rate of 10.3 per cent), paced by highly manufactured products. An integral part of the balance-of-payments analysis is the anticipation that there would be a net capital inflow equivalent to the current account deficit.

Canada's balance of payments has always been, and will continue to be subject to many uncertainties. Even within the framework of the assumptions and analysis used as a basis for calculating the estimates shown in Table 5-5, the data should not be viewed as neat and precise figures. In our earlier Reviews appraising the medium-term future, we have used a range for our balance-of-payments estimates. Here again, we would therefore suggest that the \$1.3 billion current account deficit should be visualized as a figure within a range of \$1 billion to \$1 1/2 billion in 1975.

The 1975 data for trade in industrial materials and highly manufactured products (other than auto equipment) were estimated on the basis of growth prospects in Canada and abroad, having some regard to the possible effects of the Kennedy Round tariff reductions. For exports of materials, there is also the consideration that markets for forest products and minerals will be firm under high growth conditions in the 1970's.

There is no long, historical period from which to derive relationships for projecting trade in automotive products. The automotive industry has become larger and a great deal more specialized since 1965, and total trade in automotive products nearly quadrupled between 1965 and 1968. Thus the period before 1965 is scarcely comparable with the present, with the industry restructured and using much longer production runs. The period since 1965 is also not typical of the future, in the sense that the 1965-68 rates of change cannot be sustained indefinitely. The process of integration of the North American industry, however, is still progressing after 1968. For these reasons, the analysis assumes that automotive trade will continue to grow for some years at a higher rate than trade in other highly manufactured products, though not as rapidly as in the last few years.

The other components of the trade estimates are mainly foods, whose trade volume tends to rise less rapidly than the growth of markets for all products. The estimate of \$900 million for grain exports in 1975 reflects our view that there may be little growth in this category of exports to the mid-1970's. Indeed, even the attainment of the \$900 million estimate may be difficult.

Trade and the Balance of Payments

The estimated services deficit of \$2.3 billion for 1975 is substantially above that of recent years in dollar terms. But as a percentage of Gross National Product it would fall to 2 per cent in 1975, compared with an average of some 2.3 per cent in the six years from 1963 to 1968 (excluding the Centennial effects in 1967). The services deficit for 1975 is accounted for mainly by the balances on interest, dividends, and business services.

The current account deficit in 1975 (the merchandise trade surplus and the services deficit combined) is estimated to be about the same size as those in each year from 1965 through 1967 if allowance is made for Centennial effects in the latter year. As a proportion of Gross National Product, however, such a deficit would be about 1 per cent in 1975, compared with 2 per cent in 1966.

6

Investment Demand and Supply of Saving to the Mid-1970's

TO ACHIEVE potential output in 1975—that is, an expansion of over 50 per cent in the volume of total output from 1967 to 1975—will require substantially increased investment in business plant and equipment, inventories, housing and social capital. To finance this substantial growth in investment, the economy will therefore also need to generate a very high rate of growth of savings.

We estimate that the stock of business structures and equipment will need to expand by 5.8 per cent per year over the 1967-75 period (Table 6-1). On a per worker basis, this growth would amount to

TABLE 6-1—GROWTH OF REAL OUTPUT, EMPLOYMENT, AND
BUSINESS CAPITAL STOCK

(Average annual percentage change)

	1950-67	1967- 1975 Potential
Output.....	5.1	5.5
Employment.....	2.4	2.9
Stock of business structures and equipment.....	5.3	5.8
Business capital stock per employed person.....	2.8	2.8

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Perspective 1975

nearly 3 per cent a year, about in line with the average annual rate of growth over the postwar period. Such an increase in the capital stock of the business sector would involve an average annual rate of growth in expenditures on new business plant and equipment of 5.8 per cent per year (Tables 2-3 and 6-4).

TABLE 6-2—INVESTMENT DEMAND AND SUPPLY OF SAVING

	1967	At Potential in 1975	1967	At Potential in 1975
	(Billions of dollars)		(As percentage of Gross National Product)	
Demand for saving				
Business gross fixed investment.....	12.5	23.0	19.0	19.5
<i>New residential construction.....</i>	<i>2.8</i>	<i>5.2</i>	<i>4.3</i>	<i>4.4</i>
<i>Business plant and equipment.....</i>	<i>9.7</i>	<i>17.8</i>	<i>14.7</i>	<i>15.1</i>
Non-residential construction.....	(4.5)	(7.9)	(6.8)	(6.7)
Machinery and equipment.....	(5.2)	(9.9)	(7.9)	(8.4)
Government gross fixed investment ..	3.0	6.0	4.6	5.1
Value of physical change in inventories	0.4	1.2	0.6	1.0
Total.....	15.9	30.2	24.3	25.6
Sources of saving				
Government saving.....	3.4	6.5	5.2	5.5
<i>Investment*</i>	<i>3.1</i>	<i>6.0</i>	<i>4.7</i>	<i>5.1</i>
<i>Surplus</i>	<i>0.3</i>	<i>0.5</i>	<i>0.5</i>	<i>0.4</i>
Non-resident saving**.....	0.7	1.5	1.0	1.3
Private saving.....	12.6	22.2	19.3	18.8
<i>Personal</i>	<i>3.3</i>	<i>4.1</i>	<i>5.1</i>	<i>3.5</i>
<i>Business***</i>	<i>9.3</i>	<i>18.1</i>	<i>14.2</i>	<i>15.3</i>
Measured sources of saving.....	16.7	30.2	25.4	25.6
Statistical discrepancy.....	-0.8	—	-1.2	—
Total.....	15.9	30.2	24.3	25.6

*Saving allocated to government investment, including government inventories.

**Net use of resources from abroad; retained earnings of foreign-owned corporations are included in business saving.

***Includes retained earnings of corporate and government business enterprises; capital assistance from government; incorporated and unincorporated business capital consumption allowances and miscellaneous valuation adjustments; depreciation on housing; adjustment on grain transactions; and inventory valuation adjustment.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Investment and Saving

At the same time, the needs for new housing and for social capital will also grow very rapidly through the mid-1970's. The number of new families formed in 1967-75 is estimated to be more than double the number in the preceding eight years. About 1 3/4 million new housing units will be required to accommodate the growth in household formation and to provide for replacement and other needs. It will also generate massive new requirements for water and sewage installations, streets and highways, schools, and hospital and medical care facilities. In addition, there are both large unfilled backlogs and major new needs in such fields as urban transportation, pollution abatement, conservation and urban reconstruction.

Altogether, the estimates suggest that in total, private and public investment outlays in Canada (including inventory investment) would be absorbing about a quarter of potential Gross National Product in 1975 (Table 6-2). This would be a higher proportion than over most of the postwar period, exceeded only in the later stages of the investment booms of the mid-1950's and mid-1960's, when the economy was operating very close to full capacity.

These calculations imply that a very rapid growth in total savings will need to be achieved over the period 1967-75. Also, with a high-consumption economy operating at potential output in 1975, we would visualize some changes from the pattern of savings in 1967, a year in which the savings pattern was considerably distorted by various factors tending to produce an unusually high rate of personal savings, an unusually low rate of business savings, and an unusually low rate of net capital inflow. For example, for the period 1964-66, personal savings averaged 18 per cent of total savings, compared with about 24 per cent in 1967; and in the same comparison, business savings fell from an average of 73 per cent in 1964-66 to 68 per cent in 1967 (Table 6-3). Our estimates for 1975 suggest a return to a pattern of savings more akin to that of the 1964-66 period (Chart 6-4). Given the need for substantially increased government expenditures—increases roughly paralleling the increases in government revenues in a high-growth economy (Chapter 3)—there would not likely be any significant change in government saving from 1967 (as reflected in the overall government surplus position on a National Accounts basis). Our estimate is that all governments together will have budgets that are approximately in balance on a National Accounts basis (in our calculations, a small surplus of \$500 million).¹

¹These savings estimates are based on the level and structure of taxation existing early in 1969. Major changes in the tax structure could substantially alter the pattern of savings without necessarily changing the level of savings.

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The saving-investment estimates imply that less than 7 per cent of our saving needs would be met in 1975 from a net inflow of savings generated outside the country. This level would amount to 1.3 per cent of Gross National Product, somewhat below the average during the 1960's to date.

TABLE 6-3—SOURCES OF SAVING AS PERCENTAGE OF TOTAL REQUIREMENTS

	1964-66	1967	At Potential in 1975
	(Average)		
Personal saving.....	17.9	24.4	16.9
Business saving.....	72.7	68.4	74.8
Government surplus.....	2.1	2.3	2.1
Non-resident saving.....	7.3	4.9	6.2
Total measured sources of saving.....	100.0	100.0	100.0

NOTE: Government saving allocated to government investment is excluded from this Table.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Business Plant and Equipment Outlays

The estimated growth in the physical volume of business plant and equipment outlays of 5.8 per cent per year to 1975 is about in line with the average annual rate of growth in 1950-67. However, outlays for new machinery and equipment should grow more rapidly than outlays for non-residential construction, reversing Canadian experience through most of the postwar period. During the 1950's there was a particularly large surge of new resource-oriented engineering works, including the St. Lawrence Seaway, Kitimat, oil and gas pipeline systems, iron ore developments in Labrador, and major hydro-electric installations. But in the 1960's, machinery and equipment outlays have been rising more rapidly than non-residential construction expenditures, and we anticipate that this trend will continue (Table 6-4 and

Investment and Saving

TABLE 6-4—CHANGE IN BUSINESS PLANT AND EQUIPMENT
INVESTMENT

(Based on constant dollar data)

	1950-67	1961-67	1967- 1975 Potential
	(Average annual percentage change)		
Non-residential construction.....	6.2	6.9	5.2
Machinery and equipment.....	5.3	11.9	6.2
Total business plant and equipment....	5.7	9.4	5.8

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

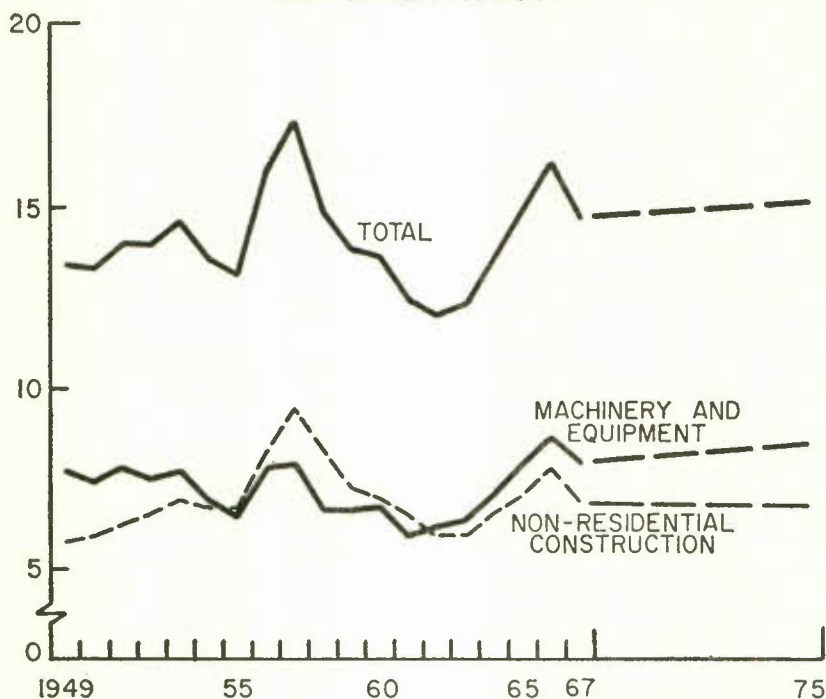
Chart 6-1). By 1975, our estimates suggest that the level of machinery and equipment spending by business firms in Canada will exceed their construction expenditures by about 25 per cent.

Rapid technological change will intensify the need for a continuous upgrading of the stock of capital, particularly in the manufacturing sector as new techniques, processes and products are introduced into production. The need to remain competitive will also require a steady improvement in the quality of capital per worker. The long-term tendency for *machinery and equipment* to become cheaper in relation to the cost of labour—a trend that has been noted historically in both Canada and the United States—will continue to stimulate rapid growth of labour-saving types of equipment.

Increased demand is anticipated for automated equipment and machinery in retail and wholesale trade and in other service sectors, such as finance, insurance and real estate, as computers and related lines of equipment come into wider use. The transportation sector, too, will have major new equipment requirements, especially for aircraft, and there will be growing demand in the communications sector for highly sophisticated types of electronic equipment.

Although our analysis of business *plant and equipment* spending to 1975 has been developed in broadly aggregative terms, certain industry patterns can be indicated. The rate of growth of investment in new manufacturing facilities should continue to exceed the growth of plant and equipment outlays as a whole, as has been the case on average

CHART 6-1
BUSINESS INVESTMENT IN PLANT AND
EQUIPMENT AS PERCENTAGE OF GROSS
NATIONAL PRODUCT



Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

over the postwar period. Since the early 1960's, Canada's manufacturing industries have been expanding very rapidly, and there has been a great upsurge of investment, production, and exports, especially in the area of secondary manufacturing. We would expect these trends to continue, though perhaps with some diminished vigour now that the initial impact of the automotive agreement has been felt.

A large anticipated expansion in retail and wholesale trade will involve an above-average rate of growth in investment in new facilities to service the rapidly growing urban areas of the 1970's. Communications—telephones, satellites, and broadcasting—and air transportation could also show higher-than-average rates of growth in total capital investment outlays for the 1970's. A significant expansion in the construction of large commercial and office buildings in the finance, insurance and real estate sector of the economy will be

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required. The growth in investment in electric power-generating facilities (including nuclear power) and in gas and water utilities to service expanding residential and industrial needs will continue to be very large into the 1970's.

The trends towards higher-than-average rates of expansion in some of the service industries and in secondary manufacturing are in line with structural changes in the Canadian economy over the past two decades (see Chapter 4, *Fifth Annual Review*). We would expect that investment demand in the primary industries as a whole would grow less rapidly than in these other sectors. Investment spending for new facilities in railway and some other forms of transportation would also be expected to grow more slowly in the 1970's.

Housing

The volume of expenditures for new housing in 1967-75 is expected to grow at the rate of 6.1 per cent per year, implying a total increase of about $1\frac{1}{2}$ million new housing units in these eight years. Translated into 1975 dollars, the investment estimate for 1975 would be about \$5 $\frac{1}{4}$ billion or 4.4 per cent of Gross National Product.

This expansion in housing, which largely reflects demographic trends (Table 6-5), would represent a high rate of growth in relation to many other components of demand in this Review. The estimates take into account not only the further rapid growth in new family and household formation, but also the needs generated by population

TABLE 6-5—COMPONENTS OF HOUSING DEMAND BASED ON
DEMOGRAPHIC TRENDS

(Annual averages)

	1961-66	Estimated		
		1966-71	1971-76	1976-81
(Thousands of units)				
Net family formation.....	76	111	135	155
Undoubling.....	11	11	8	6
Net nonfamily household formation..	37	50	56	60
Net replacement demand.....	10	13	21	26
Vacancies.....	6	5	10	10
Total.....	140	190	230	257

SOURCE: Based on data from Central Mortgage and Housing Corporation.

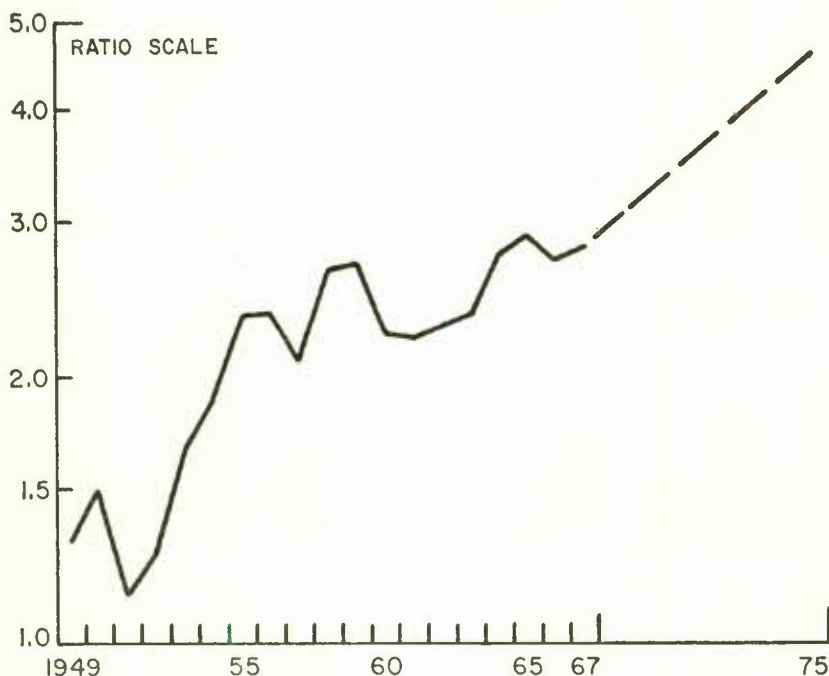
Perspective 1975

migration in Canada, the movement from shared households into separate households, replacement of existing housing as a result of obsolescence and demolitions, some improvement in housing quality, and urban renewal. Allowance has also been made for an increase in the present very low stock of vacant housing; the inadequate level of vacancies has tended to be a powerful factor encouraging increasing shelter costs in Canada.

Over much of the postwar period, Canada has had a very good housing performance in relation to the country's growing needs and demands for housing—generally better than in many other industrially advanced countries. But in the mid-1960's, just at the time when there was a marked acceleration in new family and household formation, new housing expenditures failed to move forward adequately (Chart 6-2). As a result, there emerged a serious shortage of housing in many of the country's major metropolitan areas by 1967. This lag has been

CHART 6-2
NEW RESIDENTIAL CONSTRUCTION

(BILLIONS OF 1967 DOLLARS)



Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Investment and Saving

explicitly recognized in the 1967-75 estimates. They call for a rise in new housing starts from about 165,000 in 1967 to about 250,000 in 1975. Some part of the lag that was evident in 1967 has already been caught up; in 1968, the number of new housing starts moved up to close to 200,000, and a high rate of new starts continued early in 1969.

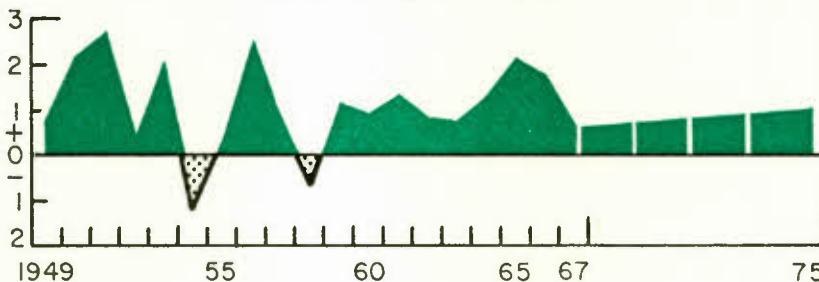
Despite the good overall housing performance in Canada over the postwar period, the nation has devoted only a very small amount of resources to public assistance for housing of low-income families—less than 1 per cent of total outlays for new residential construction over the past 20 years. In the circumstances of the mid-1960's, serious problems have arisen about adequate access to decent housing by these groups. Within the above housing estimates to 1975, there should be room for substantially improved access to good housing by low-income groups; this is a matter to which we return in Chapter 10.

Inventory Investment

Net new additions to business inventory stocks in 1975 are calculated at about \$1.2 billion. No allowance is made for additions to farm inventories, grain in commercial channels and government-held inventories. The ratio of the stock of business inventories to Gross National Product is expected to continue the long-term decline of the past two decades. This trend reflects many factors, including improved methods of controlling and managing inventories, better techniques of estimating current and future requirements for inventories, and the relative growth of the service sectors of the economy.

CHART 6-3

VALUE OF PHYSICAL CHANGE IN NONFARM BUSINESS INVENTORIES AS PERCENTAGE OF GROSS NATIONAL PRODUCT



Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

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In the past, the change in inventories has typically been a highly volatile element of demand (Chart 6-3). In 1953-54 and again in 1956-58, the turnaround on inventory investment was the equivalent in each case to more than 3 per cent of Gross National Product and contributed importantly to the business recessions that occurred in these two periods. But the swings in inventory demand have clearly become much more moderate in the 1960's. We would expect this to continue, especially in an economy growing in a more sustained and smooth way than in the past. On the average in 1967-75, the annual increment to total business inventories could be expected to be of the rough order of \$1 billion per year.

Government Gross Fixed Investment

Investment in "social capital" by governments would need to rise by about 7 per cent per year, in volume terms, from 1967 to 1975. This would imply government capital outlays in 1975 of \$6 billion (in 1975 dollars—Table 6-2). Our calculations, which are based essentially on projections of existing programs, represent rather conservative estimates. They make no allowance for the possibility of greatly stepped-up efforts to deal with such problems as pollution abatement, urban transportation, or public housing. A more detailed discussion of this matter will be found in Chapter 3.

The Supply of Savings at 1975

Canada has one of the highest rates of national saving in relation to Gross National Product of any country in the world, surpassing by a substantial margin that of the United States and Britain, and exceeded only by Japan and a few countries of Western Europe. Private saving (the sum of personal and business saving) has averaged about 18½ per cent of Gross National Product over the postwar period (Table 6-6). In the government sector, the surplus and deficit positions that have been generated over the postwar period have tended largely to cancel out over time, so that long-term public and private national savings have averaged about 18 per cent of Gross National Product. Despite this high level of savings, however, Canada has, in all but one year since 1950, drawn upon additional resources from abroad. Exports of goods and services have been below imports of goods and services; net imports of resources have averaged 2 per cent of Gross National Product over the 1950-67 period.

Investment and Saving

TABLE 6-6—SOURCES OF SAVING AS PERCENTAGE OF GROSS
NATIONAL PRODUCT

	1950-67	1967	At Potential in 1975
	(Average)		
Private sector saving.....	18.5	19.3	18.8
<i>Personal</i>	3.6	5.1	3.5
<i>Business</i>	14.9	14.2	15.3
Government surplus (+) or deficit (-)...	-0.2	+0.5	+0.4
Total national saving.....	18.2	19.7	19.2
Non-resident saving.....	2.2	1.0	1.3
Statistical discrepancy.....	0.1	-1.2	—
Total supply of saving.....	20.5	19.6	20.5

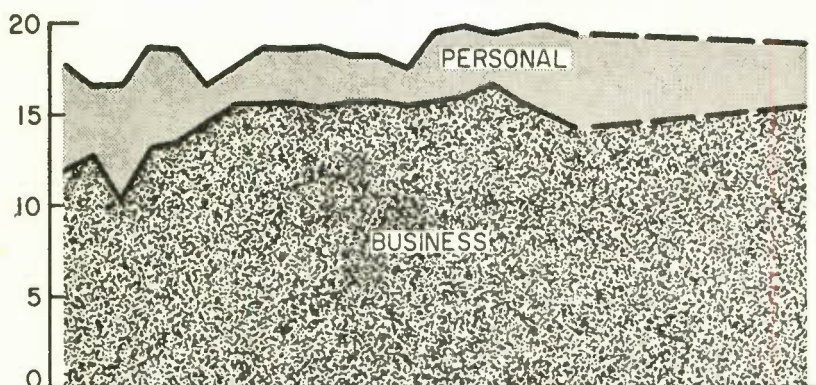
NOTE: Government saving allocated to government investment is excluded from this Table.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

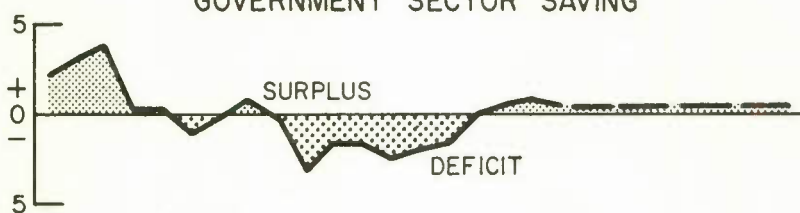
Looking over the period to 1975, the strong demands for saving required to finance Canada's capital investment needs at full potential will be developing in a situation of a continuing world shortage of capital. Not only is the demand for savings high in the industrially advanced countries, in which high rates of economic growth are generally associated with high rates of growth of new investment, but the underdeveloped countries also have very heavy requirements for development capital and are seeking to meet a significant portion of such needs through capital inflows from abroad.

Canada must therefore continue to have a high-savings economy. Our calculations provide for a rate of personal saving at 1975 equivalent to about 3½ per cent of Gross National Product, about in line with the postwar average. Savings in the business sector should rise somewhat in relation to Gross National Product, well above the ratio in 1967 (when profits were relatively low) and somewhat above the average postwar ratio. We would envisage that this rise in business saving (including saving of foreign-owned corporations in Canada) would be met mainly by an increase in the share of capital consumption allowances in Gross National Product, and to a lesser degree from a relatively higher share of retained earnings.

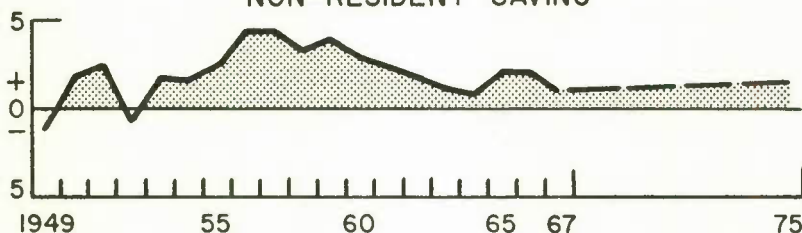
CHART 6-4
SOURCES OF SAVING
AS PERCENTAGE OF GROSS NATIONAL PRODUCT
PRIVATE SECTOR SAVING



GOVERNMENT SECTOR SAVING



NON-RESIDENT SAVING



Source: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

As already noted above, and as shown in Chart 6-4, we would also expect that a small part of the savings requirements at potential output in 1975 would be generated in the government sector, and that we would continue to need to draw to some extent on resources from abroad to supplement national savings under the conditions visualized in the mid-1970's.

Investment and Saving

The large and varied investment needs to be accommodated in Canada in 1975, and the heavy competing demands for capital anticipated both in Canada and abroad to the mid-1970's, make it imperative that available capital be managed with a high degree of competence and efficiency. It is also most important that both domestic and international capital markets should be functioning well, so that savings can be channeled smoothly and efficiently to meet investment needs and priorities. Under recent unsettled conditions in financial markets, this matching of saving to investment needs has been taking place in an uneven and unbalanced way. For example, unacceptably high rates of price advance in North America have produced a marked shift in investor attitudes away from fixed-income securities, and this has given rise to serious financing difficulties and steeply rising costs in some areas of investment. In addition, at the international level, balance-of-payments and monetary instabilities, along with impediments to international capital transactions, have threatened to generate serious international financial problems for Canada. We wish to emphasize that the achievement of Canada's potentials which we have set out in these chapters could be jeopardized by serious financial instabilities; they can only be accomplished if financial markets at home and abroad are working reasonably smoothly and efficiently.

7

Poverty

FROM NOW until at least the mid-1970's there are exciting possibilities for economic growth and development that could bring great benefits to most Canadians. But rapid growth in the national economy will not automatically assure either an adequate participation in the benefits of economic growth among *all* Canadians, or an adequate participation in the process of growth by all those who could play some part in it. Special attention therefore should be focused on the need to achieve a *broad basis of participation* in the future economic development of our country. Among other things, this means that we must move to deal more effectively with the problem of poverty.

Our last Review described the seriousness of poverty in Canada—its large dimensions and its widespread prevalence in all parts of the country. We called for a national commitment to move towards the elimination of poverty. At the same time, we stressed the complex nature of the underlying factors involved in poverty, and hence the need to develop much better information and analysis as a basis for a really effective longer-term strategy for eliminating it. We also indicated that we intended to continue our work in this field; this Chapter is a reflection of our continuing interest in this field.

The main purpose of this Chapter is to persuade Canadians to think about poverty in a new way—a way which reflects its *economic* significance. Historically, the predominant view of poverty has been that it is primarily a human and social problem—a problem of how the

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fruits of the economic system should be shared and human misery alleviated. When poverty has manifested itself as a lack of income, the typical solution has been to transfer income to the poor. When it has manifested itself as a lack of access to particular services, the typical solution has been to provide access to certain services for the poor. This view of poverty appears to be predominant in the present complex of public and private efforts to minimize poverty in Canada, and has resulted in *social welfare* policies being the primary approach to alleviation. However, poverty is an economic problem to a much greater extent than most people have realized in the past. This is not to denigrate the human and social aspects of poverty. These are of vital importance. But there are also important economic aspects to poverty which have been generally overlooked, or at least underemphasized. We therefore attempt here to focus attention on the *economic costs of poverty*, on the *economic effects of poverty on the poor*, and on the *need for creating income-earning capacities and opportunities among the poor*.

Our approach starts from the premise that the greatest assets of a nation are its people and that the most important resources of an economy are its human resources. Our society and our economy are significantly weakened by the widespread poverty that exists in Canada today. To the degree that poverty contributes to the exclusion of individuals and families from the mainstream of society, it contributes to potential social tensions and unrest. To the degree that poverty places an economic burden on the society, it acts as a brake on Canada's economic growth and detracts from the well-being of all Canadians.

The adult poor fall basically into two categories. In one group are those who cannot, or should not be expected to, earn incomes (for example, the aged and the chronically sick and disabled) and those who can and do work but whose income-earning capacity is essentially static (because they are near retirement, or for other reasons). On the other hand, there are those who are poor mainly because they have difficulties in finding or holding steady, rewarding jobs—difficulties arising from *remediable disadvantages*, such as lack of education or training, lack of information about job opportunities, inability to move to known job opportunities, poor work habits, and poor physical or mental health stemming from economic deprivation. These are also usually the first to suffer when unemployment rises.

If all the poor were in the first category, the solution to the problem of poverty might be simply to guarantee them a certain income. But only a minority of the adult poor are in this category. These should be

ensured a decent minimum standard of living, without qualification; their incomes should be fully protected against inflation; and they should be assured of some participation in the rising average real standards of living which the growing productivity in our economy makes possible.

The majority of the poor in Canada, however, fall into the second category. They represent, in economic terms, unutilized or underutilized resources of human capital. Poverty in Canada can be reduced through measures designed to more fully utilize these resources by providing them with better access to job opportunities and through investments in human capital. The result would be to increase the output of the entire society, with potential benefits not only for the poor themselves, but for all Canadians. Policies that reduce poverty by creating new output, and therefore new incomes, are clearly preferable to policies that simply redistribute existing output and incomes. Poverty could be reduced, if not eliminated, by direct income *transfers* but as long as poverty reflects substantial unused manpower resources in the economy, redistributive schemes by themselves are likely to be second-best choices.

THE COSTS AND ECONOMIC IMPLICATIONS OF POVERTY

The burden imposed by poverty on the Canadian economy is largely invisible in the usual aggregative economic measures. This partly explains the widespread lack of public appreciation of its existence. Yet the burden is real, and it takes two forms. These might be termed "lost output" and "diverted output".

Lost output is the additional production of goods and services that the poor would have created had their productive potential been better developed and effectively used. This additional production would, among other things, be reflected in higher personal incomes and purchasing power, and hence also in higher business sales volumes and government revenues. But these goods and services do not get produced and purchased. And such incomes do not get generated.

Diverted output, on the other hand, consists of the goods and services that are not produced because productive resources are diverted from other potential uses into activities made necessary by the failure to eliminate remediable poverty. For example, the existence of substantial poverty in Canada leads to the diversion of resources to deal with more sickness than would otherwise occur; it requires substantial resources to administer public welfare and assistance programs (including many hours of skilled manpower on a voluntary basis for fund

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raising); it requires larger expenditures for protecting persons and property and for administering justice; and in various respects, it places a heavier burden on our educational systems. In these and many other ways, it imposes additional costs on all Canadians in the sense that resources would otherwise have been available for other, more productive and more socially desirable uses.

There is no easy way to measure the total economic costs of lost and diverted output. Nevertheless, these costs are substantial.¹

Before turning to a further consideration of some of the aspects of these costs and to possible means for reducing them, two popular misconceptions should be laid to rest.

First, the real costs of poverty to the economy as a whole do *not* refer to the large government transfer payments that are used to alleviate poverty, such as the transfers of income involved in family allowances, public assistance payments, old age security, unemployment insurance, payments under the Canada and Quebec Pension Plans and tax exemptions.² These transfers are simply a substantial flow of funds passing through the government sector on the way from the "payers" to the recipients of the transfers (many of whom, on examination, turn out to be the same people, and most of whom are nonpoor). The government acts largely as a funnel; apart from the relatively small costs of administration, these flows do not reflect use by governments of the real resources of the economy. The distinction between transfer payments by governments and government programs that actually *consume* resources can be an important one, and one that tends to be obscured when government expenditures are lumped together and regarded as all of a kind. The costs of poverty related to lost and diverted output are *real* costs to the economy, not simply transfer payments.³ It is also relevant to note that to the extent that

¹ *Lost output* estimates have been calculated, under various assumptions, by the Council staff, and are available on request in the form of a technical mimeographed paper.

² It is perhaps not widely appreciated that tax exemptions constitute, in effect, a form of transfer payment. For example, for families with two young children, who are in receipt of family allowances and have annual gross incomes of \$2,700, \$6,500, and \$18,500, the exemptions in effect transfer to each \$0, \$114, and \$270, respectively, in the form of tax savings. In other words, those whose incomes are too low to pay taxes gain nothing, and other families tend to gain in relation to their incomes. Of course, if tax exemptions were to be altered, any such change would have a significant effect on a relatively large number of lower-income families.

³ There may, of course, be some *real* cost to the economy if higher transfer payments to the poor from the nonpoor were to blunt incentives among the latter group. But there is little evidence to support the view that any such adverse effects on incentives would be very significant. Moreover, any such effects would perhaps tend to be offset by some accompanying favourable effects on the incentives of the poor.

shifts in command over goods and services help to make the poor more productive and bring larger numbers of them into employment, they represent a form of investment, essentially similar to business investment, or to increased education and training, or other forms of expenditure yielding longer-term benefits for the whole economy.

The second misconception is an apparently widespread impression that the poor are somehow synonymous with those who don't work or don't want to work. This is simply incorrect. While there may be some voluntary poverty in Canada—for example, in the case of university students who temporarily forgo income in anticipation of later gains—the great bulk of the poor are clearly not voluntarily poor. The analysis of 1961 Census data in the *Fifth Annual Review* revealed that two-thirds of the heads of poor families (on the basis of fairly conservative estimates) were in the labour force and over three-quarters of poor families had *at least* one wage-earner.

Lingering beliefs that the poor generally lack motivation are being undermined by a growing range of studies and evidence to the contrary. On the basis of careful investigations, it would appear that most of the poor are ready to seize appropriate job opportunities when these are available. The real sources of poverty among the potentially employable poor are generally to be found among such factors as a high incidence of inadequate skills and education, a lack of knowledge about how to seek out and exploit job opportunities, sickness, and a repeated thwarting of employment aspirations. Furthermore, some recent research suggests that the aspirations of the poor for economic opportunities and a middle-class style of life may be very strong, and that the desire to participate in a productive way in our society is more often frustrated than lacking.

To these aspects of labour force behaviour and aspirations, which give every evidence of embracing a very large fraction of the poor, must be added the relatively new and growing body of evidence about the development of human abilities. Until recently, it has been assumed that ability (such as reflected in IQ tests) was "given" at birth and that not much could be done to alter it. However, at the very least, environment has been found to play a significant role in the degree to which abilities are developed, and there is an emerging body of evidence supporting the proposition that even basic intelligence is modifiable. Thus the poor—apparently to a very substantial degree—may be no less able to participate in the economy than the nonpoor, and their poverty would appear most often to be a reflection of undeveloped abilities or inadequate job opportunities, rather than a lack of abilities.

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If the unutilized or undeveloped human resources in Canada are potentially highly productive, why has our economic system failed to seek out and harness the potential of these resources? To some extent, this failure appears to be associated with institutional rigidities and attitudes—in the education system, in industry, in labour unions, in governments—which have become embedded in policies and practices that tend to make the economy function in a way that is pervasively discriminatory against the poor. Such discrimination frequently prevents the poor from fully utilizing their skills in productive jobs and restricts their access to opportunities for improving their skills. Even some of the social welfare policies and programs operate, in some respects, with disincentives that make it difficult for the poor to pull themselves out of poverty. Both the removal of such discrimination—often entirely inadvertent discrimination—and better incentives for the poor to develop and use their income-earning abilities would contribute to higher potential output for the whole economy.

In the labour market, the poor are handicapped relative to the nonpoor. The poor tend to lack the resources to explore the best alternative opportunities. They make fewer informal contacts through social groups which might lead to jobs or information about job opportunities. Often the jobs they might fill are not advertised locally, or they are not advertised outside the area in which the job is located. Lack of resources may also handicap the poor when information is sold, as in newspapers or through other advertising media. Minority groups, in particular, as well as recent migrants, tend to have inadequate channels of information and communication.

The costs of transportation frequently put the poor at a disadvantage when they are looking for a job opening, or when they are required to appear in person before receiving a job offer. To the poor, the cost of moving their family to the location of a new job (or, alternatively, the additional expense and hardship of living away from home) is often prohibitive. The programs of the Department of Manpower and Immigration do not appear to be operating with a high degree of effectiveness in relation to the need for overcoming the barriers faced by the poor in this field. Much remains to be done to make the whole complex of these programs—from information and counselling services through the training and mobility-facilitating services—more adequate to meet the problems of those who are most in need of these services. Moreover, increased co-operation between the Canada Manpower Centres and the growing number of job placement services being developed by voluntary social agencies is needed.

Wage discrimination against the poor is also a problem, especially among women and certain minority groups who may be faced with unfair recruitment and employment practices. Discrimination may also be inherent in recruitment practices based on arbitrary educational qualifications not carefully related to the requirements of the job or which fail to take account of the skills and aptitudes of job applicants. Such practices, again, tend to work to the particular disadvantage of the poor. But they may also work to the disadvantage of employers. A re-examination of hiring practices and job specifications by governments and by business firms—in order to match skill levels of job applicants more closely to the whole spectrum of skill needs—would assist in reducing the economic costs of poverty. Such improved matching would also tend to keep costs and prices more stable. Recent U.S. attempts to develop careers for the poor by redefining job specifications in a number of fields, such as health services, education and social welfare, are particularly worthy of note in this context.

Other institutional arrangements tend similarly to discriminate—often unconsciously—against the poor in our society. Attitudes, policies and decisions made by governments, businesses, labour unions, and farm and other private groups sometimes have the effect of deterring the more efficient use and development of human resources. For example, government subsidies (and perhaps some tax exemptions), along with some tariffs, may have the effect of locking individuals into low-income situations. Inadequate attention to the efficient use of both labour and capital in business firms may have similar effects. Some labour union rules and practices may discriminate against the entry of the poor into employment, and some forms of aid to farmers may, instead of promoting viable income growth and resolving other basic problems in agriculture, have instead the ultimate effect of preserving low-income agricultural activities. In both the government and the private sectors, more attention is needed to the implications of decisions that may adversely affect the poor, and to reducing the discriminatory handicaps which they already suffer in seeking opportunities for more productive employment.

The poor are even more pervasively handicapped with respect to educational and training opportunities. The restricted personal resources of the poor deprive them of the chance of making the same investments in training and education that many of the nonpoor take for granted. The outcome is that the least investment is made by the very groups who need it most if poverty and its costs are to be eliminated. Within our public school systems, the low-income child

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frequently does not get the compensatory attention which he needs in order to be able to generate an adequate income in later life. Moreover, there is always a tendency for business firms and governments to undertake too little investment in human resources because they cannot be sure they will be able to retain human capital which they create. Workers migrate, and move from province to province or from firm to firm. Too little attention has been devoted to possible means of offsetting this tendency to underinvest and to developing more appropriate levels of investment in human resources, especially among the poor. It is important that this be done in ways that enhance rather than inhibit labour mobility, for in an age of accelerating technological and other change, our economic system will need increasing mobility if it is to function well.

Economic stabilization policies, too, have considerable relevance for the dimensions of poverty. The use of these policies to achieve sustained and balanced economic growth will tend to hold down and reduce the level of poverty over time. At the same time, serious or persistent inflationary pressures may require restriction of the growth of total demand through restraining fiscal and monetary policies in such a way that unemployment increases. In such a case, the poor may be caught in a situation of diminished employment opportunities, rising taxes (the overall tax system in Canada is regressive at low-income levels—that is, the poor are relatively overtaxed),¹ and diminished availability and increased cost of credit. All tend to fall more heavily upon this minority than upon the rest of society.

Having a more marginal attachment to the labour force, whether through their lower levels of skills, more-checkered employment histories, higher incidence of sickness, or for whatever reasons (studies have revealed a whole cluster of variables that may be responsible), the poor feel the impact most heavily when unemployment rises and job opportunities become relatively scarce. Under such conditions, it is low-income families particularly who are faced with difficulties in finding jobs and obtaining credit. Some are compelled to seek welfare assistance, and growing welfare costs typically emerge in this situation. In short, the burden of maintaining price stability may tend to fall particularly heavily on the poor. In this context, a recent study in

¹ "The schedule of effective tax incidence for the total tax structure is regressive up to an income level of at least \$3,000 and possibly \$5,000, and mildly progressive beyond." Irwin Gillespie, *Studies for the Royal Commission on Taxation*, No. 2, Ottawa, Queen's Printer, 1968, p. 72.

the United States has concluded that while some of the poor may be seriously hurt by inflation—notably the elderly poor—more of them are hurt by high unemployment.¹

THE EFFECTS OF POVERTY ON THE POOR

How does poverty affect the poor? The answer could fill volumes. Some of the effects are quite visible and obvious. Poverty breeds ill health. It engenders a sense of hopelessness and frustration. It frequently means interrupted employment, unrewarding jobs, poor housing and inadequate food. It prevents the poor from participating adequately in the life of the society.

Some indications about the ways in which the poor are deprived and about the degree of their deprivation can be gleaned from an analysis of the 1964 DBS Survey of Urban Family Expenditures. Chart 7-1 displays the relationship between the expenditures of the poor and the average expenditures of the nonpoor. In absolute dollar terms—the difference in the amounts spent—the poor are most deprived of sufficient food, clothing, shelter and transportation. However, viewing the expenditures of the poor as a percentage of the expenditures of the nonpoor, those living in poverty are most deprived, in a relative sense, of transportation, of recreation, of furnishings and equipment, of reading material, of medical care, of personal care, of clothing and of items to complement the formal education system.

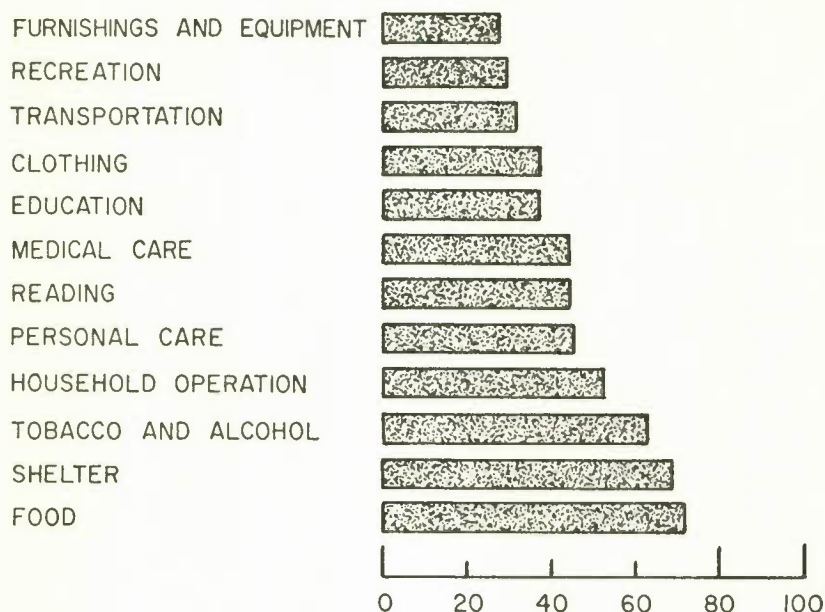
One of the most important consequences of poverty is that it affects the ability of the poor to invest in themselves and thereby to lead more productive lives within the economy. This is illustrated by the lower relative expenditures on categories of goods and services which are particularly important as a basis for skilled and effective labour force participation, such as expenditures on education and reading.

A family's inability to invest in itself is likely to have particularly serious consequences on young children whose potential abilities are largely shaped in the years of early childhood. There is accumulating evidence to suggest that children of low-income families in Canada are most unlikely to have adequate access to needed resources in their early years. Even the possibility of significant child nutrition problems, seemingly so improbable in this country, must be taken seriously. A provincial minister of welfare recently stated publicly that some of the children in his province were too ill-clothed and ill-nourished to

¹ R. G. Hollister and J. L. Palmer, "The Impact of Inflation on the Poor", Discussion Papers of the Institute for Research on Poverty, University of Wisconsin, 1969.

CHART 7-1

AVERAGE EXPENDITURES OF POOR FAMILIES AS
PERCENTAGE OF AVERAGE EXPENDITURES OF
NONPOOR FAMILIES



Note: Poor families are defined on the basis of the 1961 poverty lines set out in the *Fifth Annual Review*, updated to 1964.

Source: Based on data from Dominion Bureau of Statistics.

attend school. It is now well established that malnutrition in the early months of life will not only impair physical growth but may also damage mental development. From the infant born in 1969 to the school drop-out of 1985 is the short span of years that may comprise a poverty generation, and improved understanding of the experience of poor children in Canada is urgently needed if poverty is to be effectively eliminated in Canada in our time.

In the past there has been much concern about the deeply indebted poor. Yet, it is important to keep in mind that ready access to credit for the poor may also be a vitally important factor at certain times to facilitate improved income-earning capacity. For example, credit may be required for the purchase of a used car that may be needed to get to work—or for something as ordinary as the purchase of stockings or clothing for a woman seeking to return to work—and may make all the difference in a family's progress out of poverty.

The fact that the family is the most common economic unit in our society is often forgotten, and the importance to society of the family's economic viability is frequently not fully realized. A family operates in many ways like a business firm selling a product on the market. The inadequate incomes of families in poverty put such families in a position similar to that of managers of firms whose costs exceed revenues. Unable to increase production and sales for various reasons, and unable in the long run to continue even a level of maintenance costs that would permit continued sales, a firm may ultimately be forced out of business. From the viewpoint of the economy as a whole, this may be a desirable result, especially if it frees resources that have been relatively inefficiently used to flow to other, more productive uses. In the case of the family, however, the social and economic consequences for society are quite different. While a firm may go out of business and disappear, the family remains. If the potential abilities of members of the family remain undeveloped and unused, the family members may not only become virtual nonparticipants in the nation's social and economic life, but also a continuing burden on the society. If society is to benefit from the potential abilities rather than merely support the costs of poverty, the adults in the family must be enabled to participate in the labour force currently *and to prepare their children to do so in the future*. Thus *the concept of a minimum standard of living must be based on a definition of the family not merely as a consuming unit, but also as a producing unit*. In our society, a substantial portion of the total investment in human capital is undertaken by family or individual initiatives. Public policies are needed to encourage this private investment process, and help to insulate it against the ravages of poverty.

We believe that one of the central tasks of antipoverty policies should be that of creating or restoring the economic viability of family units and of individuals not in families. This concern, if it is to be operationally effective, will require not only more carefully designed efforts to improve the income-generating capacities of the poor, but also substantially more cohesion and consistency than now exists in the provision of services and opportunities to the poor.

The overall structure of existing efforts in this field is currently one of extraordinary complexity, especially in operational terms, in our communities. Indeed, this structure essentially consists of largely unrelated efforts initiated by the three levels of government and by a great host of private organizations. The range of activities is so enormous that it is even difficult to collect information on their scope and nature. The federal government in 1967 issued an index to Human

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Resources Development Programs which listed over 200 different items. The New Brunswick Government's "Programs for People", listing close to 150 items, is an illustration of a similar effort to compile information about such programs at the provincial level. There are thus literally hundreds of items of legislation, thousands of regulations, and tens of thousands of administrative rules through which government efforts, by themselves, are carried out. To these must be added the vast array of private efforts of many different kinds.

In some communities, municipal or social planning agencies have attempted to compile directories about various forms of services and assistance available from public and private sources. And several cities, including Winnipeg and Ottawa, have attempted to go further, and to relate, at least in a preliminary way, the available services to local needs. But, in general, even reasonably comprehensive information is not readily available on the wide range of existing efforts in the social development field. In these circumstances, it is difficult to assess how well the present spectrum of antipoverty efforts is actually performing in bringing families out of poverty.

At the present time there are a great many undesirable and economically wasteful features associated with existing programs. Perhaps the most striking examples are to be found in the welfare programs. Welfare assistance is provided in a manner and amount that all too frequently undermines, rather than reinforces, the abilities and the aspirations of recipients to participate productively in the economic system. Taxed on incremental income at very high marginal rates, pervasively discriminated against by the economic system as discussed above, and singled out for public notice (a school principal in one Canadian city this year used the public address system to ask children of welfare recipients to stand up and come to his office for textbook vouchers), it is not surprising that recipients are alienated. The system often appears to provoke the very results it should be designed to avoid. In many cases, it discourages earnings, encourages school drop-outs, and creates the paradox of people who would prefer to work being unable to afford to get off welfare. Moreover, it generally does not come into operation in a timely way, so that families may be virtually driven into poverty before help is available. In some provinces it virtually forces the heads of large families with inadequate incomes to stop work in order to get welfare. The entire system urgently needs to be examined with particular reference to its overall economic effects, and to the need for strengthening its preventive and rehabilitative capabilities.

Poverty

Those poor in receipt of public welfare assistance are, however, a minority of the poor, under the rather conservative definition of poverty in our *Fifth Annual Review*. The majority of the poor contribute more to general tax revenues than they receive in the form of government welfare expenditures. Thus the overall incidence of the fiscal system for the "non-welfare poor" is highly regressive. This system too should be examined for its overall economic effects on the poor.

In an attempt to obtain a better understanding, in a practical way, of the actual operation of antipoverty programs at the community level, the Economic Council undertook a limited survey of present activities in a number of Canadian cities early in 1969. From this survey, it is clear that the links between our welfare and manpower policies are greatly in need of review. There appears to be a widespread lack of co-ordination between welfare and manpower services; good co-ordination is needed here to help family units achieve economic viability. It is the poor who particularly need access to manpower programs, and this should be reflected both in the objectives and the operations of such programs in Canada.

Among some of the other results emerging from this survey are the following:

- A general concern that some of the poorest families, who may be the most backward in seeking needed assistance, are being missed by the existing programs, especially in the case of poor farm families.
- Encouraging progress in some communities towards bringing available services closer to those in need, especially through the establishment of neighbourhood centres in which a number of agencies, sometimes including government agencies, are co-operating.
- The inadequate information available to the poor, who often lack knowledge of the scope of welfare and other assistance, of what are their rights (under minimum wage legislation, for example), of eligibility criteria (for training programs, mobility grants, financial assistance through welfare offices), of rights of appeal from administrative decisions (with respect to welfare assistance, for example), of rights in law with respect to contracts (leases, door-to-door sales), of where to turn for advice and counsel (youth services, family planning, legal aid, nutritional consultants and consumer information).
- The unfortunate existence of significant barriers to employment of secondary earners in the family (especially of mothers who

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- wish to work), as a result of the lack of day care nurseries and other ancillary services.
- The forward-looking separate and joint efforts of labour unions and co-operatives to develop self-help initiatives in the nonprofit housing field and to provide family budget counselling.
 - The successful development of a number of community training workshops that are making special efforts to train disadvantaged poor persons in skills useful for gaining employment.
 - Attempts to reduce the difficulties facing especially vulnerable groups—such as single parents, the ethnic minorities in some communities, and the handicapped—in seeking out productive employment opportunities.
 - Constitutional difficulties that impair the effective operation of a number of important programs (such as manpower programs).
 - Growing encouragement and opportunities for the poor to participate in defining their needs as a basis for more effective anti-poverty activities.

Canada's poverty problems are obviously different in a number of important respects from those of the United States. Nevertheless, as we observed last year, there is a great deal to be learned by Canadians from recent U.S. experience—both the successful experience and, even more perhaps, the unsuccessful. The explicit national commitment to eliminate poverty, the setting up of an agency to discover what specific antipoverty measures will work (and when they work, to spin them off to agencies with operating responsibilities), the major effort to co-ordinate all federal human development programs (and beyond this, to move towards better co-ordination among federal government programs, those of the state and municipal governments and those in the private sector), the focus in both the public and private sectors on the creation of job opportunities and increased training for the poor, and the special efforts directed towards enlarging opportunities for their children, are all very much in accord with the approaches recommended here. So too is the willingness to monitor and evaluate the effectiveness of specific programs.

Recent evaluations have in fact resulted in several changes in the structure of U.S. antipoverty efforts:

- Head Start (a preschool program for disadvantaged children) and the Job Corps (a job-training program for disadvantaged youth) have both been spun off from the Office of Economic Opportunity and put under the aegis of government departments which have

been given administrative and operational responsibility for these programs.

- The Office of Economic Opportunity has become a program development agency where new programs will be tested and passed to operating departments when they show clear signs of being effective.
- Increasing numbers of on-the-job trainees are being financed under the Manpower Development and Training Act.
- Head Start evaluations which revealed that few if any tangible benefits from the program were discernible after a child had several months' experience in the regular school system have resulted in more extensive preschool programs, as well as adjustments within the educational system itself, and follow-up programs with the children.
- The business sector has been encouraged to co-operate in placing disadvantaged persons in jobs, and nearly 12,000 co-operating firms placed over 100,000 persons. In addition, certain labour unions in the model cities program have shortened required apprenticeship periods so that more of the disadvantaged workers in neighbourhoods affected by the program could participate.

The relevance of these and other similar programs for Canada should be explored and, if considered appropriate, should be effectively developed.

CONCLUDING OBSERVATIONS

As we emphasized at the beginning of this Chapter, its purpose has been to help to make Canadians think about poverty in a new perspective. The principal theme is that a very substantial proportion of the adult poor in Canada consists of those who either have, or could be provided with, income-earning potentials, and that there is a resulting high economic cost to our society in having failed to discover and implement more effective policies and programs to permit them to utilize these potentials. In other words, when we have such large numbers of poor in the working force age groups, our economy is simply not producing as much as it could or should. Most of our existing policies and programs to assist the poor are not now predicated upon this point of view. We believe that this is a point of view that should have a larger influence on the development of effective antipoverty programs in the future.

At this time, there is little information to guide the appropriate development of such programs. Considerable experimentation and test-

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ing may be needed to find out what programs could work well and efficiently in this field—in effect, a kind of “social engineering” akin to the industrial engineering long ago accepted as an essential basis for the development of complex new industrial products (such as new types of aircraft) or new industrial processes (such as new methods for processing raw materials). It is high time to begin to ask whether we can expect to design and develop highly effective and efficient major programs in the economic and social fields—programs that may involve the expenditure of hundreds of millions of dollars—unless we begin to move towards the use of far more professional man-hours on design and development of such programs.

This Chapter has dealt with the large overall economic costs now imposed on our society by the existence of remediable poverty—or in more positive terms, the large economic benefits that would flow from its removal. We do not wish to leave the impression, however, that we have little or no concern for the overall human and social consequences that flow from the existence of poverty and that have such a direct and tragic impact upon the poor themselves. Rather, the removal of the economic costs of poverty must be recognized as a means rather than an end in itself—a means to social progress and increased human welfare. Greater emphasis on the economically oriented approaches to antipoverty measures is needed to ensure that the poor, and their children, are able to participate adequately in our society. The development of effective methods to help the poor generate adequate income, is, in our view, essential to ameliorating the direct human and social consequences of poverty, as well as to reducing its economic costs.

8

Trends and Regional Differences in Education

EDUCATION is a process that has many facets and many values. It can enhance the quality of life and enrich the lives of individuals. It quickens appreciation of the wonders of knowledge and stimulates the yearnings of mankind for a better world. It stirs the imagination, sharpens the intellect and stimulates creativity. It can also help to generate economic growth; it increases the mobility, adaptability and productivity of people, and raises their level of living.

For these reasons, the Economic Council, in successive Annual Reviews, has given special attention to the need to increase and improve Canadian education. In our *Second Annual Review*, certain basic conclusions were reached about the economics of education. It was pointed out that the income of individuals is in general closely related to the extent of schooling, and that the rates of return from increased investment in education appear to compare favourably with the returns from other kinds of investment. Increased education was estimated to have accounted for a significant part of the increase in productivity and material well-being of Canadians over the past half century. But the differences in educational achievements between Canada and the United States were found to be at least one of the significant elements having a bearing on the persistent gap in living standards between the two countries. Our more recent work has revealed

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that through much of the postwar period Canada has been lagging behind not only the United States but also various European countries in the rate of improvement in the quality of the labour force attributable to education. In our *Fifth Annual Review*, attention was drawn to the close association between lack of educational opportunities and individual poverty.

Our study of the important role of education in Canadian growth and development is continuing. In this Chapter, we review certain basic national and regional trends in education and attempt to illuminate, in a preliminary way, some of the interprovincial disparities.

THE NATIONAL PERSPECTIVE

Historically, progress in Canadian education has been substantial but uneven over time and between educational levels. In the first two decades of this century, great strides were made at the primary level. Literacy and elementary education were strongly and widely promoted. Unfortunately, this momentum was not maintained during the 1920's into the secondary and postsecondary levels, nor was it restored under the stresses and strains of depression and war. As a result, the growth in the quality of the labour force, as affected by education, was relatively slow for a number of decades, extending into the 1950's.

Following the Second World War, Canadian education expanded with renewed vigour. Apart from the heavy, but temporary, demand on the higher educational facilities in the immediate postwar years as a result of government financial assistance to veterans, the new dynamism was largely concentrated at the primary and secondary levels of education through the 1950's. In the 1960's, although further substantial advances have occurred at the secondary school level, the most conspicuous advances have taken place at the postsecondary level. The expansion of enrolment has reflected, among other things, the high postwar birth rates. But at the secondary and postsecondary levels, the longer retention of students in the educational system (the reduction of drop-outs) has been a much more important factor in the growth of enrolment.

As we near the end of the 1960's, Canadian educators can look back with pride to a decade of accomplishment and progress under difficult conditions. It has been a decade of vigorous educational mobilization. Some of the benefits are just beginning to be reaped by society. The main pay-off is yet to come.

Canada's educational enrolment in the postwar period increased faster than that in any other industrialized country. From school year

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1951-52 to school year 1967-68 combined elementary and secondary enrolment more than doubled (secondary enrolment alone more than tripled), reaching a level close to 5 1/2 million in 1967-68 (Table 8-1). During the same period, university full-time enrolment quadrupled, reaching a level of over 280,000 in 1967-68. Other postsecondary enrolment, starting from a very small base, increased at an even faster rate and reached 90,000 in 1967-68.

This impressive expansion in enrolment was accompanied by various related changes—a substantial increase in the number of educational institutions and classrooms and more generally in the scale and quality of educational facilities, widespread consolidation of rural schools, a large increase in the number of teachers and improvement in their average level of qualifications, a very large increase in part-time students in higher education and adult education and training, and the emergence of new types of educational institutions.

TABLE 8-1—FULL-TIME EDUCATIONAL ENROLMENT

			Projected	
	1951-52	1967-68	1975-76	1980-81
(Thousands)				
Elementary and Secondary				
<i>Elementary</i>	2,230	4,128	3,886	3,777
<i>Secondary</i>	395	1,325	1,776	1,667
Total.....	2,625	5,452	5,662	5,444
Postsecondary*				
<i>University</i>	71	284	560	750
<i>Other postsecondary</i>	3	89	290	380
Total.....	74	372	850	1,130
Total enrolment.....	2,699	5,824	6,512	6,574

*Postsecondary enrolment in this Table (and in the rest of the Chapter) includes full-time enrolment of students with at least junior matriculation standing in universities and other educational institutions variously described as community colleges, junior colleges, institutes of technology, colleges of applied arts and technology and collèges d'enseignement général et professionnel. Enrolment in teachers' colleges has been included with that of universities. Enrolment in nurses' diploma programs has been included from 1967-68 in the "other postsecondary" category. There are, of course, many part-time students in addition to the full-time students indicated here.

SOURCE: Based on data from Dominion Bureau of Statistics and projections in forthcoming Staff Study No. 25, *Enrolment in Educational Institutions by Province, 1951-52 to 1980-81*, by Z. Zsigmond and C. Wenaas.

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The sharp increase in retention rates in the postwar period has moved Canada closer to the U.S. levels of enrolment ratios. The narrowing of the gaps has been most evident at the secondary level (Table 8-2). However, at both the secondary and post-secondary levels substantial differences remain.

TABLE 8-2—SECONDARY AND UNIVERSITY ENROLMENT RATIOS,
CANADA AND UNITED STATES

	1951-52	1965-66	Projected 1975-76
(As percentage of 14-17 age group)			
Secondary enrolment			
Canada.....	46	80	94
United States.....	77	92	98
(As percentage of 18-24 age group)			
Full-time university enrolment			
Canada.....	5	11	18
United States*.....	12	19	24

*Full-time degree credit enrolment in institutions of higher education.

SOURCE: Based on data from U.S. Department of Health, Education and Welfare; Dominion Bureau of Statistics; and projections in forthcoming Staff Study No. 25.

The projections suggest that future growth in Canadian educational enrolment is likely to be less rapid than in the past two decades. Combined elementary and secondary enrolment is expected to decline absolutely after the mid-1970's, reflecting the sharp decline in total births since the early 1960's and the fact that the increase in secondary school enrolment ratios will moderate as they approach very high levels. On the other hand, both the enrolment ratios and the numbers of young people attending postsecondary educational institutions should continue to rise (but at a decreasing rate). The increases at the non-university level will be particularly rapid. Some further narrowing in the gaps in enrolment ratios between Canada and the United States can be anticipated.

Total full-time educational enrolment for 1980-81 is projected at 6.6 million, compared with 5.8 million in 1967-68 (Table 8-1). Elementary school enrolment is projected to decline from 4.1 million in 1967-68 to 3.9 million in 1975-76 and to 3.8 million in 1980-81. Secondary school enrolment is projected to increase from 1.3 million in 1967-68 to 1.8 million in 1975-76 and then decline to 1.7 million in 1980-81. In contrast, postsecondary enrolment is projected to more than double between 1967-68 and 1975-76 and then increase by almost

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one-third over the following five years, reaching about 1.1 million in 1980-81. The projected growth rate in postsecondary education between 1975-76 and 1980-81 applies to both universities and other postsecondary institutions. The growth rate of the latter up to 1975-76 is expected to exceed that of universities.

Given the slowing in the rate of expansion in enrolment at the primary and secondary levels, opportunities for making improvements in the quality of Canadian education should be substantial during the coming decade. Within a national perspective of many competing needs, the challenge will be to improve educational performance—the effectiveness of educational systems in Canada—in meeting the complex demands of a rapidly changing social and economic environment, such as those arising from the growing concentration of Canadians in large cities and in service industries. The challenges posed specifically for the educational system will largely need to be met at the level of the individual provinces. But the benefits of education spill over provincial boundaries, so that there is a need for greater interprovincial co-operation on many matters affecting education, as well as continued intergovernmental sharing of some of the financial costs of education.

REGIONAL TRENDS

Many important factors in addition to formal education are involved in the wide and persistent regional disparities in incomes across Canada. We have drawn attention to some of these factors in our earlier Reviews. Nevertheless, educational disparities appear to be one of the significant elements involved.

Significant progress has been made in recent years in improving the educational performance in all provinces and, more particularly, in reducing some of the interregional educational disparities. Interprovincial differences in school retention rates, for example, have been reduced (Table 8-3). Quebec and Prince Edward Island, which in 1960-61 had the lowest retention rates to Grade 11, have moved up sharply to close to the national average. Yet, substantial regional differences in retention rates remain, especially between the Atlantic Provinces and British Columbia, Manitoba and Alberta. Newfoundland, which still had a particularly low retention rate in 1967-68, faces a formidable challenge in spite of major gains in recent years.

All provinces have also shared in the expansion of education at the postsecondary level (Table 8-4). This is evident despite the fact that differences in educational organization among the provinces make valid comparisons difficult. In Quebec and Newfoundland, for example,

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TABLE 8-3—RETENTION RATES, BY PROVINCE

	1960-61	1967-68	Percentage Change
Newfoundland.....	38	49	29
Prince Edward Island.....	36	66	84
Nova Scotia.....	47	65	37
New Brunswick.....	44	60	35
Quebec.....	33	70	113
Ontario.....	56	73	32
Manitoba.....	61	80	32
Saskatchewan.....	56	70	26
Alberta.....	64	79	23
British Columbia.....	68	82	22
Canada.....	50	71	42

NOTE: The retention rate refers to enrolment in Grade 11 as a percentage of Grade 2 enrolment nine years earlier. The data underlying the estimates have been adjusted to remove the effects of student migration.

SOURCE: Based on data from Dominion Bureau of Statistics.

the equivalent of Grade 12 is included in postsecondary enrolment while in Ontario Grades 12 and 13 are in the secondary level. Moreover, because there are numerous out-of-province students enrolled in postsecondary education, especially in universities, the figures in Table 8-4 do not exactly reflect the rates of participation of provincial residents in postsecondary education.

TABLE 8-4—FULL-TIME POSTSECONDARY ENROLMENT AS
PERCENTAGE OF 18-24 AGE GROUP, BY PROVINCE

	1951-52	1960-61	1967-68
Newfoundland.....	1	3	10
Prince Edward Island.....	3	7	13
Nova Scotia.....	6	9	15
New Brunswick.....	4	8	15
Quebec.....	6	10	19
Ontario.....	5	8	15
Manitoba.....	5	8	15
Saskatchewan.....	3	8	14
Alberta.....	3	7	16
British Columbia.....	6	10	16
Canada.....	5	9	16

SOURCE: Based on data from Dominion Bureau of Statistics.

Trends and Regional Differences in Education

The higher school-retention rates and enrolment ratios achieved by all provinces have had considerable effect on labour force quality. In only five years, from 1961 to 1966, there was almost as much increase in the average years of schooling of the labour force as in the preceding 10 years (Table 8-5). There has also been a reduction of interprovincial differences.¹ Throughout the period from 1951 to 1966, the average years of schooling of the labour force in the Atlantic Provinces has been increasing faster than for Canada as a whole. Although the average years of schooling of the Quebec labour force increased only slightly between 1951 and 1961, there was a sharp improvement there between 1961 and 1966.

It is also important to note that due to interprovincial migration, some provinces are gaining highly educated people from other provinces. Immigration from other countries also affects average levels. It is highly significant, however, that the Atlantic Region has achieved its above-average rate of improvement in the average educational attainments of its labour force, in spite of substantial net out-migration. Yet in 1966 a disparity of 1.8 years of schooling still existed between the highest and lowest regions of the country. This is a substantial gap. For example, it is twice as large as the *increase* in the average number of years of schooling in the whole Canadian labour force in the 15 years from 1951 to 1966; and it is larger than the 1961 *gap* of 1.1 years in the average number of years of schooling between Canada and the United States.

The impact of the developments in education will continue to be felt in all regions for many years to come. Even without any further increase in enrolment ratios, the average educational levels of the labour force would continue to increase for several decades. This means that it will be a long time before the impact of the present large expenditures on education may be fully evaluated.

Labour force quality will also improve in all provinces with the expected further increases in the proportion of young people attending educational institutions, the expansion of adult education, and manpower upgrading programs of many kinds. The enrolment projections to 1975 and 1980 suggest that there will be a further reduction in, although perhaps not a complete elimination of, remaining provincial differences in the proportion of young people attending elementary and secondary schools. All provinces should also share in the upward thrust of postsecondary enrolment although substantial disparities may still remain in this sector.

¹ It will be recognized that the data do not allow for any interprovincial differences in the *quality* of education. They are of an entirely quantitative nature.

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TABLE 8-5—AVERAGE YEARS OF SCHOOLING OF LABOUR FORCE,
BY PROVINCE AND REGION

	1951	1961	1966
<i>Newfoundland</i>	6.9	8.2	
<i>Prince Edward Island</i>	8.3	8.8	
<i>Nova Scotia</i>	8.5	9.2	
<i>New Brunswick</i>	7.7	8.5	
Atlantic Region.....	7.9	8.8	9.3
Quebec.....	8.1	8.2	8.7
Ontario.....	9.1	9.5	9.9
<i>Manitoba</i>	8.5	9.3	
<i>Saskatchewan</i>	8.2	8.8	
<i>Alberta</i>	8.8	9.6	
Prairie Region.....	8.5	9.3	9.7
British Columbia.....	9.3	10.1	10.5
Canada.....	8.6	9.1	9.6

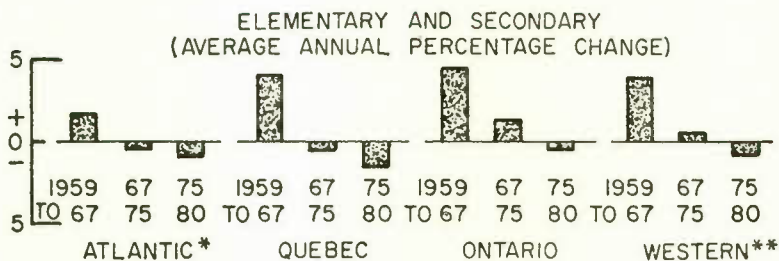
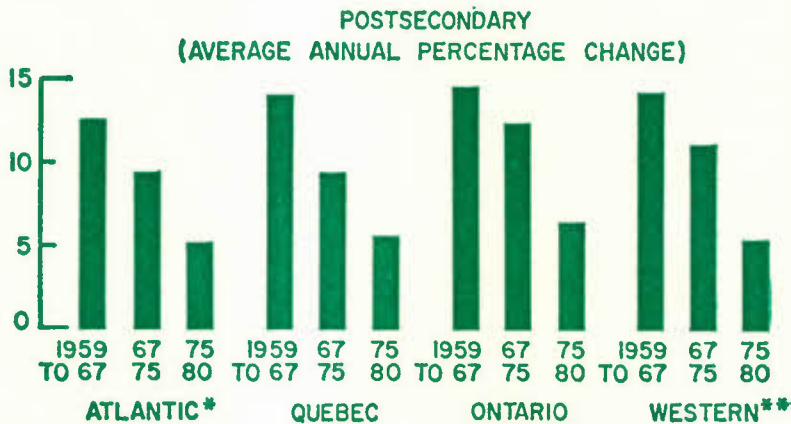
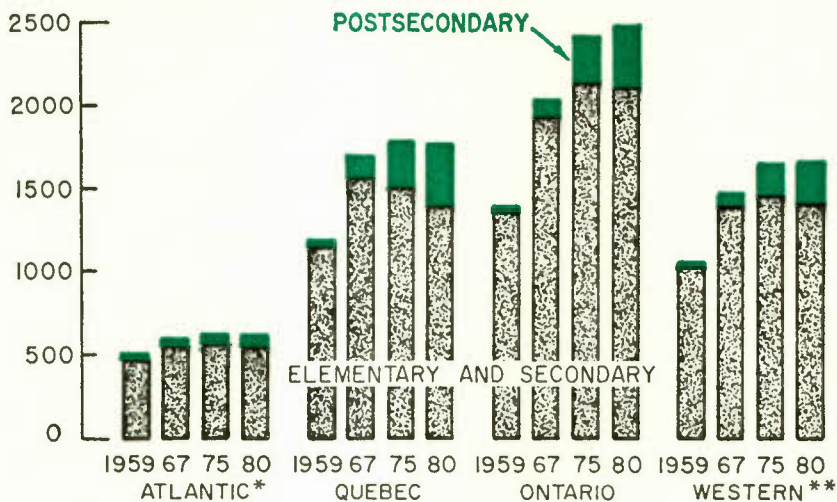
SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Detailed enrolment projections are being published in a separate study. Chart 8-1 illustrates the expected regional pattern of the changes in enrolment. Two features stand out. The first is that elementary and secondary enrolment is expected to decline generally in 1975-80, and in some regions before 1975. The second is the relatively high, but gradually declining, rate of increase in post-secondary enrolment—from an average annual rate of about 15 per cent in 1959-67 to about 10 per cent in 1967-75, and to about 5 per cent in 1975-80.

DIFFERENCES IN PROVINCIAL EDUCATIONAL PATTERNS

Provincial differences in education are reflected in various ways: in enrolment ratios, both in total and at different levels of education; in types of educational institutions, systems, programs, and curricula; in student-teacher ratios; in teacher qualifications; in other types of

CHART 8-1
FULL-TIME EDUCATIONAL ENROLMENT, BY REGION
THOUSANDS



Note: These regional enrolment projections are affected by regional differences in fertility and migration rates. It has been assumed that fertility rates will undergo a further slight decline, and that interregional migration patterns will be similar to those of the recent past.

*Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick.

**Manitoba, Saskatchewan, Alberta and British Columbia.

Source: Based on data from Dominion Bureau of Statistics and projections in forthcoming Staff Study No. 25.

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resources provided for education; and in the magnitude of expenditures per student and in total.¹ The differences are sometimes substantial and persistent, resulting from diverse combinations of cultural backgrounds and social attitudes, size of population and degree of urbanization, and, probably most of all, income levels and fiscal ability. Some of these provincial differences were discussed in the preceding section, and others are outlined below.

Structural Differences

An example of structural differences in education among the provinces is the difference in what is regarded as "elementary" and "secondary". In most provinces, Grades 1 to 8 are classified as elementary, but, in Quebec and British Columbia, Grade 7 is the final elementary grade and it will be changed from Grade 7 to Grade 6 in Quebec in the future. Moreover, the number of grades in the total elementary and secondary school system ranges from 11 to 13 with varying provisions for completing a senior matriculation year at university or other postsecondary institutions. The equivalent of Grade 12 is offered at university in Newfoundland rather than in the public school system, as in all other provinces except Quebec. The twelfth and thirteenth years in Quebec are offered at the collèges d'enseignement général et professionnel (CEGEP), which are neither universities nor secondary schools. There are wide differences both within and between provinces in postsecondary education. Further changes in the structure of education within various provinces can be expected in the future.

Student-Teacher Ratios

For Canada as a whole, in the school year 1966-67, there were approximately 29 students per teacher in elementary schools, 16 students per teacher in secondary schools and about 13 students per teacher at universities and colleges.² In part, these differences are

¹The data on elementary and secondary education in this section are for public schools only, as defined by the Dominion Bureau of Statistics. This definition covers all schools "operated by local school boards or boards of education and supported by local taxation, including Roman Catholic and Protestant separate schools where such exist, and the denominational schools of Newfoundland". Over 90 per cent of total student enrolment in all provinces is covered by this definition.

²These data relate full-time student enrolment to full-time teaching staff. At elementary and secondary schools, principals and vice-principals are included with teaching staff even if they may not actually teach any classes. Specialist teachers are included whether or not they have a home classroom.

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accounted for by the greater number of subject options—and correspondingly greater staff—available at progressively higher levels of the system. At the university level, class sizes for first-year students are typically large—often much larger than at either the elementary or secondary level—but tend to fall rapidly in succeeding years of instruction. In part, too, the differences reflect the attempt to allow for more class preparation and research at the higher levels of education.

In spite of substantial variations among provinces in resources and social and economic environment, most of the provinces had quite similar student-teacher ratios in elementary and secondary schools in 1966-67 (Table 8-6). In elementary schools, Prince Edward Island and Saskatchewan, reflecting their relatively larger rural component, had student-teacher ratios that were more than 10 per cent below the national average. British Columbia was substantially above the average. In secondary schools, Newfoundland was more than 20 per cent above the average while Prince Edward Island was about 10 per cent above. Although some provinces exhibited declining student-teacher ratios in elementary schools after 1960, the average for Canada had increased slightly by 1966. In contrast, the student-teacher ratios in secondary schools declined for Canada as a whole. For most provinces regional differences in student-teacher ratios at the postsecondary level are wider than at the elementary and secondary levels—reflecting, among other things, substantial differences among the universities in faculty orientation and course content. The range in 1965-66 was from about 15 full-time students per full-time teacher in the western Canadian universities to about 11 in Ontario.¹

A lower student-teacher ratio may enhance the quality of education by providing the opportunity for greater individual attention by teachers and perhaps a greater variety of course offerings, although there may be significant exceptions. In a small school with only a few rooms, for instance, a low student-teacher ratio may exist with one teacher teaching all courses in several grades to a few pupils and accordingly unable to give as much individual attention as in a larger metropolitan school with higher student-teacher ratios. Student-teacher ratios in metropolitan areas have been declining for a number of reasons associated with rising quality, such as additional course offerings, new methods of teaching including team teaching, more effective language instruction requiring smaller classes, and greater

¹ In 1965-66, full-time enrolment and full-time teaching staff at Canadian universities were 206,000 and 16,000, respectively; there were also nearly 75,000 part-time students and about 9,000 part-time teachers.

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TABLE 8-6—STUDENT-TEACHER RATIOS, ELEMENTARY AND SECONDARY SCHOOLS, BY PROVINCE

(Average number of students per teacher)

	1966-67	
	Elementary	Secondary
Newfoundland.....	28	20
Prince Edward Island.....	23	18
Nova Scotia.....	29	16
New Brunswick.....	28	17
Quebec.....	30	15
Ontario.....	28	17
Manitoba.....	27	17
Saskatchewan.....	25	17
Alberta.....	29	14
British Columbia.....	34	16
Canada.....	29	16

SOURCE: Based on data from provincial Departments of Education and Dominion Bureau of Statistics.

individualization of instruction calling for more preparation and less time actually spent teaching.

Qualifications of Teachers

Substantial differences in the nature and amount of education of teachers are to be found among the elementary, secondary, and post-secondary levels. In 1966-67, for Canada as a whole, the proportion of teachers with university degrees ranged from 11 per cent for elementary schools to 60 per cent for secondary schools and very close to 100 per cent for universities.

Teacher qualifications vary more from province to province than student-teacher ratios. The differences are most marked for elementary teachers. In the 1966-67 school year, the percentage of elementary teachers with university degrees ranged from 25 per cent in British Columbia and 22 per cent in Alberta to 3 per cent in Prince Edward Island (Table 8-7). Provinces with relatively lower income levels tended to have a smaller proportion of elementary teachers with university degrees, Nova Scotia was an exception, ranking third in 1966-67 with 17 per cent, ahead of Ontario, Manitoba, and Saskatchewan. The percentage of secondary teachers with university degrees showed less provincial variation. In British Columbia and Ontario 75 per cent of secondary school teachers had university degrees in 1966-

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67, followed by Manitoba, Alberta, Nova Scotia and Saskatchewan. In recent years, there has been a general upgrading of teacher qualifications in terms of university degrees across Canada.

TABLE 8-7—PERCENTAGE OF ELEMENTARY AND SECONDARY
SCHOOL TEACHERS WITH UNIVERSITY DEGREES,
BY PROVINCE

	1966-67	
	Elementary	Secondary
Newfoundland.....	6	46
Prince Edward Island.....	3	47
Nova Scotia.....	17	65
New Brunswick.....	8	50
Quebec.....	6	41
Ontario.....	11	75
Manitoba.....	9	70
Saskatchewan.....	9	64
Alberta.....	22	68
British Columbia.....	25	75
Canada.....	11	61

SOURCE: Based on data from provincial Departments of Education and Dominion Bureau of Statistics.

Teacher qualifications can also be expressed in terms of average number of years of professional and academic training after junior matriculation—a partial measure of “quality”. By this criterion, teacher qualifications in public schools tend to be higher in Ontario and the western provinces than in Quebec and the Atlantic Provinces (Table 8-8). Again, Nova Scotia is a notable exception. However, qualifications of teachers (both elementary and secondary) in general improved faster in the Atlantic Provinces than in the nation as a whole from 1960-61 to 1966-67.

While the number of years of formal training does not measure teacher quality directly, it is a matter of special concern that teacher qualifications by such a criterion appear to be relatively low in the low-income provinces, with the exception of Nova Scotia. There is, of course, a continuing need to improve teachers’ qualifications throughout the country. There should now be growing opportunities to do so since the pressures of meeting the teacher requirements arising from increasing involvement are not so severe.

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TABLE 8-8—AVERAGE YEARS OF PROFESSIONAL TRAINING AFTER JUNIOR MATRICULATION, ELEMENTARY AND SECONDARY SCHOOL TEACHERS, BY PROVINCE

	1960-61		1966-67	
	Elementary	Secondary	Elementary	Secondary
Newfoundland.....	0.9	2.6	1.3	3.3
Prince Edward Island.....	0.9	2.4	1.4	3.4
Nova Scotia.....	2.0	4.2	2.5	4.4
New Brunswick.....	1.3	3.2	1.7	3.3
Quebec.....	1.5	2.5	1.9	2.3
Ontario.....	1.9	4.4	2.1	4.2
Manitoba.....	2.0	3.5	2.0	3.8
Saskatchewan.....	2.4	4.1	2.8	4.2
Alberta.....	2.2	3.3	2.6	3.5
British Columbia.....	2.6	4.7	2.9	4.6
Canada.....	1.8	3.7	2.1	3.5

NOTE: These data are based on certificate levels. But, on this basis, the averages for Manitoba, Saskatchewan and Alberta are actually understated. For these provinces, the average number of years of teacher education after junior matriculation in 1966-67 was estimated as follows: elementary—Manitoba 2.4, Saskatchewan 3.0 and Alberta 3.2; and secondary—Manitoba 4.6, Saskatchewan 4.7 and Alberta 4.7. There are indications that the comparable average years of education would also be somewhat higher in Quebec than the indicated levels in the Table.

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

Other factors also have an important bearing on the quality of education, such as availability of books, films, records, laboratory equipment and other instructional aids. Much more needs to be known about the relevance of these factors for the quality of education.

Operating Expenditures per Student

The level of expenditures per student may be affected by student-teacher ratios, teacher qualifications, and the amount of other resources employed. Teachers' salaries are, of course, the principal component of operating expenditures but the salary levels for teachers, even for similar qualification levels, typically have some relationship to regional income levels. Therefore, the dollar value of operating expenditures per student in a relatively low-income area almost certainly understates comparative quality.

The range of operating expenditures per student in 1966 in elementary and secondary schools varied widely from province to province,

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from about \$180 in Newfoundland to about \$450 in Alberta (Table 8-9). As may be expected, these are generally correlated with average income levels in the various provinces.

Teachers' salaries made up a fairly uniform percentage of the total operating expenditure of elementary and secondary schools, averaging about 70 per cent in 1965. As one might expect, the proportion tends to be slightly higher in the lower-income provinces. We have already noted that student-teacher ratios do not differ substantially from province to province. In other words, apart from differences in qualifications, the degree of utilization of teachers in the elementary and secondary school system seems to be affected very little by inter-provincial differences in income levels.

TABLE 8-9—OPERATING EXPENDITURES PER FULL-TIME STUDENT,
BY PROVINCE

	Elementary and Secondary*	Universities**
	(Dollars)	
Newfoundland.....	180	
Prince Edward Island.....	250	1,460
Nova Scotia.....	260	2,350
New Brunswick.....	250	1,900
Quebec.....	410	2,060
Ontario.....	420	3,130
Manitoba.....	350	2,340
Saskatchewan.....	410	2,290
Alberta.....	450	2,800
British Columbia.....	440	2,420
Canada.....	390	2,490

*Expenditure data for the calendar year 1966 are related to 1965-66 enrolment.

**Based on data for the 1966-67 academic year.

SOURCE: Based on data from Dominion Bureau of Statistics.

Interprovincial differences in operating expenditures per student in universities in 1966-67 ranged from \$1,460 in Newfoundland and Prince Edward Island to \$3,130 in Ontario. The remaining provinces ranged from \$1,900 to about \$2,400, except for Alberta at \$2,800.

Concluding Observations

This Chapter has outlined trends and regional differences in formal full-time education. We caution, however, that it has left out some

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very important aspects of education. These include educational differences within provinces, which may be greater than differences among provinces, as well as part-time and nonformal education (e.g. adult education, in-plant training and retraining) which are increasingly important in a world of accelerating obsolescence of knowledge and skills.

The Chapter has not drawn any specific policy implications although certain general implications for education policy are suggested in Chapters 3 and 10 of this Review. What the Chapter does do, however, is to raise certain questions about the performance of the educational system and to suggest additional areas that might well be investigated.

Questions are now arising about the possible relevance for educational performance of various changes in educational systems and patterns. What, for instance, would be the benefits from a more extensive kindergarten system as an alternative to one year of secondary schooling, or the substitution of one year of college for a secondary school year, or increasing use of new educational technology in place of a further reduction in student-teacher ratios, or the introduction of more flexible curricula as an alternative to the establishment of new institutions? Very little research has yet been done on many fundamental questions of this nature.

We are not suggesting that past decisions based on experience and sometimes even intuition have not produced beneficial results. But it does seem clear that in the future a more intensive assessment of the effects of alternative developments and of alternative allocations of resources in this field will be required. Also needed is a better understanding of the learning process itself. Obviously all of these matters will require much greater expenditures on educational research and analysis than are presently being made. Special attention is given to this question in the consideration of policy questions in Chapter 10.

9

The Performance of the Economy

CHAPTER 1 of this Review discussed the basic economic and social goals with which the Council is concerned. These goals, as we have set them out, are designed to provide challenging and desirable objectives to be achieved simultaneously, not this year or next, but in the medium-term future. As such, they are designed to provide not only a basis for better and more consistent decision-making throughout the economy, but also certain basic standards against which the actual progress of the economy can be assessed. In particular, they are useful for appraising whether the economy may be developing substantial or persistent tendencies to fall short of the demanding standards of performance which Canadians have increasingly come to expect of their economic system.

This Chapter continues the regular series of appraisals of this nature that the Council has undertaken in each of its Reviews. Here are some of the highlights of our assessment:

- Since the slowdown of 1967 and early 1968, the Canadian economy has moved closer to its potential rate of growth.
- The improved growth performance has been reflected more in productivity and incomes than in employment.
- Unemployment in the range of 4 to 5 per cent of the labour force is too high to be tolerated on a continuing basis. Effective progress towards our high employment goal for the mid-1970's will require much more attention to reducing the especially high levels of unemployment in the low-income regions and in the younger age groups.

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- Price and cost increases continue to be too large, too widespread and too persistent to be acceptable in relation to the goal of maintaining reasonable price stability; the factors contributing to excessive increases are complex and have changed significantly over the past few years.
- The balance-of-payments position remains strong and the international competitive position of Canadian industry is being generally well maintained, as reflected in the substantial growth in industrial exports.
- Against the background of the large and relatively well-sustained growth in total national output and income in the 1960's, there has been some progress in reducing both poverty and regional income disparities, but existing conditions remain far from satisfactory in both of these fields.

EMPLOYMENT, PRODUCTIVITY AND PRICES

Employment and Unemployment

Over the past two years there has been a noticeable slowdown in the rate of labour force growth. There has also been a considerable slowdown in employment growth and an accompanying increase in unemployment (Table 9-1). The *employment* increase in 1968 was less than

TABLE 9-1—CIVILIAN LABOUR FORCE
(Change from preceding year)

	1962	1963	1964	1965	1966	1967	1968
(Percentage change)							
Working-age population.....	1.9	2.1	2.2	2.4	2.6	3.0	2.8
Labour force.....	1.4	2.0	2.7	3.0	3.9	3.7	2.9
Employment.....	2.8	2.4	3.7	3.8	4.2	3.2	2.1
(Change in thousands)							
Working-age population.....	227	256	281	311	347	399	390
Labour force.....	94	133	185	208	279	274	225
Employment.....	170	150	234	253	290	227	158
Unemployment.....	-76	-16	-50	-44	-13	48	67

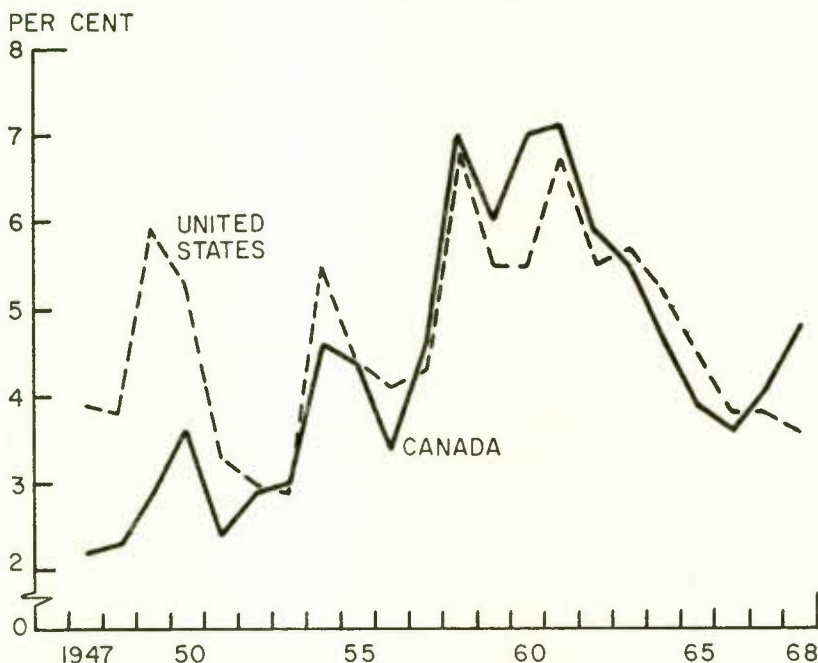
SOURCE: Based on data from Dominion Bureau of Statistics.

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160,000, compared with 230,000 in 1967 and 290,000 in 1966. And in 1967 and 1968 together, *unemployment* rose by more than 100,000, in contrast with a decline of about 200,000 over the preceding five years.

The slowdown in labour force growth in 1967 and 1968 was attributable not to a slower growth in the working-age population, but to a leveling off in participation rates. As the demand for labour began to ease in 1967, the rise in overall unemployment may have discouraged the entry into, or hastened the withdrawal from, the labour force of some groups—especially younger men. Despite these developments, the unemployment rate in 1968 moved to the highest level since 1963 (Chart 9-1). In contrast, the U.S. unemployment rate remained very low. Indeed, 1968 witnessed one of the most marked disparities of the entire postwar period in the unemployment rates in the two countries. Despite some decline in the unemployment rate in Canada in the first half of 1969, it remains significantly above the U.S. rate.

CHART 9-1
UNEMPLOYMENT RATE, CANADA AND
UNITED STATES



Source: Based on data from U.S. Department of Labor and Dominion Bureau of Statistics.

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Young men were hit hardest as total unemployment rose. For example, the unemployment rate for men under 25 averaged 9.7 per cent during 1968 (Table 9-2). Youth unemployment was aggravated during the summer when large numbers of students entered the labour market in search of employment. Youth unemployment rates are substantially lower than rates experienced during the late 1950's and early 1960's, when the overall rate of unemployment was very high. Nevertheless, the existing high rates of unemployment among young Canadians not only represent a waste of some of our most valuable human resources and a potential source of social instability, but also partly reflect a failure on the part of our society to bring young people quickly and effectively into active participation in the economic life of our country. There is therefore a need to develop much more effective measures to bridge the present disturbing gap between school enrolment and productive employment, especially with very large numbers of young people emerging from the educational system.

TABLE 9-2—UNEMPLOYMENT RATES, BY AGE AND SEX

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
Men under 25.....	14.3	12.1	14.0	13.7	11.9	11.5	9.7	7.6	7.1	8.1	9.7
Women under 25...	5.7	5.2	6.2	6.4	5.7	5.8	5.4	4.9	4.3	5.1	6.0
Men over 25.....	6.7	5.8	6.8	7.2	5.8	5.2	4.3	3.6	3.2	3.7	4.3
Women over 25.....	2.5	1.9	2.3	2.5	2.2	2.1	2.0	1.6	1.8	1.9	2.1
Total.....	7.0	6.0	7.0	7.1	5.9	5.5	4.7	3.9	3.6	4.1	4.8

SOURCE: Based on data from Dominion Bureau of Statistics.

On a regional basis, the traditional pattern in the incidence of unemployment was little changed in 1968 (Table 9-3).

In Quebec and the Atlantic Region, there was a virtual halt in employment growth in 1968. In these five provinces, the rise in unemployment was equivalent to almost the entire increase in the labour force (which rose even less than the population of working age, with actual declines in participation rates). Ontario and the western provinces accounted for almost all of the growth in employment in Canada in 1968.

During the 1960's there does not appear to have been any change in the tendency for unemployment to move up very rapidly in the low-

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TABLE 9-3—UNEMPLOYMENT RATES, BY REGION

	1964	1965	1966	1967	1968
Atlantic Region.....	7.8	7.4	6.4	6.6	7.3
Quebec.....	6.4	5.4	4.7	5.3	6.5
Ontario.....	3.2	2.5	2.5	3.1	3.5
Prairie Region.....	3.1	2.6	2.1	2.4	2.9
British Columbia.....	5.3	4.1	4.5	5.1	5.9
Canada.....	4.7	3.9	3.6	4.1	4.8

SOURCE: Based on data from Dominion Bureau of Statistics.

income regions of Eastern Canada whenever the overall rate of unemployment rises, and to remain well above the national average, even when the latter is relatively low. These differences are not only a symptom of, but a factor contributing to, regional imbalance in Canada. Moderation of this high "structural" unemployment in the low-income regions would improve regional balance and provide a basis for achieving the full-employment target we have suggested for the mid-1970's.

For a number of reasons, Canada has particularly severe seasonal fluctuations in unemployment, fluctuations that are far more pronounced than in most other industrially advanced countries. Moderation in such fluctuations would obviously help to make a high employment goal easier to achieve. During the past decade and a half, some tempering of the severity of seasonal fluctuations in unemployment in Canada has, in fact, emerged. Further shifts in this direction would be highly desirable.

As in the past, the rise in unemployment in 1967-68 was accompanied by a relatively large rise in hard-core unemployment—that is, in those who were unemployed for over four months. A better employment performance in the economy in the future requires that more attention be focused on various possible measures to minimize such unemployment.

One of the most striking facts about recent employment changes is that average employment for Canada's goods-producing industries—that is, combined employment in manufacturing, construction, utilities, agriculture, forestry, fishing and mining—was actually no higher in 1968 than it was in 1966. All of the growth in employment took place in the service industries. Thus there was a significant, further

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shift in the employment structure of the Canadian economy towards increasingly service-oriented economic activities. In particular, about two-thirds of the net increase in jobs in 1967 and 1968 was in the noncommercial service sector of the economy (mainly health, education and public administration). We expect that employment will continue to rise more rapidly in services than in other sectors of the economy.

Looking to the future, employment would have to grow by at least 2.5 per cent a year over the next few years, compared with 2.1 per cent in 1968, merely to match the growth in the population of working age, without any allowance for an increase in participation rates. Allowing for the participation rate increases incorporated in our potential output analysis, employment would have to grow by at least 3 per cent a year to avoid additional unemployment, and somewhat faster to reduce unemployment.

Income and Productivity

There have been few, if any, periods in Canada's history during which average incomes have risen as much and as steadily as over the period 1960-68. In money terms, both per capita personal income and average family income grew by about 7 per cent a year; in real terms they advanced by almost 4 per cent a year. If it were possible to sustain a 4 per cent growth rate, real incomes could double in 18 years. However, the high rates of increase in per capita and per family living standards in the 1960's are partly attributable to special nonsustainable factors. These include the particularly rapid growth in total employment, income and output as the substantial amount of slack in the economy at the beginning of the decade was removed; the shift to a much faster rate of growth of the labour force in relation to the rate of growth in population; and the reduction in average family size. On the other hand, the magnitude of the income growth over this period was surprisingly high in relation to productivity increases. In contrast, the relatively low increases in average living standards in the 1950's were associated with somewhat faster productivity growth but less favourable demographic changes (Table 9-4).

Although the rate of increase is slowing down, the working population will still rise faster than total population for another 10 or 15 years. The country will therefore continue to remain, at least into the 1980's, in a situation that is particularly favourable for strong growth in real per capita income and in average real family income.

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TABLE 9-4—CHANGE IN REAL GROSS NATIONAL PRODUCT
PER CAPITA AND PER EMPLOYED PERSON

(Average annual percentage change)

	1949-61	1961-68
Real GNP per capita.....	2.2	3.9
Real GNP per employed person.....	3.0	2.6

SOURCE: Based on data from Dominion Bureau of Statistics.

Much more satisfactory gains in productivity were achieved in 1968 and appear to have continued in 1969. The advance in productivity for all sectors combined was higher in 1968 than in the preceding two years. For the commercial economy (that is, excluding public and community services) the gain was higher than in any of the preceding four years—in fact, above the average annual rate of growth since the beginning of the expansion in 1961. Productivity growth in manufacturing in 1968 was higher than in the preceding three years—and here again, above the average rate of growth since 1961. Moreover, the rate in manufacturing in Canada was above that in the United States (Table 9-5). This helps to explain the less rapid growth in unit labour

TABLE 9-5—CHANGE IN OUTPUT PER EMPLOYED PERSON,
CANADA AND UNITED STATES

(Percentage change from preceding year)

	Canada			United States
	Total Economy	Commercial Economy	Manufacturing	Manufacturing
1962.....	4.0	4.9	7.6	4.9
1963.....	2.6	3.7	4.2	4.4
1964.....	2.7	3.0	4.7	4.7
1965.....	3.0	2.9	3.7	4.3
1966.....	1.7	2.8	2.5	2.8
1967.....	-0.5	0.4	0.2	-0.4
1968.....	2.1	3.2	4.2	2.9

SOURCE: Based on data from U.S. Department of Commerce and Dominion Bureau of Statistics.

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costs in manufacturing in Canada than in the United States during 1968 (see below).

The growth in the total volume of output in 1968 was significantly larger than in 1967, and considerably closer to the growth of potential output. But, as indicated by an average rate of unemployment of close to 5 per cent, the level of actual output in 1968 was somewhat below potential output.

Prices and Costs

Widespread and generally high rates of price and cost increases have continued, and remain seriously out of line with the Council's views about maintaining reasonable price stability.

For a number of years prior to 1968, rates of increases in prices and costs in the United States had been below those taking place in Canada. But the accelerated general advance in U.S. price and cost increases in 1968 brought the U.S. advances up sharply to about the rates of increase occurring in Canada (Table 9-6), and even faster increases appear to be occurring in the United States than in Canada in 1969.

TABLE 9-6—PRICE INCREASES, CANADA AND UNITED STATES

	Canada			United States	
	GNP Price Index		Consumer Price Index	GNP Price Index	Consumer Price Index
	(Revised GNP)	(Unrevised GNP)			
(Average annual percentage change)					
1948-61.....	2.7	3.0	2.2	2.1	1.9
(Percentage change from preceding year)					
1962.....	1.4	1.5	1.2	1.1	1.2
1963.....	1.9	1.8	1.8	1.3	1.2
1964.....	2.4	2.6	1.7	1.6	1.3
1965.....	3.5	3.0	2.5	1.8	1.7
1966.....	4.6	4.6	3.7	2.6	2.9
1967.....	3.4	3.6	3.6	3.1	2.8
1968.....	n.a.	3.6	4.1	3.8	4.0

n.a.—not available.

SOURCE: Based on data from U.S. Department of Commerce and Dominion Bureau of Statistics.

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Consumer price increases have become a matter of increasing concern in both countries, reaching a rate of advance of about 4 per cent in 1968. But as the magnitude of the advance has risen over the past three years, the sources of price increases have changed considerably. Food price increases were the largest contributor to overall consumer price increases over the 1961-66 period (food items have a weight of 27 per cent in the total index). But in 1966-69, the focal point has shifted to shelter costs, especially the costs of owner-occupied homes. Although the various shelter cost items have a combined weight of only 18 per cent in the total index, this group has contributed some 30 per cent of the total price increase in the Consumer Price Index in the last three years (Table 9-7). In fact, its contribution rose to over 40 per cent in the fall of 1968 and spring of 1969.

TABLE 9-7—CHANGE IN CONSUMER PRICE INDEX

	First Quarter 1961 to First Quarter 1966 (Five years)	First Quarter 1966 to First Quarter 1969 (Three years)
Total percentage change in Consumer Price Index.....	10.0	14.4
	(Percentage share)	
Proportion of increase due to price changes in:		
Durables.....	— 5	5
Nondurables (excluding food).....	20	25
Food.....	40	20
Services (excluding shelter).....	25	20
Shelter.....	20	30
Total.....	100	100

SOURCE: Based on data from Dominion Bureau of Statistics.

Increases in costs for producers of goods and services have also remained high in 1968. Prices for various materials used in production—for example, wood products—rose sharply, and interest rates and the costs of financing reached record levels. Total wages and salaries increased by nearly 9 per cent; average hourly earnings in manufacturing increased by $7\frac{1}{2}$ per cent; and increases in base-rate wages and salaries negotiated in collective agreements, although mar-

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ginally lower than in 1967, still averaged about 8 per cent per year over the life of the contracts. Whatever may be the factors and forces giving rise to increases of these dimensions, such increases are too high to be consistent with a return to reasonable price stability in the Canadian economy.

Given the variety and intensity of cost pressures, it is not surprising that unit cost increases in manufacturing exceeded productivity gains. However, the sharp gains in productivity have helped to moderate the advances in costs per unit of output. For example, unit labour costs in manufacturing advanced about 2 per cent in Canada in 1968 compared with 4 to 5 per cent in the two preceding years.

Unit labour costs in manufacturing remained virtually unchanged during the years 1962-65, both in Canada and in the United States. Since the end of 1965, these costs have been climbing in both countries. If 1951 is chosen as a base year for a comparison of such costs between the two countries, Canadian manufacturing costs (not adjusted for exchange rate changes) have now reached the same position in relation to comparable U.S. costs as existed in 1951.

After taking exchange rate adjustments into account, U.S. labour costs rose sharply relative to Canadian labour costs early in the 1960's, and Canada still retains some of the unit labour cost advantage gained from the reduction in the exchange value of the Canadian dollar at that time (Chart 9-2). Also, as this Chart shows, the exchange rate changes resulted in a rise in the average prices of U.S. manufactured products relative to similar Canadian average prices.

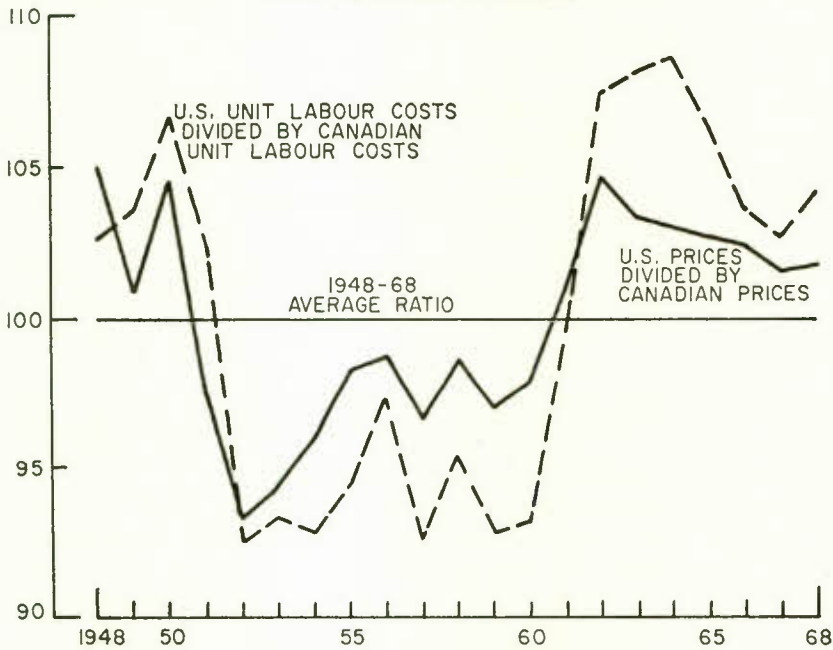
Unit profits in manufacturing moved up sharply in 1968—by almost 20 per cent—in contrast with the declines in the preceding four years. This also was relevant for the general advance in prices in 1968. Some recovery in unit corporate profits was perhaps appropriate in the wake of the previous substantial declines, but an increase of this speed and magnitude is inappropriate, given the need for slowing down the general advance in prices. Such a slowing requires not only moderation in price increases, but also the re-emergence of more cases of specific price declines.

The factors behind price and cost increases have changed significantly during the past few years. The accelerated price and cost increases in the mid-1960's were associated with a sudden and unexpectedly vigorous surge in demand in the latter part of 1965 and early 1966 that brought actual output close to potential much more rapidly than general demand policies (which operate with a lag) had been geared to anticipate. Under these conditions, unemployment dropped

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CHART 9-2

COMPARISON OF PRICES AND UNIT LABOUR COSTS IN MANUFACTURING, CANADA AND UNITED STATES



Source: Based on data from U.S. Department of Commerce and Dominion Bureau of Statistics.

quickly to less than $3\frac{1}{2}$ per cent, and anxieties emerged about excessive general demand pressures, especially in the labour and capital markets.

In contrast, with unemployment in the range of 4 to 5 per cent in 1968 and early 1969, it is difficult to argue that excessive general demand pressure has contributed to inflationary conditions. The general policy environment in 1968 in Canada has been restrictive. There has been a significant degree of fiscal restraint, as indicated by the \$800 million surplus in the government sector on a National Accounts basis in 1968. In addition, there was some tightening in monetary and credit conditions in the early part of 1968 in the wake of temporary strains in the balance of payments and, even more especially, since the end of 1968.

External price and cost conditions also shifted greatly between the mid-1960's and the past year or two. At the time of accelerated Canadian price and cost increases in 1965 and 1966, the rates of

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increase in prices and costs in the United States were generally well below those taking place in Canada. More recently, price and cost increases in the United States appear to have been, if anything, above those in Canada. This change has complicated the difficulties of restoring reasonable price and cost stability in Canada.

Another change is the marked shift in expectations and attitudes about price trends. In the past year or two a much more marked "inflationary psychology" has emerged in Canada and the United States. Expectations of continuing substantial price increases are apparently being taken increasingly into account in the markets for some goods and services (for example, in such fields as construction and land purchases), as well as in the markets for labour and capital. In these circumstances, resistance to price and cost increases tends to be reduced.

These are merely some illustrations of a variety of significant changes that have been involved in considerably altering the sources and patterns of inflation in the latter part of the 1960's. The complexity of the economic factors and relationships involved in price and cost developments suggests that a complex framework of policies is required to maintain reasonable price stability. This is a matter to which we return in Chapter 10.

BALANCE OF PAYMENTS AND INCOME DISPARITIES

Balance-of-Payments Viability

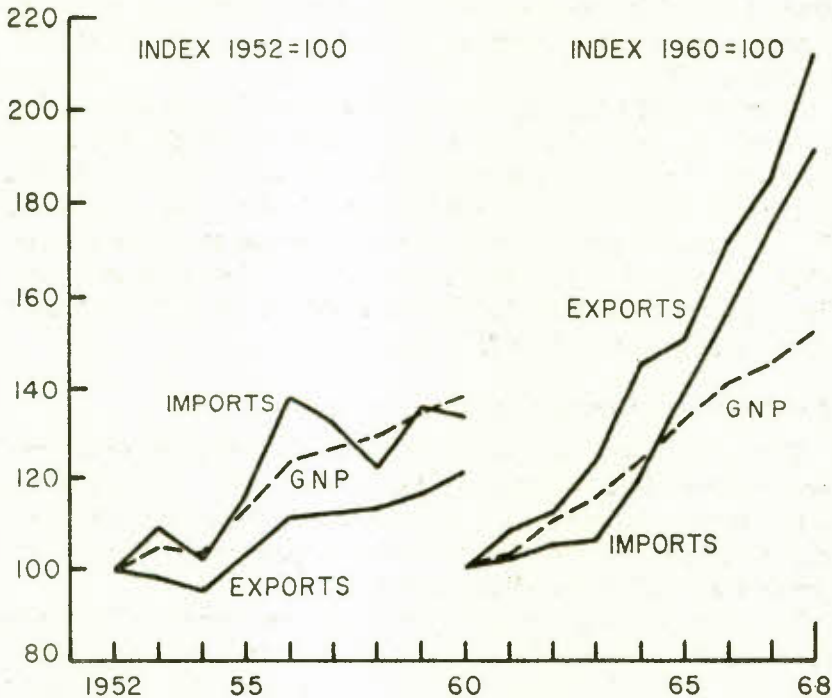
During the past seven years Canada has maintained a generally good performance in relation to the goal of a viable balance of payments. Helped by the devaluation of the Canadian dollar in 1962, and the more aggressive competition by Canadian businessmen in foreign and domestic markets, the growth of our exports has outstripped that of imports by a considerable margin, as well as the rate of growth in total output (Chart 9-3 and Table 9-8).

In the past, during periods of rapid economic expansion, Canada has usually experienced a rising balance-of-payments deficit on current account, mainly because increasing investment demand led to exceptionally strong growth in imports of machinery and equipment. The record-breaking expansion of the 1960's, however, broke this pattern (Chart 9-3). While Gross National Product increased in volume by almost one-half between 1961 and 1968, imports grew by about three-quarters and exports came close to doubling. There can be no doubt

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CHART 9-3

VOLUME OF MERCHANDISE TRADE IN RELATION TO REAL GROSS NATIONAL PRODUCT



Source: Based on data from Dominion Bureau of Statistics.

that the reduction in the exchange value of the Canadian dollar in the early 1960's helped to achieve this remarkable result. So did the tremendous import demand of the fast-growing U.S. economy, and the enlarged production capabilities and altered industrial structure of the Canadian economy. At the same time, despite rising unit labour costs of the late 1960's, Canada's competitive position vis-à-vis the United States appears to continue to be as strong as at any time in the past few years. As pointed out in Chapter 5, the extraordinary improvement in the trade balance cannot be expected to continue over the medium-term future. However, there is still ample scope for Canadian business to increase foreign sales.

Despite the great improvement in the balance on merchandise trade, the overall deficit on the current account of the balance of payments did persist; the large and growing deficit on service transactions con-

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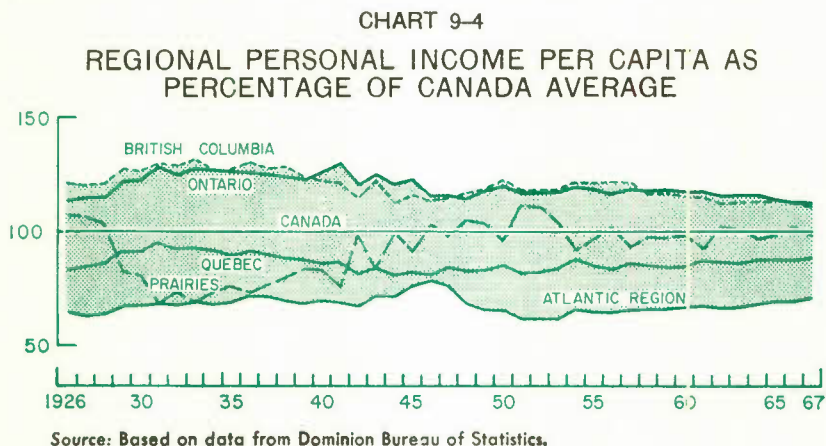
tinued to outweigh the surplus on merchandise transactions. However, the overall deficit declined as a percentage of Gross National Product over the long expansion. Moreover, the net capital inflow (exclusive of changes in official reserves) was more than sufficient to cover the current account deficit, except during brief periods (such as the early months of 1968).

Apart from the brief speculative attack on the Canadian dollar early in 1968, caused by uncertainties arising from weaknesses in the international monetary system, Canada's exchange rate has remained strong since the devaluation in 1962. The official holdings of gold and U.S. dollars have not been under any persistent or serious strain and, after the removal in the latter part of 1968 of the exchange reserve limits agreed upon with the United States in 1963, the exchange reserves have risen to over \$2½ billion.

The Equitable Distribution of Rising Incomes

This complex goal has many dimensions. So far in our work, however, we have focused largely on two of these: the narrowing of regional income disparities and the elimination of poverty. These are objectives that are assuming increasing importance as Canada becomes a generally more affluent society.

The strong expansion in per capita real incomes since the beginning of the 1960's appears to have been associated with some narrowing of regional income disparities. Incomes in Quebec and the Atlantic Region, in particular, have moved slightly closer to the national average over this period (Chart 9-4). But the gaps remain very large, and more effective actions to reduce them will be required.



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Again, the strong expansion of the 1960's may very well have had a substantial impact on reducing the proportion of families and individuals below the roughly calculated poverty lines discussed by the Council in its *Fifth Annual Review*. The substantial reduction in unemployment (Chart 9-1), particularly from 1961 to 1966, would by itself have reduced the numbers of those in poverty to a certain extent. Moreover other factors may also have assisted in lifting families and individuals out of poverty. But even on the rather optimistic assumption that income of the poorer groups grew at the national average, the proportion still remaining would be substantial—about one in six of all nonfarm families in 1968.

These estimates imply that the total number of people (including children) in poverty declined from about 4.2 million in 1961 to around 3.5 million in 1968. The decline would probably be less, however, if the poverty lines were adjusted upward to assume that the poor should have shared in the general improvement in real incomes over the 1960's. In any event, it is clear that poverty remains a serious problem in Canada, that progress towards eliminating it has been very slow over the 1960's, and that its elimination will not be achieved within an acceptable period of time by strong economic growth alone.

DEMAND PATTERNS IN THE 1960'S

General Demand Patterns

Over the whole course of the economic expansion of the 1960's, the growth of various components of demand has been quite uneven. As already indicated, this has been a period of export-led growth. Exports grew more rapidly than any other major category of demand, both in value and in volume (Table 9-8). For the whole seven years since 1961, exports of goods and services have more than doubled in value, and have increased, in real terms, almost three times as rapidly as government expenditures on goods and services. Also, business investment has increased very substantially (by nearly two-thirds in real terms), considerably more rapidly than consumer spending or residential construction.

Moreover, these overall advances conceal even more divergent patterns of change within various subperiods in 1961-68. For example, a great surge of business investment was particularly concentrated in 1963-66. Greatly accelerated government expenditures emerged in 1965-68 after an extended period of relatively slow growth in such

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TABLE 9-8—CHANGE IN EXPENDITURE COMPONENTS OF
GROSS NATIONAL PRODUCT, 1961-68

(Total percentage change)

	Value	Volume
Consumer expenditure.....	68	43
Government expenditure on goods and services*....	87	34
New residential construction.....	90	44
Business gross fixed investment.....	92	63
Exports of goods and services.....	118	90
Imports of goods and services.....	100	75
Gross National Product.....	82	48

*Including hospital expenditures and government-financed medical care.

SOURCE: Based on data from Dominion Bureau of Statistics.

spending. Housing lagged badly in 1965-67, before moving up strongly in 1968. This high variability in the rate of growth in demand in various parts of the economy has compounded the inherent difficulties of simultaneously achieving and maintaining smooth and sustained overall growth, high employment, reasonable price stability and balance-of-payments viability.

The economy now appears to be in a better position—better than in most years during the past two decades—to achieve a smoother and more balanced growth in all major demand components. Such a *pattern* of demand could be more consistent with keeping actual *total* demand growing more closely in step with the growth in potential output to 1975.

Conclusions and Recommendations

CANADA possesses an astonishingly large potential for economic growth and development from now to the mid-1970's, exceeding that of most other industrialized countries. If this potential can be achieved, the average Canadian's well-being should be remarkably enhanced. For example, this substantially increased income will allow him to buy many more goods and services. He will be better housed. He will have easier access to improved health care services. Moreover, the country as a whole will have greatly increased resources to meet pressing national needs in many fields.

But these are possibilities. They are not certainties. Rapid growth will not be achieved easily or automatically. Nor, if achieved, will it solve all of our problems. In fact, it will create new problems, new wants and perhaps accentuated competition for resources.

Our analysis assumes the maintenance of favourable economic conditions abroad, especially in the United States. Given such conditions, converting these possibilities to realities, and more particularly into realities that appropriately reflect the changing needs and aspirations of our people, will depend crucially on the further development and improvement of Canada's public and private policies in many fields.

In this Chapter we draw together a number of our conclusions and recommendations for improved planning and implementation of policies with respect to:

- the role of governments and private decision-makers;
- the performance of the economy;

- certain special problem areas; and
- the development of a comprehensive policy-planning framework incorporating both the performance goals and the achievement goals described in Chapter 1.

THE ROLE OF GOVERNMENT AND PRIVATE DECISION-MAKERS

It is frequently assumed that high standards of performance in our economy, as well as the major decisions on resource allocation, are almost entirely the responsibility of governments—sometimes even more narrowly conceived to be the responsibility of the federal government. Nothing could be further from the truth. Governments today occupy a larger and more influential role in the economy than in the past. But the fact is that we have a highly decentralized system of decision-making in Canada, in which the great bulk of decisions affecting the economy are actually made outside of government—in private markets of growing sophistication and complexity and, in many fundamental respects, outside the ultimate capacity of governments to control in any detailed way. In consequence, the attainment of our various goals and objectives will require improved decision-making in both the government and the private sectors.

Much of our earlier discussion in this Review on the objectives of government related largely to expenditure programs. But governments through their tax, financial and regulatory policies, and through the information and leadership they provide—as well as through expenditure policies—play an immensely important and many-sided role in the attainment of social, economic and other goals.

Governments today wield large powers over the management of economic policies that have a vital bearing on the performance of the economy in relation to the goals of high growth, full employment, price stability, a viable balance of payments, and a qualitatively satisfactory pattern of growth in which all Canadians are sharing. They are deeply involved also in the attainment of rising standards of education, better health care services, improved transportation facilities and efforts to control pollution. Tax changes—affecting either tax levels or tax structure—at all levels of government may have a major bearing on economic development and income redistribution. Governments are also closely involved in matters of setting standards of conduct and in regulation, control and enforcement in a wide variety of fields, such as transportation, fire protection and public health.

Conclusions and Recommendations

The government sector has now become so large, and its revenues and expenditures affect directly or indirectly so many aspects of our economic and social goals, that it has become urgent to develop more effective mechanisms for managing our affairs in this critically important area of our national life. Governments today are facing critical problems of choice among many competing demands. Moreover, there is no profit calculus in the government sector to set standards of efficiency and performance. Yet greater efficiency in the delivery of public goods and services, such as health care and education, could conceivably result in very large savings in resources which could then be diverted to other pressing needs.

At the same time, there are grave dangers that government programs, once established, may be continued in virtual perpetuity long after the needs for which the programs were originally conceived have disappeared. In this context, we wish particularly to direct the attention of governments to the potentials for inefficiency inherent in virtually all programs of subsidization. Such programs need to be kept under constant review. Frequently, they support weaknesses rather than contribute to strengths by frustrating desirable adjustments to change. Strengthened programs to facilitate adjustment to change are likely to produce much better yields over time than a continuation of subsidies whose principal long-term effect may merely be to lock potentially valuable productive resources into low-income activities.

Governments must also learn to anticipate and to control and manage the forces of accelerating change. Social problems tend to develop their momentum exponentially, and problems that today seem quite modest and manageable have a habit of exploding into crises on short notice. There must be a more effective means for monitoring the future, for anticipating problems far in advance, and for providing for an orderly build-up of resources to meet these situations as they emerge.

It is a curious fact that of the three aspects of the budgetary process—control, management, and planning—we began many decades ago at the “control” stage. Many sorts of checks, audits and safeguards have been built into our system of exercising control over budgetary appropriations and expenditures. All this is very necessary, but in the absence of greater attention to the management and planning of programs, including the establishment of priorities, hundreds of millions of dollars may be wasted. An irrelevant program can cost the nation vast sums of money, and no amount of careful administration designed to ensure probity and accountability in the disbursement

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of funds can affect in any way the fundamental waste that such programs may involve.

Governments will also have to learn to co-ordinate their activities more closely, to sink their individual differences in the interests of the nation as a whole, and to operate as a team so that all of the main engines of government are working smoothly and effectively together. Essential to this co-ordination is an agreed-upon framework of national goals and priorities to which we return at the end of this Chapter. Such a framework is perhaps even more important in Canada than in most other countries in view of our federally constituted system of government. The division of powers gives rise to the danger that in the event of a lack of agreement about aims and objectives, the different sovereign jurisdictions may adopt policies that could well work at cross-purposes.

Just as in governments, much private decision-making is developed on an ad hoc, short-term basis. For example, in our surveys of business investment planning—and even more, in our studies of business manpower planning—we have found that the bases for such planning have, in many cases, been narrow and underdeveloped. There have, of course, been some encouraging developments during the 1960's, especially among some of the larger corporations, with forward-looking extensions of planning horizons over the next three to five years. But a great deal of scope remains in Canadian business for strengthening all aspects of planning—including investment planning, technological planning, market planning, manpower planning, management development and planning for flexible adjustments to change. This concept of better-developed private planning also has relevance for labour union and other private organizations, and not merely for business firms.

ACHIEVING HIGH, SUSTAINED AND BALANCED GROWTH

The Basic Strategies

Two main types of policies are required for good economic performance—those that operate on the *demand side* of the market, and those that operate on the *supply side*.

On the demand side, the Council has stressed the central importance of keeping total demand moving smoothly and steadily forward in line with the growth of the economy's supply potential. The experience of the Great Depression, the episodic business cycle recessions of the postwar years, and the slack that developed in the economy through

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the period 1957-61, illustrate the enormous costs of failing to do this. Conversely, on other occasions, total demand has advanced too quickly in an economy near potential output, and has threatened to press too hard on the nation's productive capabilities.

In earlier Reviews we have spelled out the basic strategies that we believe are appropriate for the main instruments of demand management—that is, monetary and fiscal policies.¹ We have called for an approach different from that used in the past.

Throughout most of the postwar period, such policies have been focused largely on anticipating and moderating short-term fluctuations in private demand—in other words, on the short-term business cycle. But the many lags involved in identifying, responding to, and counteracting changes in private demand have made it very difficult to operate policies successfully on this basis. Partly because of such lags, the policy changes have frequently had too weak an impact when they were most needed and, on various occasions, even perverse effects when their main impact occurred after economic conditions had changed.

The principal theme of our earlier conclusions is that these demand policies should be directed not so much to averting the shorter-term fluctuations in the economy that have largely been associated with inventory cycles, but more to “steering the economy” along a smoother underlying path of growth in *final* demand (that is, excluding inventory demand), and avoiding substantial and persistent shortfalls or pressures. We have recognized, however, that in pursuing this objective, tactical departures from our proposed strategies may be required for various reasons—for example, because of external conditions and forces beyond our control, or because of instabilities in sensitive financial markets.

The pursuit of our proposed strategies for Canada will depend, especially in the case of monetary policy, on whether roughly comparable strategies are being pursued in the United States. There is accumulating evidence that under the new Administration, the United States may be moving away from an earlier preoccupation with shorter-term, cyclically oriented policies, to the longer-term policy orientation of the kind we have proposed for Canada. If this shift materializes, it will help to provide larger scope for, and indeed encourage, the use of a similar approach in Canada.

During the past year, considerable controversy has arisen in North America about the influence and effectiveness of monetary and fiscal

¹ See, for example, the section on demand policies in the *Fourth Annual Review*, pp. 255-258. See also the Economic Council Report of the *Conference on Stabilization Policies*.

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policies as instruments of demand management. We have no doubts about the ultimate power and effectiveness of these policies when properly used. At the same time, we believe strongly that they are necessary, *but by themselves insufficient*, for achieving and maintaining high standards of performance in our economy.

Since our *First Annual Review*, we have placed strong emphasis on a wide range of supply and other policies that are essential to make our economic system work consistently well. Many of these policies work even less quickly than monetary and fiscal policies. But whether we have consistently good performance in the economy in the 1970's will ultimately depend, to a very large extent, on their effective development and early deployment.

On the supply side, the Council's recommendations in the past Reviews have been directed towards a basic strategy of increasing the economy's growth potential in two essential ways: by raising the quality of our productive resources, especially the quality of our human resources, through increases in the skill and knowledge levels of our population; and by creating conditions conducive to increased efficiency and productivity in Canada.

In this context, we would again place very heavy emphasis on the whole range of government policies and programs for promoting greater efficiency, more competition, increased manpower mobility and training, improved education, more flexible adjustments to technological and other change, the development and application of new technology, and more effective use of knowledge. There is also a need to develop greater public understanding and more informed public debate about economic issues and relationships. In addition, more effective policies will be required to deal with particular imbalances of various kinds in our economic system—regional disparities, structural unemployment, rigidities and bottlenecks of various types—all of which imply a relatively poor matching of the availability and use of our productive resources.

Improvements in all of these policies should command the attention of decision-makers in the private sector as well as those at the three levels of government. In most of these areas, there is considerable scope for better performance in Canada, regardless of the settings in the United States or elsewhere, and we urge all decision-makers to give these matters greater emphasis. A fuller discussion of our views about them is contained in our earlier Reviews and in our recent report on competition policy.

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Fiscal Policy

Fiscal policy in Canada has, for the most part, operated at a setting more consistently appropriate to underlying economic developments since the mid-1960's than has been the case in the United States. Unfortunately, analysis of the impact of fiscal measures is more complicated than is generally realized, not only because of the lags noted earlier, but also because of deficiencies in the accounting presentations used by governments in Canada.

The most appropriate framework now available for gauging the impact of fiscal policy on the economy is provided by the National Accounts (although the National Accounts presentation of the government sector is not entirely without drawbacks) and not by the administrative or budgetary accounts of our various governments. Unfortunately, much of the public discussion of the economic implications of fiscal policy in recent years has been based on the administrative accounts—accounts that were designed for control of the details of government revenues and expenditures rather than for assessment of their broad economic effects.

The National Accounts figures make it possible to appraise the fiscal policy position of all levels of government together, within a consistent overall framework. In Canada, this is an especially important matter, in view of the fact that total provincial and municipal expenditures substantially exceed those of the federal government. The National Accounts figures also allow for appraisal of the impact of the Canada and Quebec Pension Plans. The receipts from these plans, which are used almost entirely to finance expenditures and lending activities of provincial and municipal governments, now amount to over \$1 billion a year. Frequently they are overlooked in public discussion of fiscal policy in Canada.

Taking all levels of government together, and including pension plan receipts, 1968 was in fact the fifth consecutive year of surplus in the government accounts on the National Accounts basis. Moreover, the 1968 surplus, in particular, occurred at a time of moderate slack in the economy, with an unemployment rate of close to 5 per cent. Any reasonable measure of a "full employment surplus" would have been considerably higher. We further note that coming into 1969, the fiscal policy position on a National Accounts basis was one of *substantial* restraint—far more restraint than existed in the United States. The appropriateness of a continuation of such heavy fiscal restraint, on the part of all governments together in Canada, must be kept under close review.

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The restrictive impact of government surpluses has been moderated somewhat over recent years by several factors. In the government sector itself, although total revenues (including pension plan receipts) have generally outpaced expenditures, the expenditures of all governments—which tend to affect the economy more quickly than revenue changes—have risen very rapidly, from 30 to 33 per cent of Gross National Product since 1960. Second, there has been a significant expansion in government borrowing and lending activities—such as loans to Central Mortgage and Housing Corporation—which can increase the liquidity of the economy.

Recently, there have been conscious efforts by governments in Canada to restrain their expenditure increases; total government expenditures increased by about 10 per cent in 1968 compared with 16 per cent and 13 per cent in 1966 and 1967, respectively. In 1968, there was also a reduction in government loans and advances—a reduction that helped to bring total net cash requirements of the government sector down from the previous year.

Public understanding of the impact of government transactions on the economy could, we feel, be considerably enhanced by efforts to improve the existing budgetary presentations. Such understanding could, in turn, allow fiscal policy to be used more effectively along the lines we have suggested. Studies by both the Royal Commission on Banking and Finance and the Royal Commission on Taxation drew attention to the shortcomings of both the “public accounts” presentation used by our governments and the National Accounts presentation (which excludes a number of financial transactions that are important for a complete assessment of the effects of fiscal actions). In the United States, the President’s Commission on Budget Concepts has strongly recommended, and the Administration has adopted, a more comprehensive budgetary statement that would more adequately meet the requirements of legislative control, program management and economic and financial analysis. The Government of Canada is already moving in this direction, and we urge that provincial governments also consider the adoption of such statements.

Prices

Unacceptably high rates of increase in prices and costs are diluting many of the hard-won gains achieved by Canadians since the beginning of the 1960’s. Governments in North America have made it clear that they regard the *central* task of economic policy in 1969 to be the gradual moderation of current rates of price and cost advance without precipitating excessive increases in unemployment. They have good

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reasons for their concern. The costs of continued inflation in North America are large. They are reflected in hardships for the elderly and the retired, and others on fixed or slow-growing incomes, and they may ultimately be reflected in an impairment of the country's competitive position. They are also reflected in the functioning of the capital markets, in the disenchantment of investors with fixed-income securities, in continuing high rates of interest, and in the financing difficulties faced by governments and some business enterprises.

It is vitally important that there should exist in Canada a much broader and better understanding of the relationships between costs, prices, productivity and incomes, as a basis for improved decision-making. Also needed in the public domain is a better appreciation of the basic factors that should be taken into account in the bargaining and price-setting processes. To further these objectives, the federal government has appointed a Prices and Incomes Commission "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government, on how price stability may best be achieved".

In Canada, it is difficult to maintain that current inflation is a reflection of excessive demand pressures, for the Canadian economy has been operating with at least a moderate overall margin of slack since 1967. On the other hand, in the United States the problem of price and cost inflation has been very much one of excessive demand, aggravated by the impact on the economy of the war in Vietnam. Until some easing of price and cost increases takes place in the United States, Canadian policies to deal with domestic price and cost problems will be handicapped. Further fiscal and monetary restraint could conceivably result simply in higher rates of unemployment and economic slack with no more than marginal effects on current rates of increase in prices and costs. Moreover, tighter restraint in Canada this year is likely to have its main impact on the economy next year. And if excess demand pressures in the United States are brought under control by the latter part of 1969, the principal result of stringent demand policy restraints in Canada this year might well be seriously mistimed to push the economy into a poor economic performance.

In the circumstances of recent rapid price and cost increases in Canada, we commend the federal government's action to accelerate reductions in tariffs under the Kennedy Round. This is an illustration of the complementary supply policies to which we have drawn repeated attention in our Reviews. To avoid a repetition of serious inflation-

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ary conditions in the early 1970's, further attention to a whole range of supply policies is required now, especially since some of these may take longer to become effective.

Other Policy Considerations

The preceding discussion by no means exhausts the considerations affecting Canada's policies for achieving high, sustained and balanced growth. In the course of our analysis, certain other problems have emerged that will have to be borne in mind by decision-makers to the mid-1970's:

- Achievement of Canada's potential to 1975 will require a high rate of public and private investment. Accordingly, careful attention will be required to the maintenance of a high rate of national saving, as well as to the retention of good access to saving from non-residents. Policies will need to be examined closely for their ultimate impact on savings.
- Rapid growth to potential output in 1975 implies a rapid growth in imports of goods and services. To finance these imports without strains on the balance of payments, it will be necessary to maintain a strong growth in exports—and this, in turn, requires the maintenance of strong competitive advantages among Canadian exporters.
- Collective consumption and social capital requirements will expand rapidly in the period ahead. These are likely to press hard against available government revenues at existing tax rates, even though such revenues will rise very rapidly under high-growth conditions. This implies that careful consideration will be needed to all possible means for improved efficiencies in government programs, and to various possible adjustments and curtailments in some existing programs in order to accommodate new needs.

SOME SPECIAL PROBLEMS AND NEEDS

As we emphasized at the beginning of this Review, even high, sustained and balanced growth in the economy as a whole will not necessarily lead to adequate progress towards resolving some of our present serious problems. On the basis of our subsequent analysis, we draw special attention here to six particular areas of problems and needs—poverty, education, housing, regional disparities, urban financing and grain.

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Poverty

To eliminate poverty will require some fundamental shifts in our approaches to this complex problem—in particular, shifts to much greater development of income-earning capacities among the poor. Three classes of policies are required to achieve this:

- Improved and expanded employment opportunities should be pursued through better labour market information for the poor, an expansion of day care services, and other efforts aimed at reducing barriers and handicaps facing the poor—especially poor families—as outlined in Chapter 7.
- Improved and expanded educational and training opportunities are needed in the form of special efforts to upgrade skills, reduce drop-outs, and enable poor families to develop their income-earning potentials, and particularly the lifetime potentials of the children, more adequately.
- Income-maintenance policies are an essential complement to more direct efforts to expand employment and educational opportunities for the poor. Of course, income-maintenance policies will be needed not merely in this complementary role for families and individuals having income-earning potentials, but also as the primary means for supporting poor families and individuals without such potentials. Among the various elements involved in any reasonably comprehensive framework of programs for income maintenance are: insurance programs, access to credit (and improved education about the appropriate use of credit), grants in the form of welfare assistance and training allowances, tax relief and, where appropriate, the direct provision of particular goods and services.

For such policies to be effective, they will need to be developed within the broad framework of general economic policies aimed at maintaining high standards of performance in the economy as a whole.

Perhaps what is most lacking in the development and implementation of effective antipoverty policies, however, is a mission-oriented focal point. Since appropriate policies and actions are needed at all three levels of government, such a focal point must have a federal-provincial character. In this respect, it is worth noting that there exists a federal-provincial body—the Council of Resource Ministers—to effect some co-ordination of physical resource development in Canada. Similar co-ordination is beginning to develop in such fields as education. But there is no federal-provincial body charged with looking at

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the development of people, our most valuable resource, in a comprehensive manner. We urge the conference of Prime Ministers and Premiers to give consideration to the establishment of such a body.

In addition, we propose that certain special steps be undertaken now:

- The federal government should establish an office to provide information and to co-ordinate research on poverty.
- Many institutions in the private sector, including business groups, labour unions, farm organizations, professional associations, educational institutions, and voluntary organizations will be appearing before the Special Senate Committee on Poverty. These organizations should be encouraged to undertake a continuing systematic review of their own structure and policies as these may affect poor families and individuals. Such reviews should focus particularly on possible means for reducing or overcoming unnecessary barriers to employment and educational opportunities.
- The federal, provincial and municipal governments should undertake similar reviews and consider how public policies could best be combined with private initiatives.

Education

Canada's education system has grown enormously over the last decade. But without in any way detracting from the visibly improved quality of education, the keynote of the recent expansion has been "quantity"—particularly the impressive increase in enrolment and associated expansion in school facilities and teaching staff. By contrast, as we move into the 1970's, with the prospect of moderation in enrolment expansion, the central focus of education policy should *increasingly* shift to improving quality and efficiency, especially at some of the weak points in our present educational systems.

The provinces have already taken a wide variety of forward-looking steps to improve their school systems and to make the benefits of advanced systems more widely available. A number of provincial Royal Commissions have contributed greatly to this process. School consolidation has been accelerating across the country, and the introduction of various devices for financing a larger share of elementary and secondary school costs from provincial resources has improved the position of low-income districts.

At the same time, the reduction of interprovincial disparities has been promoted by growing federal equalization payments, assistance

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for technical and vocational training, and the more recent fiscal transfer arrangements for postsecondary education. A greater measure of assistance to students in the form of scholarships, loans and grants has also served to promote more equitable opportunities for education. However, the substantial disparities that still remain—among the various districts of each province as well as among the provinces themselves, between rural and urban areas, and among income groups—suggest a continuing need for, and indeed possible extension of, some of these programs.

Given the fact that education now accounts for about 20 per cent of the total expenditures of all governments in Canada, and the fact that the level of government outlays for education will approximately double between now and 1975, it is vitally important that greater attention be devoted to increasing the *efficiency* and the *productivity* of our educational effort. To do this, it will be necessary to acquire a better understanding of many aspects of the educational process.

As late as 1968-69, expenditures for research on education in Canada are estimated to have been below \$15 million, with about half of these expenditures concentrated in the province of Ontario. Compared with actual outlays for education in Canada at the present time, now well in excess of \$5 billion per year, this small amount devoted to research on education in Canada is woefully inadequate. It represents only a small fraction of 1 per cent of total educational expenditures, and it is well below the comparable scale of efforts now being made in the United States (which are also regarded as inadequate in that country). A rapid expansion in educational research is needed, especially in the circumstances of both the very rapid expansion of the educational systems in Canada, and the increasingly complex questions arising about educational processes and possible technological changes in education itself. A significant portion of such research should be focused on improving the effectiveness and efficiency of our educational effort.

Housing

Issues relating to housing policy have been discussed briefly in Chapters 6 and 9. In view of the large rise in the total housing stock required to 1975 under conditions of rapidly rising levels of new household formation, it is essential that a high rate of new residential construction be maintained, and that there should be no major setback in this sector, such as occurred in 1966. Indeed, over the next year or two, it is particularly important that a very high rate of new housing

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completions be achieved to increase the relatively low vacancy rates now prevailing in various major Canadian cities. This is one essential requirement for achieving a moderation in the recent very high rates of advance in shelter costs. In these circumstances it is vitally important, especially under the financial conditions of today, that the seasonally adjusted annual rate of new housing starts be carefully monitored month by month. If there should be any clear sign that new housing starts are falling off in a significant way, possible remedial actions should be quickly considered. We are now in a situation in which a major housing crisis could develop within a very short period of time.

We are also especially concerned with the problem of access to decent housing for low-income families. Many low-income families are forced to live in bad housing and to raise their children in cramped and dilapidated living quarters, located in sections of the community in which they may not have ready opportunities for recreation or easy access to shops or services, and at rents that frequently absorb a very high proportion of their limited incomes. We do not believe that there is the slightest hope that the free play of market forces can bring about a solution to the housing problems that low-income families now face in this country. We are a rich nation, and decent shelter is an elementary human need. Various forms of public assistance will therefore be required to provide adequate housing at reasonable cost to low-income families and individuals. Recent changes in housing policy have in fact strengthened the capacity of governments to help to meet this need. But still more effective measures should be considered.

More generally, we are concerned about the fact that such a basic industry as housing is beset by archaic attitudes, institutions, restrictions, and other problems—including a multiplicity of obstructive building and zoning codes, small-scale and relatively inefficient production, a failure to make adequate advances in the development and use of new production technology (including technology that would encourage larger-scale and more off-site production, together with more widespread use of modular components), restrictive labour practices, impediments to better management, a totally inadequate amount of research on the industry's problems, and land speculation that inhibits the effective carrying forward of larger-scale housing developments in an efficient way. All of these factors add to housing costs and tend to produce low productivity in the housing industry. This is an industry in which there is a tremendous potential for productivity improvement. Major new initiatives to cope with the above-mentioned

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problems are urgently needed if Canadians are to be well housed in the future at reasonable prices.

Regional Disparities

As we noted in Chapter 9, the strong economic expansion in Canada during the 1960's was accompanied by only a slight improvement in regional income disparities. This reinforces the cautionary statement we made earlier: achievement of Canada's very large potential for growth to 1975 will not automatically reduce these disparities, although it will provide a better basis for policies to move in that direction. What is required is a set of special policies predicated upon improved understanding of the underlying factors contributing to regional disparities, and focused on facilitating high rates of self-generating growth in the lower-income regions. These are matters with which we dealt in more detail in the *Second* and *Fifth Annual Reviews*.

Financing Urban Needs

Our work suggests very strongly that pressures for increased urban area expenditures are likely to mount rapidly in the future. However, the real property tax, which is still by far the largest source of locally raised revenue of municipal governments, is considerably less responsive to economic growth than the revenue sources of the federal and provincial governments. Consequently, the gap between municipal expenditure requirements and the revenues derived by municipalities from their own sources is likely to increase. Without a continuing increase in transfers of revenue from the senior governments, or further shifts of responsibilities to those governments, it will become increasingly difficult to maintain, let alone to improve, the quality of the urban environment in which the vast majority of Canadians will be living.

Canada and the World Grain Economy

Canada is among the world's largest producers and exporters of cereal grains, and the prosperity of the western farm economy is heavily dependent on export sales of such products. But as Chapter 5 has pointed out, new conditions appear to be emerging in the world grain economy which are substantially affecting both production and marketing patterns. Better yield technologies have greatly raised grain output in many countries. Increased Russian grain production has adversely affected Canadian grain exports to that country and to

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Eastern Europe. At the same time, there has been little progress towards liberalizing trade in agricultural products, and import restrictions and subsidies of various kinds are distorting international trade in grains. All of these developments are now working to Canada's disadvantage in export markets. Moreover, careful appraisals of the world grain situation suggest that such changes are not likely to be of a temporary nature.

In these circumstances, Canada faces major adjustments to its agricultural economy. The main impact of such adjustments would fall on the Prairie Provinces. This implies a need to shift resources out of wheat production and into other forms of farm production—as well as further shifts of resources out of agriculture and into other types of economic activity. More effective policies to facilitate such adjustment processes are needed, along with strong efforts to maximize sales not only of wheat but also of other grains, and to match Canadian production with requirements in all markets.

A COMPREHENSIVE FRAMEWORK FOR POLICY PLANNING

Two catastrophic events have shaped the lives of many Canadians in the middle and older age groups—the Great Depression, and the War. To overcome the Depression and to win the War constituted for many Canadians the overriding goals of the society in which they grew up, or in which they have lived a significant part of their adult lives. The backwash of these events has continued to influence the development and design of Canadian society in the postwar period in many ways. Since the end of the War, large efforts have been made to create new economic and social machinery, both in Canada and elsewhere in the world, that would provide safeguards against the possible recurrence of major economic slumps on the scale of the 1930's. And, particularly through the 1950's, defence considerations continued to occupy a high position in the scale of Canada's national priorities and international relations.

But we are now well into the third decade of postwar economic expansion, and half of our population has no first-hand knowledge of these great events. Many Canadians have new interests and aspirations. The earlier consensus on priorities has been eroding, and a clear, new consensus about national priorities has not crystallized. There is a vast and confusing array of wants and needs—an almost endless list of aspirations—that cannot all be satisfied at the same time with our limited resources.

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In our previous work, we have focused our main attention on the economy's *performance goals*—that is, on how to maximize the growth of our economy and the resources that will be available to satisfy our wants and needs. But we have emphasized that these performance goals are essentially *means* rather than ends in themselves—means for meeting society's more basic objectives which might be called its *achievement goals*.

Even if high standards of performance are reached and maintained, so that our economy generates rapidly growing resources for achievement goals, we will nevertheless have to face hard choices about how to allocate these resources among many competing claims. We must choose some things over others, or more of some things at the expense of others. What order of priorities would Canadians wish to set among such objectives as: more personal consumption, improved health care, better education, more adequate housing, reduced regional disparities, the elimination of poverty, aid to underdeveloped countries, peace and international stability, improved transportation (especially in our cities), pollution abatement, beautification of our cities and a higher quality of urban life, encouragement of the arts, the creation of new knowledge, resource conservation, to mention only a few?

We believe that it is urgent to develop a new and clearer consensus about Canada's national goals and priorities. But we wish to make it perfectly clear that it is *not* our view that in a democratic system, basic decisions about goals, the allocation of resources, and the identification of priorities, are proper tasks to be carried out by professional experts or advisers. We repeat what we have said in Chapter 1, that "such decisions are properly made by governments, business firms, labour unions, consumers, and other decision-makers operating within the broad framework of our political, economic and social system". In other words, the goals must reflect the consensus of the society. But the goals that are embodied in the social consensus tend to remain partly unarticulated and widely diffused. There is no adequate mechanism to seek out and clarify the goals which implicitly inhere in the values, perceptions and aspirations that make up the social consensus. There is no mechanism for translating this consensus into a clearly articulated, coherent, and manageable framework of goals. There is no mechanism for evaluating the cost of achieving these goals in the light of the nation's total resource availabilities. It is in the light of these gaps in the process of goals formulation that we believe that new initiatives are now necessary to strengthen the machinery that has been developed over the years for more effectively

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managing our economic affairs. What is required here is the development of more purposeful, deliberate and systematic ways of identifying and clarifying goals—good information and analysis prepared by experts, informed public dialogue, and a better understanding of the options and possibilities for matching needs to resources.

There are two further important dimensions of the needed consensus. The first is that consensus is required not only about the ordering of priorities, but also about methods for attaining the objectives of our society. The second is that what is required in such a consensus is not a detailed blueprint to serve as a basis for central control and influence over all our affairs—a blueprint that would be manifestly impossible to devise in our pluralistic and highly decentralized economic and social system—but rather a broad framework of major goals to which policy planning in many parts of our system—both government and private—could be more coherently directed.

We therefore recommend that the Government of Canada give early attention to:

- arrangements that would provide, jointly with the provincial governments, for continuing expert studies into national goals and priorities that would set out costs and manpower requirements for attaining specified objectives;
- ensuring, again jointly with provincial governments, that the results of such studies be brought to the attention of Parliament, the provincial legislatures and the Canadian public as essential background for decisions on the allocation of resources.

The technical analysis involved in any such task will need to be extensive, and will undoubtedly be difficult. But considerable work has already been undertaken that could be drawn upon for such studies. Government task forces have recently been reviewing such fields as defence, external affairs, housing, industrial relations, agriculture, health, social welfare and information services. The Economic Council has also made an attempt to throw some light on the needs in various fields, especially those of education, poverty and regional disparities. In addition, many Royal Commissions—both federal and provincial—and a wide variety of other bodies have examined relevant issues. What is needed now is a systematic drawing together into a comprehensive framework of information and analysis from many sources, supplemented by additional “goals research”.

In the United States, the National Planning Association has taken the broad goals set out by President Eisenhower’s National Goals Commission (set up in 1957) and, having defined these more precisely,

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has calculated the cost that would be involved if all of them were to be achieved by 1975. These calculations indicated that to achieve *all* of the goals by that date would cost \$150 billion more than U.S. Gross National Product by that time. Also, such analysis has revealed that any attempt to attain these goals would be hamstrung by critical labour shortages. Exercises of this nature (which are essentially "goals research") very quickly establish the necessity of getting down to hard questions of *priorities*. But equally important, they provide a framework for the development of priorities in the context of *all* of society's needs and goals.

The Joint Economic Committee of the Congress of the United States has urged that the Congress and the Administration should undertake a formal and comprehensive study of national goals and priorities with a view to establishing guidelines for legislation and expenditure policy. In this connection, the Committee notes:

"We recognize the serious difficulties which plague efforts to seek general agreement on these basic questions of national direction. Indeed, the vitality of this Nation's political system stems from the diversity of opinions and values held by the populace. We have, however, recently witnessed a period of intensive study of a large number of issues which pertain to national goals. While many of these issues were related, the task forces which were responsible for the analysis and recommendations properly viewed their mandate as being limited in scope. It is now time to seek a broader perspective: an overview in which the urgency of the individual demands generated by these reports can be subjected to a comprehensive appraisal."¹

To conclude, we stress once again that Canadians face many hard choices regarding the way in which they will use their growing but still limited resources over the coming decade. Our estimates in this Review have indicated in broad outline the potentials and possibilities of supply and demand in the 1970's. Within the constraints of this framework, many alternative patterns of resource use are possible. What will be society's preferences as we go forward into the 1970's? Can they be reconciled to our resources? If our goals exceed our means, will priorities be established on the basis of a clear understanding of the options and possibilities? Or will they emerge out of a confusing welter of conflicting claims and pressures? There could be no more effective way of bringing rational processes to bear on the answers to these questions than to establish effective machinery for a

¹ U.S. Congress, Joint Economic Committee, *The Joint Economic Report on the 1969 Economic Report of the President*, Washington, U.S. Government Printing Office, April 1969, p. 33.

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continuing appraisal and reappraisal of society's changing needs and preferences within the context of an overall framework of national goals and objectives.

Arthur J. R. Smith,
Chairman

David L. McQueen,
Vice-Chairman and Director
Mrs. Sylvia Ostry,
Director

Paul Babey
W. J. Bennett
François E. Cleyn

Robert M. Fowler
Arthur R. Gibbons

David L. Kirk
Walter C. Koerner
William Ladyman
Stanley A. Little
Donald MacDonald
Ian M. MacKeigan
Maxwell W. Mackenzie
William Mahoney
Hugh A. Martin

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