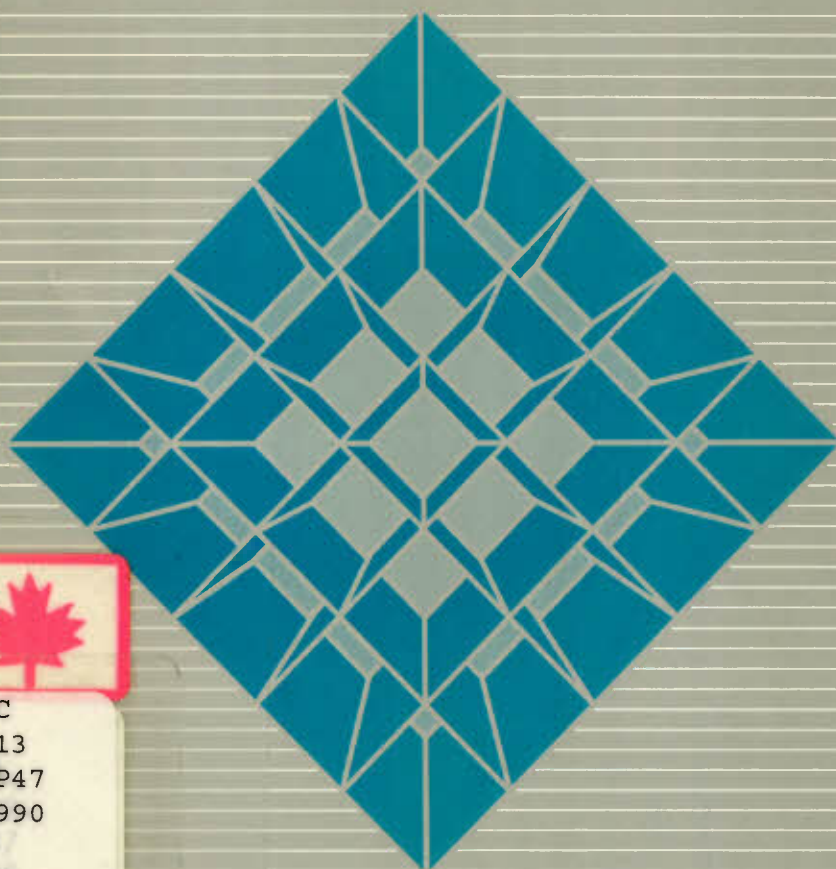


# THE PERSPECTIVE 2000 CONFERENCE

## A Synopsis



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K. Newton and J.-P. Voyer, Rapporteurs

# A Synopsis

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# **The Perspective 2000 Conference**

## **A SYNOPSIS**

This Synopsis highlights the main findings of the Proceedings of the Conference by the Council that is available at the Canadian Government Publishing Centre and at associated bookstores and booksellers, under Catalogue No. EC22-167/1990E.

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## Foreword

Anniversaries are usually a time for feasting and for nostalgia. In celebrating a 25th anniversary, the Economic Council of Canada took a different tack. We commissioned an intellectual feast of papers focusing on the social, political, and economic challenges Canadians are likely to face in the year 2000 and beyond.

The Council had two objectives: to create an intellectually stimulating event for the participants in the conference; and to create a background against which we could develop our research agenda for the 1990s. This, in turn, would help us to meet our responsibility to provide Canadians with pertinent and forward-looking advice on how to improve the country's economic performance.

The project was designed to incorporate three features – the global perspective, the linkages between economics and other global developments, and the longer-term view.

First, four major building blocks were identified. In Block I, attention was focused on global issues and on the interrelationships among the physical, geopolitical, and economic systems in global development. Block II considered the structure and competitiveness of the Canadian economy against the backdrop of the global forces set out in Block I. Certain key features of Canada's competitive prospects – namely, the innovations in human-resource development and organizational design that must accompany technological advance in the pursuit of productivity gains – were the focus of Block III. Then, in the final block, attention turned to the process of the decision making and the institutional structures required to support the formulation and implementation of the policy framework for an evolving political economy.

Once the authors of the papers for these four building blocks had been identified, they and the discussants were invited to attend a one-day workshop in April 1988, where there was a lively discussion of the proposed approach to the issues. Once the papers were completed, they were presented at a conference where the authors and commentators set out their views for discussion by a representative group of Canadians from the labour, business, academic, and other communities. At that conference, known as *Perspective 2000*, on 30 November and 1 December 1988,

we were fortunate to involve five of the Council's past Chairmen – Arthur Smith, André Raynauld, Sylvia Ostry, George Post, and David Slater.

The next stage of the project was the communication of its main messages and conclusion. Many participants at the conference encouraged us to convey the material to a much wider audience. Accordingly, during 1989, we organized nine workshops across Canada, many of which provided valuable opportunities to reflect upon the regional repercussions of the ideas and trends identified at the conference. In addition, the full text of the papers, along with summaries of the four main blocks, are now published by the Council as *Perspective 2000: Proceedings of a Conference Sponsored by the Economic Council of Canada*.

This volume, or *Synopsis*, provides the reader with a briefer overview of the major themes, views, and conclusions of the larger conference volumes. It has been prepared by Keith Newton and Jean-Pierre Voyer, senior staff members who actively participated in the development of the program, preparation, and editing of the proceedings, as well as the workshops. Tom Schweitzer also made a valuable contribution to the preparation of this synopsis and the proceedings. I would like to acknowledge the valuable help of our advisory committee, chaired by Yves Guérard, a member of the Council, and to thank the authors, the discussants, the participants, and all the members of the Council staff who made this project a worthy celebration of the Council's first 25 years.

Judith Maxwell  
Chairman

## Introduction

What challenges, opportunities, and uncertainties await us as we enter the 21st century? Simply daring to try to answer this question requires a certain amount of courage. The current world situation is evolving so rapidly and has become so complex that it is already extremely difficult to grasp the ramifications of current events, much less predict the near future. The political upheavals of recent months are a good example; the speed with which events overtook the world is simply astonishing. The new political and economic openness in Eastern Europe presents a whole new range of possibilities for the future. It may not be far-fetched to speak of the rise of a new international order, one with a better chance of maintaining peace and solving the major problems facing the world. At the time the Perspective 2000 Conference was held, no one would have dared predict the historic events that we have so recently witnessed.

In other areas, unfortunately, the future course of events seems quite certain if current trends are allowed to continue. In terms of the environment, the continuing degradation of a number of ecosystems is a source of increasing concern. Only a few years ago, apocalyptic visions of planet-wide devastation centred on the possibility of a major nuclear conflict. Today, we are faced with the possibility that the world may be destroyed simply as the end result of current human practices – out-of-control population growth leading to deforestation and desertification of vast areas of the globe, and the frenzied pursuit of material well-being leading to pollution and contamination of our water, air, and soil.

While there is no doubt that predicting the future is a difficult and often thankless task, there are good reasons for attempting to chart the possibilities and probabilities for our ecological, political, economic, and demographic systems over the next quarter century. Such an exercise enables us to make a more enlightened assessment of current policy and of the consequences of current actions. Other salient questions include: What will be Canada's place in the new global context that will emerge from these transformations? How urgent is the need for new policy approaches? And what measures will be needed to cope with these transformations, both for Canada and the planet as a whole?

## I The Global Setting

To clearly establish the background to these discussions, the Perspective 2000 Conference began by examining the long-run prospects for the physical setting of our planet, including the major demographic, technological, and environmental trends. Against this backdrop were superimposed probable world developments in the geopolitical and economic spheres.

A handy point of reference is provided by the "traditional" visions of the 21st century, which are based on the results of simply extrapolating the trends of the last several decades into the future.

### *Population Explosion*

World population is currently about five billion and is continuing to grow, though at a lower rate than the 2 per cent per annum of recent decades. Most forecasts suggest a population of 10 billion a century from now. This implies a growth rate significantly lower than 1 per cent per annum – rather similar to that prevailing a century ago. However, the low growth rate of that past was due to a high-mortality rate. In his paper, William Clark quotes demographic authorities who maintain that we can confidently expect impressive improvements in the quality of human life. For instance, conventional wisdom expects the world infant mortality in 2025 to fall to slightly less than half of its rate in Europe in 1950. At the same time, life expectancy at birth for the world as a whole would increase to 71 years as compared to the European figure of 65 years in 1950.

At the same time, however, this population will be distributed extremely unequally over the world's surface, with important consequences for the geographical concentration of economic activities and so for the impact these activities will have on the environment. Where Africa accounted for 11.6 per cent of the world's population in 1985, it will account for 19.7 per cent by 2025. Over the same period, North America's share of the world population will drop from 5.4 to 4.3 per cent.

### *The Contributions of Science and Technology*

Will the Earth be able to support population growth of this magnitude without a severe drop in living standards? The scientific and technological discoveries of

the future may easily make commonplace what seems impossible today. For example, Clark quotes expert opinions which indicate that agricultural production is likely to increase fourfold over the next 100 years. Most of this expected increase in agricultural output will come from new technologies – improved genetic stocks, cultivation, fertilizers, and pest control – rather than from expansion of usable land. Nor is increased consumption per capita of primary resources and materials a necessary condition for a rising standard of living. It is perhaps here that developments in science and technology show their most amazing impact. In the United States, energy use per unit of real GNP more than doubled between 1880 and the early 1920s, but then increasing efficiency of use reversed the curve and, by the early 1980s, it had declined to the level of the 1880s. A part of the decline was caused by the oil-price shocks of recent decades, but technology has shown its ability to rise to the challenge. Despite the conventional forecasts that energy requirements will increase sixfold in the next 100 years, ecological and economic pressures should serve to channel long-run trends in the direction of improved energy efficiency worldwide.

While the demand for materials will continue to grow at an astonishing rate, Clark also foresees a decline in the quantity of material required per unit of output. Overall, the quantity of industrial materials required for each unit of output has been halved since 1900, and this “dematerialization” phenomenon should continue.

The 1950s and 1960s experienced many radical technological innovations. But since the 1970s, the emergence of new information technologies has created, according to economist Jacques Lesourne, nothing less than a fundamental change in the technical paradigm that transforms the relations between the technical system, the economy, and society. This paradigm change may well be followed by another one rooted in the rise of biotechnology.

Thus the possibility of an attractive future is there, but is it realistic? So many things could go wrong. While mesmerized by the unimaginable horrors of a nuclear war, humanity tends to forget what terrible sufferings and devastation the by-now completely outdated military technology of World War II was able to inflict. Furthermore, 45 years without a major armed clash between the leading world powers is an historically unique phenomenon. Must history repeat itself? Even assuming peace, will humanity be able to develop the international institutions and rules of the game that are needed to take full advantage of the new economic and technological possibilities?

### *The Global Geopolitical Context*

On the whole, political scientists William Maynes and John Kirton think that armed conflict between the leading world powers will be avoided. The nuclear

stalemate is expected to continue and, according to Maynes, "it is difficult to imagine any rational government launching a nuclear attack that could result in a nuclear response." True, the economic, political, and military predominance of the United States has been steadily declining since the end of World War II, and historically such declines of the hegemony have led to major wars. But Kirton thinks that this time around mankind may be luckier. The rising economic powers (Japan, Germany, France, Italy) appear reluctant to take on the security mantle worn by the United States since World War II, and are on the side of the United States in the major international arguments. Nor is the United States likely to retreat into isolationism and protectionism.

For these authors, recent technological developments act in favour of global peace. Advances in camera miniaturization, satellite transmission, and direct-broadcast satellites make it easier for television to get international developments and stories in the air quickly and to reach wide audiences. The internationalization of television and the spread of literacy are making populations more knowledgeable in international affairs and less prone to defer to their rulers. Together with increased respect for human rights, that is one of the major changes that is occurring right around the world. The more casual attitude towards authority will have important consequences for the respective spheres of influence of the United States and the Soviet Union. Generally speaking, the hegemonic power of these countries is on the wane. These trends act, on the whole, in favour of peace. But, it remains to be seen whether such optimism does not underrate the danger of a charismatic master of the media whipping up popular sentiment to a degree that becomes a danger to international peace. It is instructive to recall Hitler's mastery of the radio in the 1930s. But if this danger can be avoided, we can hope for a reasonably peaceful future.

The developed western countries should gradually reduce their worldwide military engagement. This will occur as the Soviet Union reduces its aggressive international stance, but also because the economic power of the Third World will continue to grow and with it, its resistance to the western industrial powers. The danger is that the military disengagement of the West will go hand in hand with a reduced effort to help the non-industrial nations' economic development. The communist states will have their hands full with their domestic problems. The creation of an efficient economy, the democratization of the political system, defusing or accommodating the nationalism of the satellites and national minorities, the rapprochement with the West: all these are challenges of gigantic magnitude which would test the mettle of even the most able communist politicians and which will leave little energy and resources for external adventures. With respect to Third World countries, they will be preoccupied with the creation of political order that is the precondition for economic development.

### *Economic Perspectives*

Even if a certain optimism about peaceful political development is justified, would this be sufficient to guarantee the *worldwide* improvement of living standards of an increasing population? Here the trends of the recent decades give a more dubious answer. It is true that the diffusion of modern technology and increasing economic interdependence among nations have led to converging levels of productivity and per-capita production in the industrialized and newly industrialized countries, which are gradually moving towards U.S. levels. But this convergence does not extend to all nations. Many South American, and particularly Sub-Saharan African nations, are falling further behind the leading industrial nations. In these cases, the gaps are widening rather than narrowing.

The converging countries possess the ability and willingness to adopt technological change and also display political stability. But will they show the degree of economic openness needed to make the most of the economic opportunities science and technology provide? Lesourne observes that the United States found itself in a predominant position after World War II, but since then we have been witnessing the gradual emergence of a multipolar world economy that parallels the political multipolarity mentioned above. The United States and Japan are already centres of economic influence, with the possible development of the European Economic Community into a third pole. The future relationship among this triad (and possibly with a fourth block consisting of the communist countries) will be of crucial importance to the economic development of the coming decades. Lesourne offers three scenarios for the future world economy, focusing on the major policy issues in the years to come. All three scenarios are based on the fact that the United States is currently suffering a substantial and prolonged deficit in the government and foreign current accounts.

In the first scenario, the United States tries to reduce its foreign account deficit by protectionist means. This reduces imports from Asia and Europe. Japan and the East Asian NICs try to recoup their loss by intensifying their exports to Europe, whereupon Europe itself adopts protectionist policies, forcing Japan to concentrate on the Asian and Third World markets. This scenario would restrict international economic growth. The United States would lose relatively little, provided it maintained good relations with OPEC and Latin America, but Japan would not be able to make up in East Asia all its losses in the U.S. and European markets. The EEC would suffer most and has the biggest interest in preventing this scenario from coming true. In this scenario, Canada would have to decide whether to follow a policy relatively independent from that of the United States by developing its trade relationships with Japan and the Third World, or to form with the United States a truly North American economic community.

In the second scenario, the industrialized nations remain relatively open to international trade, but little headway is made on macroeconomic cooperation among

governments, and the actions taken by the central banks have only temporary effects on exchange rates. In this case, the continuing U.S. balance-of-payments deficit would lead to a sharp fall of the dollar, which would, with a further lag of several years, reduce the deficit substantially. This, in turn, could induce a substantial improvement in the currently depressed expectations and lead to a strong recovery of the U.S. currency. Such an uncontrolled roller-coaster path of exchange rates, trade flows, and foreign balances would necessarily reduce the economic growth capability of the industrial nations. As Canada's currency is closely tied to the U.S. dollar, scenario two implies big fluctuations against the Deutsche mark and the yen. This makes the planning of purposeful expansion of multilateral international trade very difficult.

The third scenario posits extensive cooperation among governments that serves to stabilize exchange rates and trade flows. This scenario assumes that governments decide to give events beyond their borders a higher priority. The trigger could be a deep recession in the United States whose effects spread into the world economy. A return to more balanced trade would reduce the incidence and severity of trade disputes and would likely favour freer trade. This scenario offers Canada the best opportunities for diversifying its foreign economic relations.

Even international agreement on macroeconomic cooperation would not be sufficient to exploit economic opportunities to the maximum. Almost every nation impedes the expansion of international trade by means of tariff and nontariff barriers invoked in the name of true or pretended concerns about national security. Internationally acceptable compromises between competition and national security will have to be worked out. Also, international competition may well lead to gigantic multinational corporations with market power on a global scale. It will be necessary to establish an international code for preventing abuses of economic dominance. These microeconomic questions are all the thornier, because few satisfactory solutions to them have been found even on a national scale, let alone on the international one.

### *The New International Order*

How will the major powers rebuild the international order they have inherited in order to take into account the profoundly different world economic and geopolitical environment?

Kirton pointed out that the current institutions (the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund, the World Bank) reflect the power relationships of the time when they were founded shortly after World War II, and their structure and modus operandi have been increasingly

outdated. For instance, the Security Council of the United Nations provides a veto for the leading victorious powers of war, withholding it from the new economic superpowers, Japan, and West Germany. GATT finds it increasingly difficult to deal with the increasing tendency for governments to manage their trade through greater use of nontariff barriers. Nor does GATT properly reflect the rapidly growing importance of services and financial flows.

According to Kirton, the role of the United Nations in the major accomplishments of the past two decades has been secondary. From the viewpoint of the international order, organizations such as Greenpeace and Amnesty International (and even rock concerts!) have likely had more influence than the United Nations. One of the primary failures of the United Nations has been its inability to integrate countries such as Japan, Germany, Italy, India, and China into the international order. The resources of these countries will be needed for the system to have any hope of reaching the year 2000 intact.

The international community must decide whether it prefers to implement a reform program designed to enhance the efficiency and relevancy of present international institutions, or instead to watch the international system fragment into regional blocks. A certain trend in the latter direction can already be discerned. The links the European Community is trying to forge with African nations, the growing interest of Japan in South-East Asia, and recent U.S. actions in the Caribbean are all examples of the efforts the three largest blocks are making to consolidate their economic turf.

Future efforts to construct an international order will probably centre on developing a new generation of postwar institutions, such as the seven-power (G-7) summits. The 1990s will challenge the summit system to transform itself into an institution that can accommodate such important powers as the Soviet Union, China, and the southern developing nations.

### *Environmental Constraints*

Clearly, then, the international economies face major challenges of adjustment and change that require policies, planning, and institutional adaptations of the most radical and thorough-going kind.

But even if mankind followed the most intelligent course in political and economic matters, would the earth be able to support the projected population at the projected standard of living in a sustainable manner, that is, without inflicting incurable harm on the ecosphere? Here, unfortunately, even the experts can only talk about warning signs, but cannot speak with any degree of certainty. Yet this appears, at present, to be the most fundamental dilemma facing the planet.

Over the last century, the global temperature has risen by at least  $0.5^{\circ}\text{C}$  and the sea level by 12 cm. We do know that over the same period, agricultural, industrial, and energy-related technologies have released vast amounts of water vapour, carbon dioxide, methane, and other "greenhouse" gases, but whether these have caused the climatic changes or merely accompanied them is still a matter for debate. Clark quotes expert opinion which anticipates, however, that by 2040 the global temperature may well be  $2^{\circ}\text{C}$  above the 1985 figure, with consequences such as increased coastal flooding in India's Gangetic delta, a northern migration of crops and natural vegetation in Europe, and aggravated droughts in the Mediterranean basin. The deleterious effect of chlorofluorocarbons on the ozone layer of the stratosphere, and the corresponding increased exposure of the earth's surface to carcinogenic ultraviolet light, has recently been discussed in the daily newspapers. It is notable that while global ozone depletion between 1969-86 was of the order of 2 to 3 per cent, the full implementation of the Montreal Protocol on Protection of the Ozone Layer would still result in a further depletion of about 4.5 per cent between 1985 and 2040.

The visually most impressive of the current environmental changes is the forest damage of North America, Europe, and China. In central Europe, where forest management had been highly developed, the current decline is five times the volume annually harvested. The cause is not well understood, but most agree that it is some combination of atmospheric pollutants, including acid deposition, sulphur and nitrogen oxides, and heavy metals, i.e., products of industrial activity. Europe has a long history of industrial pollution and provides the best indication of what may be in store for North America and China.

The United Nations has forecasted a continuing trend towards urbanization. Fifty years ago less than 30 per cent of the world population lived in urban areas; 50 years hence, 60 per cent is expected to do so. In addition, the Brundtland Commission expects that some of this growth will be concentrated in the most polluted urban conglomerations of the world. Mexico City is expected to grow from the most recent estimate of 16 million inhabitants to over 26 million in 2000, Sao Paulo from 12.6 million to 24 million, Bombay from 8.2 million to 16 million. Many other cities of the Third World could be cited. The resulting pressure on the ecosystem will become tremendous. But ecological damage may become visible only well after the harmful action has occurred. Formulation of a corrective policy may take more time, and then it will take even longer before it becomes effective.

Such considerations yield the disturbing result that with current technology it may not be possible to provide for the world population as a whole a standard of living comparable to that of Europe in 1950 without inflicting serious damage on the environment. This would be true even if reasonable geopolitical and economic

strategies were followed. Either ecologically sound technologies are developed or else something will have to give: population growth, the rise in living standards, or peaceful development (or a combination of them).

### *The Threat of Discontinuity*

Thus analysis of the "heavy trends" can provide interesting information. However, history teaches us that these trends are frequently interrupted or deflected by surprise events or discontinuities. Discontinuities can be of many sorts, and a few examples must suffice. The appearance of founders of universal religions and of charismatic political or military geniuses like Alexander, Genghis Khan, or Napoleon can change the history of a continent or even of the world. Scientific or technical inventions furnish other examples – the steam engine, the internal combustion engine, and the computer being obvious ones. Each one revolutionized economic life. The discovery of a maritime route to the Far East abruptly changed the history of Europe, relegating the previously central role of the Mediterranean to that of a minor secondary area.

Discontinuities can occur also in the ecological sphere, as when the gradual accumulation of pollutants in a lake at one crucial point of time overwhelms its self-cleaning ability, and the lake becomes dead. While discontinuities are often heralded by what Pierre Dansereau calls "seed events," these are rarely recognizable when they occur, and often can be identified as such long after the event. We may be willing to accept the discovery of the transistor in 1947 as the seed event leading to the development of the integrated circuit, robotics, satellites, space travel, the personal computer, computer-aided design and manufacturing, and the information revolution. Another, perhaps more debatable, example would be the discovery of petroleum in Titusville, Pennsylvania, in 1859, which could be regarded as the seed event for the age of the internal combustion engine, aviation (and modern aerial warfare) of urban sprawl, and possibly of environmental deterioration via the greenhouse effect.

### *Reinforcement of Intersystemic Links*

Discontinuities or surprises are, by their very definition, unpredictable. If the world decision makers cannot predict change and do not want to be overwhelmed by it, then they must learn how to manage it. This is an enormously complicated task because demographic, technological, ecological, political, and economic forces continuously interact. The phenomenal increase in the range of human activities since the turn of the century has led to a corresponding increase in the extent and complexity of interactions. Links between the demographic, ecological, and tech-

nological systems are no longer simply a local phenomenon, but a worldwide one. What once were isolated cases of pollution limited to a particular body of water or air are now phenomena spilling across borders. The level and pace of human activity has reached a point where the cumulative effects are destabilizing the fragile geophysical balances of the entire planet. The physical interdependence created by these tightening intersystemic links is matched by increased political and economic interdependence among nations.

For example, an economic problem such as Third World debt may induce countries to overexploit their natural resources (farmlands and forests), leading to desertification and the impairment of their long-run production capacity. And the destruction of rainforests may also have a catastrophic long-term environmental impact. It seems quite possible that population pressures and a growing refugee problem will lead to international disputes over immigration policies, that linkages between population and environmental policies could exacerbate both, and that environmental concerns may lead to fierce disputes about "pollution rights and obligations."

With stronger intersystemic links comes a higher probability that the effects of shocks or discontinuities arising in one corner of the planet will spread quickly to all parts of the globe. To manage change in such context, Clark thinks that the most fruitful approach would be to bring together teams consisting of highly competent professional policymakers, scientists, and technologists, let them develop "plausible futures" and discuss policy solutions to the problems these futures entail. Exercises in such "policy gaming" are analogous to the better known "military gaming" exercises. Past experience shows that plausible, relatively minor differences in basic assumptions can lead to widely different "plausible futures." This is one of the useful lessons of such gaming exercises. Another is that it forces a coherent logical framework on the participants. Also, the approach is an excellent vehicle for exploring how long it would take to consider a policy response to a crisis, to put it into action, and to experience the desired effect. Political games help to refine future research priorities and to make scientists and politicians understand each other's problems.

In summary, world population prospects considered along with forecasts for energy use, agricultural production, and dematerialization suggest some reasons for guarded optimism. While acknowledging the severe problems of sustaining living standards in the face of environmental degradation, Maynes and Kirton maintained that powerful forces such as television, the spread of literacy, and the increasing respect for human rights are tending to reduce the chances of global conflagration. At the same time, there are some indications that international political institutions will be able to adjust to the changing world structure.

Greater caution is called for when investigating economic trends and prospects. The economic success of certain developed and developing countries stands in sharp contrast to evidence of growing impoverishment of the poorest. Also, the fragility inherent in international trade and financial imbalances coupled with increasing interdependence among economies, place an ever-greater responsibility upon international institutions. Clearly, straightforward projections of rising living standards will be subject to effective governance and in particular to our capacity to manage the unfavourable surprises that can occur as a result of the relationship between economic activity and the future of the ecosystem.

## II Canada's Place in the World Economy in the Year 2000

The world of the year 2000 will be driven by rapid technological change, fuelled by the information revolution. Productivity of those countries which can master the modern technologies will continue to converge. Several new countries will join the club of advanced economies. These economies will target mass markets for standardized products. Countries that now enjoy relatively high standards of living will have to face the challenge of increased competition. Some industries in the Canadian economy will be particularly hard hit by the arrival of new competitors.

In addition, the erosion of the United States' leading role in the political, economic, and military fields opens the possibility that powerful regional coalitions will coalesce around the three main centres of influence – Japan, the United States, and Europe. These new groupings may have a significant impact on international flows of goods and capital.

The convergence phenomenon has also expanded the borders of the industrialized world, and the recent opening up of communist countries to the West signals the emergence of sizeable new markets. These developments may offer Canadian firms some excellent commercial and financial opportunities.

In such a global context, what are the prospects for the Canadian economy – its structure, characteristics, and potential performance?

### *Resilience or Resignation?*

The speakers at the conference expressed a wide variety of views and varying degrees of optimism. The optimists, particularly Côté, based their views essentially on past experience. Canada has, after all, overcome a large number of quite considerable challenges in the last 25 years. As for the information revolution, the computer has been with us now for over a generation, has successfully invaded the spheres of research, business, and the military, and is now beginning to find its place in private homes. The oil price shocks inflicted painful blows on the economy without bringing it to its knees. The country has also survived the rise of Quebec nationalism, the 1980 referendum, and the proliferation of federal-provincial battles. The 1981-82 recession was, by a considerable margin, the worst

since World War II, yet the unemployment rate in Canada is now only marginally higher than in 1980, while the inflation rate has been cut to less than half. Economic growth in the 1980s has kept up with that of the United States. All this happened in a world of wildly fluctuating exchange rates. All in all, therefore, the Canadian economy has demonstrated remarkable flexibility and resiliency.

This view does not deny that Canadians will have problems. Most of the export markets where Canada is well-placed are resource-based: farm products, ore, forest products, energy, and so on. In 1988, these products accounted for almost half of total Canadian exports of merchandise and services. As far as farm products are concerned, Canada may still enjoy favourable market conditions if the Uruguay Round negotiations come to a successful conclusion. It is quite possible, however, that the trend towards world overproduction will continue, leading to drastic changes in the agricultural sector and a gradual decline in the importance of farming to Canada's economy.

As far as other commodities are concerned, the basic question is whether the direction of international price trends will favour Canada or not. Commodity prices have generally been declining since the mid-1960s, and there is no sign of this trend reversing. There is little likelihood of raw material shortages in the medium and long terms. In some industries, new technology is helping to increase productivity. Other industries, such as metals production, are being hit hard by the emergence of new and less-expensive substitutes such as plastics, ceramics, and optical fibres.

The most important long-term question for Canada is whether the country can win itself a comparative advantage in other industries characterized by higher-value-added products, particularly high-tech manufacturing and industries requiring highly specialized labour. For Côté, the production methods of the manufacturing sector around the world are undergoing profound change. Technology is increasingly levelling economies of scale. Flexible, smaller-scale production is spreading throughout the manufacturing sector. It is now possible for small- and medium-sized firms to carve out niches in world markets, provided they show flexibility and display leadership, quality control, and innovative design. These trends will work in favour of Canadian manufacturing. The small size of Canadian plants will no longer represent a major disadvantage.

Thus there is cause for reasonable optimism. Provided Canadians adopt an outward-looking stance in international trade, keep the Canadian dollar floating vis-à-vis the U.S. dollar, and maintain the dynamism of entrepreneurs and enterprises, Canada's growth rate will approximate that of the United States.

Is Côté's view not excessively optimistic? Assessing the structure and characteristics of the Canadian economy, Paquet finds a serious case of arteriosclerosis.

Among other things, he points to an aging population unwilling to take risks; an economy suffering from a rigid wage structure coupled with continuing high unemployment; declining industries that need state intervention to help the orderly phasing out of inefficient products and that need assistance for the development of better design; a financial system that is becoming increasingly unstable and whose dynamism is hampered by federal-provincial jurisdictional squabbles; and an agricultural industry where half of the output is entrusted to marketing boards that are not efficiency-minded.

In the manufacturing sector, Canada's current productivity performance indicates that its infrastructure leaves much to be desired. Our productivity levels at the industry level are far below those of the United States. Moreover, during the 1980s, Canada was passed in the productivity race by West Germany, France, and Italy, countries that continue to improve their records. Other countries, notably Japan, are also rapidly gaining ground on us.

From a political economy standpoint, as Ken Norrie pointed out, we may take satisfaction from having navigated the shoals of growing federal-provincial tensions in general and of the 1980 Quebec referendum and the repatriation of the Constitution in particular, but this does not mean that we shall not experience even more severe problems of regionalization in the future. Province-building often involves erecting barriers to interprovincial flows of goods, services, and factors of production that are perhaps even more pernicious than tariff and nontariff barriers to international trade. Nor can we take for granted that the postwar multilateral liberalization of trade will continue. The recent difficulties in GATT negotiations, in particular in the fields of agriculture and the nontariff barriers to service flows, indicate that future progress may come only with great difficulties, if at all. For all these reasons, Norrie thought Côté's optimism was overdone.

What policies would be most helpful to facilitate Canada's adjustment to, and success in, the new global environment? The conference participants chose to focus on macroeconomic policies, trade, redistribution policies, education, and training.

### *The Role of Macroeconomic Policy*

As for macroeconomic policies, Helliwell focused on the importance of a prudent approach to both inflation and financial management. On inflation, he examined the record of 18 industrialized countries over the last quarter century and found that countries following expansionary policies that lead to higher-than-average inflation rates are likely to achieve less-than-average growth rates of income and productivity.

What about the argument that higher levels of public provision of goods services may help to increase adaptability to change and thereby stimulate productivity growth? The experience of the 18 countries investigated by Helliwell failed to reveal any systematic positive relationship between government spending as a share of GDP and productivity growth. On the contrary, there seems to be a weak negative relation between these two indicators. This leads Helliwell to conclude that adaptability in the labour force is not likely to be gained through expansionary policies and will require, instead, institutional changes and harder political choices.

On this latter point, Helliwell was challenged by Osberg and, to some extent, by Tsurumi. These speakers emphasized that the stabilization of the growth path of the economy is very important if governments wish to gain the whole-hearted cooperation of the labour force in the adoption of new technologies and the adaptation to increased foreign competition. Only if alternative jobs are available for those who experience layoffs will workers be willing to renounce obstruction as a defensive strategy.

In the field of monetary policy, Helliwell's objection to inflation was echoed by Tsurumi. The latter thought that, just as in the case of Japan, Canada's economic growth rate will depend on its ability to successfully build up exports of high-value-added manufacture, technologies, and services. This requires substantive investments in marketing in foreign markets, which are cheaper if the Canadian currency is strong. This argument was interesting in that it runs counter to the conventional wisdom that an appreciation of the dollar makes Canadian exports less competitive.

### *Trade Policy*

On trade, the greatest degree of agreement was reached in the recommendation that Canada must remain open and outward-looking. Helliwell found that increasing the openness of an economy strongly contributes to its productivity growth. Indeed, he regards resistance to protectionist pressures as one of the main policy priorities of government. When discussing what Canada can learn from Japan's success, Tsurumi too supported this view, maintaining that the government always exposed Japanese industry to international competition.

While speakers generally agreed on the importance of adopting a trade strategy that is open to the world and of resisting protectionism, opinion was divided on exactly what form this openness should take. Helliwell expressed preference for strengthening multilateral trade while Norrie and Tsurumi, expressing no opposition to multilateralism, stressed the importance of trade with Pacific Rim countries.

Paquet, for one, felt that the decision to enter into a free-trade agreement with the United States was ill-advised. According to Paquet, free trade has the fault that it assumes perfect competition and relies on the existing comparative advantages of our economy for success. Paquet makes instead the controversial recommendation that Canadians should learn from the example of Japan and the East-Asian "little dragons" and adopt *managed trade* – an offensive trade and targeting policy. According to Paquet, imperfect competition and increasing returns to scale combined with the use of export subsidies, R&D support, tariff quotas, and other nontariff measures are said to make it possible to "create" one's winners. The development of managed trade requires interactive planning between technocrats, stakeholders in the policy game, and from the many groups at the periphery who have important local knowledge of the problems.

### *Impact of Redistribution*

If there was a difference of views regarding trade strategies and macroeconomic policies, it was mild compared to the clash of opinions about the social and economic policies needed to cope with the distributional problems of the future. In this discussion, the question of government transfer payments took a central role.

Transfer payments to persons can be separated into two groups. Some transfers protect against temporary reductions in income or transitory mishaps. Unemployment insurance, health insurance, and the Canada and Quebec Pension Plans are examples. They play the role of "social insurance"; they aim at evening out income flows over the life cycle and preventing persons who would otherwise be adequately provided for from lapsing temporarily into poverty. Other transfers like the Guaranteed Income Supplement and Social Assistance redistribute income to the "lifetime poor," and are generally labelled as "social assistance." Canada's existing network of social programs is in fact a mixture of the two, particularly since the "social insurance" type transfers are not necessarily financed by user charges or by actuarially sound premiums.

According to Lars Osberg, the attitude towards transfer payments can be regarded as the touchstone for distinguishing two quite different visions of the Canada of the future.

### *The Implied Social Contract*

One vision recognizes that to achieve success in a rapidly changing world will require Canada to make substantial structural changes. The changes – including increased openness, trade liberalization, and technological change – will be to

Canada's net advantage because they will, on the whole, increase productivity. However, in the absence of government action, the advantages would be unevenly distributed. So would be the burden of the unavoidable adjustments involved in changing production methods and economic structure. Helliwell demonstrated that increased openness of the economies went hand in hand with increased productivity, *but not with increased GDP per capita*. This suggests that increased openness was accomplished by a reduced participation rate and/or by a reduced employment rate. In either case, the structure of income distribution is likely to change as a consequence of increased openness of the economy.

Osberg also argued that technological progress will have a significant redistributive impact in the years to come. Those capable of acquiring new skills easily will likely prosper in the labour market. Yet 24 per cent of adult Canadians are illiterate and many literate Canadians have mastered only the most rudimentary mathematical and scientific concepts. A relatively large proportion of the Canadian population thus finds itself poorly equipped to handle the effects of technological change. The adjustment costs of technical change will therefore fall disproportionately on the poorly educated.

As for the influence of demographic forces on transfer payments, the aging of Canada's population increases the need for transfers because older workers find the career changes and interregional migration necessary for adapting to changing industrial structure more difficult than would a younger labour force. Also, the size, indexation, and funding of transfer payments to the elderly has a significant effect on the intergenerational distribution of income. Environmental decay damages agricultural and forest areas more than industrial ones, thereby creating new problems of income distribution. The prevention or cleaning up of pollution would constitute a cost to the present generation, but would improve the standard of living of future ones. Who should pay? Today's taxpayers and investors, or the next generation?

Why this strong emphasis on distributional problems? Because, it is argued, technological and structural changes can be accomplished best when all concerned agree that the changes are necessary and desirable. To achieve this, it is vital that the distribution of burdens and rewards *be perceived as fair*. The difficulties of transition must be eased by transfer payments, countercyclical policies must smooth the swings in economic activity so as to reduce unemployment, and the need for unemployment insurance benefits and – if necessary – part of the gain in productivity should be distributed to the citizenry by publicly provided goods and services.

Osberg called such a system the "implicit social contract," and cited the Scandinavian countries, Austria and Australia, as examples. In these countries, the labour

unions cooperate in the introduction of new technologies and keep wage demands sufficiently low to remain internationally competitive in return for reasonably full employment, a say in the introduction and management of new technology and an extensive system of social insurance and assistance. The cornerstone of this conception of the welfare state is the political concept of the community. The community approach offers broadly based sharing of both risks and economic benefits in return for all that civilization can offer in terms of security and independence. Such a system is rooted in universality, a notion central to the concept of community.

The beneficial effects of such an approach are so evident that corporations like IBM and the Japanese Zaibatsu are trying to create private business equivalents to it. The importance of "corporate welfarism" was also emphasized by Tsurumi, among the lessons Canada could learn from the Japanese example. He chided North American businessmen for their "neutron bomb mentality" that attaches higher value to bricks and machines than to human beings. Helliwell seconded this by criticizing the Canadian system of transfer payments as being more a social safety net for corporations rather than for individuals.

### *The Limited Welfare State*

The second vision presented by Osberg – but rejected by him – does not support the social contract concept because it is thought to give rise to an overload of demands on governments. Proponents of this view are less concerned about stabilization, mainly because they believe that a good part of unemployment is voluntary and the remainder structural. Unemployment cannot be permanently reduced by fiscal and monetary policies, only by structural ones. However, a higher level of unemployment increases the inequality of income distribution and also raises the demand for services provided by the welfare state. In consequence, the advocates of this second view demand the refocusing of the welfare programs to the individuals or families they regard as truly needy.

Proponents of "this limited welfare state" think that lost national output under universality is high because individuals adjust their work behaviour to the high tax rates required to finance universality. Helliwell added that people are only too likely to get entangled in our present social safety net and find it difficult to escape the "welfare trap." We should try to replace it by a set of policies – trampolines rather than nets – that would help to prepare and maintain people's "ability to spring back revitalized." The shift in emphasis is all the more important because, as a discussant from the floor claimed, there are more and more pressure groups clamouring not only for a safety net, but also for a security blanket and a pacifier too. They want to be protected against all downside risks. The state is

expected to provide more and more of the goods which have been traditionally regarded as "private."

Courchene cited day-care as a typical example. This leads to the overload mentioned above, with the consequence that provision of collective goods such as defence, justice, research, and culture suffer, leading to the privatization of many traditional collective goods like police and research. Indeed, Norrie went as far as to say "that the next major policy debate in Canada will centre on reform of the entire range of social programs" because "we cannot go on providing the level and quality of coverage without a substantial increase in taxes or charges."

But what is the scope for change if (as in Osberg's opinion) the electorate interprets the government's 1988 election campaign as a firm promise that voting for the free-trade agreement will not impair our social security and transfer payments system, and any perceived violation of that promise would have dire political consequences. Courchene, on the other hand, thought that it would be regrettable if reform that would have been necessary and desirable in any case would be politically foreclosed because of the adoption of the free-trade agreement. If, after all, perceived equity is as important as the proponents of the social contract maintain, how can the universality of Old Age Security (OAS) be defended when it provides those over 65 with an annual transfer of roughly \$6,000, regardless of income class? "There is ample scope for more selectivity here, where most of the benefits would flow to the lower-income elderly, an increasing proportion of whom are single women."

Ultimately, it would appear that the differences between proponents of the social contract concept and the limited welfare state approach are rooted in their respective views of competition and markets. The proponents of the limited welfare state think that competition, if not perfect, is about as close to it as one could hope, and certainly preferable to state interference. Stabilization policies are doomed to failure. Social insurance programs should be privatized or replaced by government programs that mimic the private sector. Social assistance programs should be replaced by some relatively simple programs like the negative income tax. This should be structured so as to minimize the disincentives to labour supply. Adherents of the limited welfare state usually prefer decentralization of political and economic power, because they think this promotes competition between provinces and permits social experimentation. Courchene pointed out that it was the province of Saskatchewan that first introduced Medicare.

Advocates of the implicit social contract emphasize that much unemployment is involuntary, and this proves that markets are imperfect. There is just too much uncertainty in a global economy driven by headlong technological change and inflicted with frequent discontinuities to make a *universal* privatized or quasi-

privatized social insurance system feasible. If it is not universal, it will not provide that sense of community needed to cope with the social change forced by international competition and the desire to raise living standards. The political decentralization of the recent decades is regarded as dangerous, because it undermines the sense of community. The health insurance system, highly valued by the great majority of Canadians and regarded as superior internationally, outstanding by many foreign observers, was nationally adopted because of the pressure by the federal government, *not* through spontaneous imitation of Saskatchewan's example by the other provinces.

### *The Key: Education and Training*

The importance of education and training in meeting the challenge of international competition attracted virtually unanimous consensus. With more and more countries entering the field of traditional products and production techniques, Canada will be able to maintain its current rank of second highest standard of living only by success in knowledge-intensive high-technology industries. In this context, Côté regretted that governments assign research support to universities on a political basis rather than according to quality. This prevents the emergence of true world-class excellence.

Aggressive participation in the globalized economy is a must, and change-resistant inward-looking attitudes are a sure path to poverty. How can Canada prepare its young people for a world in which technologies will become obsolete with dizzying speed and in which Canadians may have to look forward to several major career changes during their working lives? Evidently, the exact technical and professional requirements are unpredictable. The only thing an effective educational system can do is equip young people with sound basics in literacy, communication skills, numeracy, and an early and effective start in foreign languages, so as to enable the students to acquire whatever special knowledge or skills their eventual careers will require. Seen in this light, the educational system is unsatisfactory. The 24 per cent of adult Canadians that are reported to be functionally illiterate is not merely a reflection of the fact that older citizens received less education than the younger ones. Even among those aged 18 to 24, the functional illiteracy rate is 17 per cent.

Nor is there much reason for complacency about those who complete high school. The international mathematics studies indicate that by international standards, Canada's high-school graduates' performance is mediocre or worse. As for the foreign languages, the sketchy information available gives little cause for satisfaction, even though mastery of foreign languages is extremely useful in foreign trade. In this regard, Tsurumi made a plea for extensive education of

Canadians about the advent of the Pacific Age and about the "peoples, cultures, geographies, economics, and politics of other Pacific nations." The problem of education is intertwined with that of income distribution. Study after study has demonstrated that the offspring of families from higher socio-economic strata are heavily over-represented among those taking postsecondary education, and thereby are likely to find more and better paying jobs. In Courchene's view, the entire educational system needs to be revamped in order to, amongst other things, ensure that the new information technology becomes accessible to all youngsters, not only to the children of the well-to-do.

In short, Canada must pursue a strategy of openness to the world and adopt an aggressive stance in international markets. In order to maintain our position in these markets, the Canadian economy will have to be restructured in the high-tech industries, where the most important production input will be human capital. The ability to absorb new technologies, the willingness to apply them, the willingness to compete on the global market, and political stability are the conditions of success.

The ability to absorb new technologies depends in turn on the education of the labour force. In an age of rapidly changing technology, a sound education in basics and the ability to find out new information are crucial. But ability to absorb new technologies is not sufficient. Lars Osberg emphasized that willingness, even eagerness to apply it is needed, but one can expect such an attitude from individuals only if they do not feel threatened by change. Otherwise, political pressure will arise for protectionism, tariff and nontariff barriers, and for a general attempt to isolate the economy from global competition. As for the importance of political stability, the example of the South American states shows that frequent upheavals and lack of public confidence hinders capital formation and the adoption of new technologies.

### III Employment/Human-Resource Development

We have just seen that economic reality, for most countries and most workers, resides firmly in the domain of fiercely contested global markets. The competition derives not just from the United States, Japan, and Western Europe but, increasingly, from such newly industrializing economies as those of the "Asian dragons" that are rapidly catching up to the West in terms of technological sophistication, productivity, and industrial power.

The keenness of such global forces is likely to be further honed by increasing trade liberalization and redoubled efforts in the race for technological ascendancy. Global shifts in the locus of economic activities, such as the gravitation of goods production to Third World countries, mirrored by the increasing weight of service activities in the advanced world, require far-reaching industrial restructuring and labour market adjustments in individual countries.

Against such a backdrop, many visions of Canada's future show a prosperous and technologically sophisticated economy clambering up the value-added ladder by concentrating heavily on knowledge-intensive products and processes and a highly trained and versatile work force. Many observers believe that Canada's ability to make such a vision reality – to survive and prosper – depends critically upon human-resource development. What, then, are the prospects for the Canadian labour force in the years ahead? Must we lose jobs to low-wage, Third World competitors? Will competitive pressure force us along the path to de-unionization taken by the British, the Japanese, and, most especially, the Americans? Will Canadian management and labour succeed in making the organizational transformations needed for industrial flexibility and competitiveness? How confident can we be that Canadian education and training will meet the demands of headlong technological advance in the drive for productivity and growth?

#### *Trends and Challenges of the Global Labour Market*

There are a number of salient features of global labour market development that have implications for the future of Canadian labour market institutions and wages. Specifically, Richard Freeman focuses on six major developments:

- the de-unionization of Canada's major economic partners – the United States and, to a lesser extent, Japan and the United Kingdom;
- the worldwide deregulation of labour markets to increase flexibility;
- the shift in world employment, particularly manufacturing, to less-developed countries, and an accompanying new division of labour among countries;
- the differing pattern of growth of employment, real wages, and productivity between European and non-European OECD countries, which suggests the existence of a real wage/productivity-employment trade-off across countries;
- rising wage differentials in the United States and the United Kingdom that threaten greater wage inequality in the future; and
- relatively high and stagnant or increasing rates of poverty in the United States and Canada, especially among children.

To this list Tom Kochan gives additional emphasis to new technologies, including greater differentiation within product markets and the shortening of product life cycles that place a premium on quality and innovation. All these pressures translate into demands on industrial relations systems for labour-cost moderation, improved productivity, flexibility in the use of human resources, a highly skilled and motivated work force, and sustained innovation in labour-management relations.

From the education perspective, Psacharopoulos adds the following global trends. First, in all countries educational financing is becoming an urgent problem that is likely to spur increasing public debate over the relative roles of the public and private sectors. Second, the need to adapt to rapid technological change is placing greater emphasis on general communications skills rather than narrow vocational courses, and on more industry-based training.

### *Pressures on Labour Unions*

Given this global backdrop, what are some of the specific issues facing the Canadian labour market? A major question is to what extent Canadian unions can expect to maintain the amount and kind of influence and play the kind of role that they have had in the past. Countries with which Canada has strong ties – Britain, Japan, and particularly the United States – have experienced declining rates of unionization. In the United States, private sector union density has fallen for three decades and is now less than 15 per cent, the overall non-farm labour force figure

being 17 per cent. Pressures on Canadian labour institutions will come about in several ways. First, unionized Canadian firms will increasingly have to compete against non-union firms in the United States, Japan, and the United Kingdom. Second, footloose capital will tend to avoid higher-cost union settings, with consequent loss of employment and income for Canadian workers. Third, and closely related, the "union-free" objectives of U.S. business is likely to spill over to Canadian management, and stiffer employer opposition to unionism. Moreover, as Craig Riddell tells us, Canadian polls show a decline in public support for unions, which now enjoy a lower level of confidence than in the United States. Next, management opposition is manifested in the rise in unfair labour practices in Canada, and recent legislative changes in Canadian provinces imply a tougher climate for labour. Finally, Freeman's argument about labour costs is substantiated by Riddell's finding that in Canada there is an average union/non-union wage differential for otherwise comparable workers of about 20 per cent. Should we therefore expect to see union density and influence in Canada decline? What are the prospects for innovative responses by Canadian management, labour, and government that will transform and energize labour market institutions rather than render them increasingly intractable?

### *Employment and Wages Flexibility*

Next, certain global trends in employment and wages also pose challenges for the Canadian labour market. Freeman draws attention to the less-developed countries' (LDCs) growing share of the world's industrial labour force (69 per cent in 1985) and their penetration of mass-production manufacturing markets. The challenges for Canada are several. It is crucial, for example, to facilitate the process of adjustment that is needed to effect the switch of resources from goods to services and knowledge-based activities. And, in this process, it is essential to maximize the productivity of human resources and the benefits of their complementarity to Third World labour, while maintaining the living standards of the least-skilled Canadians. A tall order indeed since, as Kochan reminds us, the continuing process of industrial restructuring, and the quest for comparative advantage through product differentiation and the exploitation of quality niches commanding a price premium, requires fundamental change in organizational behaviour, including industrial relations and human-resource practices.

Freeman's interpretation of post-recession growth in the OECD countries is that, with similar output gains, the Europeans enjoyed higher wages but high and stagnant joblessness, while the non-European OECD countries took their improved performance in the form of employment growth. For governments, therefore, a major concern must be whether Canada (like the United States, but in sharp contrast to most European countries) can maintain sufficient labour market flexibility and

wage moderation to facilitate adjustment through continuing strong job creation. And equity remains a thorny issue since, in addition to well-documented evidence of the uneven skill and income impacts of technological change and industrial transformation, Freeman points to the sharp and unexpected emergence of significant wage differentials in the United States and the United Kingdom in the 1980s. Unexpected because the sheer numbers of the higher-skilled, better-educated baby boomers should have had a supply effect that would narrow such differentials. In the event, the gaps have taken the form of exceptionally rapid increases for skilled labour in Britain and – more disturbingly – of significant drops in real wages of blue-collar manual workers in the United States. If the U.S. experience is a guide, then Canada's least-skilled workers in the declining goods-producing industries must be a prime target of equity-based labour market adjustment programs.

### *Changing Composition of the Labour Force*

To this formidable set of challenges inherent in global labour market trends, Tom Kochan adds another that derives from growing diversity of the labour force. Combine the increasing participation and share of women in the labour force with the growing numbers of immigrants, and it is clear that the needs, aspirations, and attitudes of Canadian workers in the future will be very different from what we have been used to in the past. U.S. estimates indicate that between 1987 and 2000, almost 90 per cent of all new labour force entrants will be women, minorities, or immigrants. Immigration will undoubtedly be important in the Canadian context where 20 per cent of the labour force is foreign-born. Particularly worrisome is evidence that immigrants' earnings are significantly below those of native-born Canadians, partly due to language deficiencies and other constraints on the ability of immigrants to learn skills required to advance to better jobs. U.S. evidence suggests that women and minority youth receive relatively less on-the-job training than white male counterparts, and enjoy proportionately lower rates of return to the training they do receive. In Kochan's words, such results "pose significant challenges to policymakers and practitioners alike given the growing consensus regarding the importance of training and life-long learning to long-term income, and the projected demographic mix of future labour force entrants."

### *Increased Demands on the Educational System*

In the view of George Psacharopoulos, the centrality of human-resource development in various countries' strategies to adapt to and exploit the process of global economic transformation will place enormous burdens upon the education system. The link between education and economic development is firmly established

and widely understood. Thus underdeveloped countries seeking an escape from grinding poverty and burgeoning demographic pressure pursue the goal of universal literacy. The advanced nations look to their educational systems for competitive edge in the headlong race for technological mastery and economic prosperity.

In all countries, however, the demands on the educational system are fast outstripping the state's ability to provide. Whether in debt-ridden African countries with crushing population pressures or in an infinitely better-off Canada with a major budget deficit and some tough questions about the social welfare costs of an aging population, the financing problem is daunting. So too, as Kochan and David-McNeil remind us, at a time when Canadians are, on average, better-educated than ever before, we have an illiteracy problem of major proportions, a high-school drop-out rate that approaches 30 per cent in some jurisdictions, and evidence of weak performance of Canadian students compared to Asian and European students on mathematics and science achievement examinations.

Less well-documented, but of equal concern, are the doubts raised about the adequacy of investments in training for those already in the labour force, and especially blue-collar workers most exposed to the risk of permanent job loss due to changes in technology. Such concerns stem from evidence that displaced workers with little education and/or general training have poor prospects of re-employment and from widely held views that Canadian industry, so long the beneficiary of skilled immigrant labour, continues to under-invest in human capital formation.

### *Prospects and Responses*

#### *The Future of Canadian Unionism*

As far as the future of Canadian unionism is concerned, Richard Freeman sees no inexorable trend towards de-unionization, pointing out that the examples of the United States, the United Kingdom, and Japan are countered by advanced economies like Belgium, Germany, and Scandinavia, where union density has been maintained or has increased. Nor is there any systematic relationship between union density and macroeconomic performance: Sweden, with the highest union density, shows similar recent figures for GDP growth, employment, and productivity as the country with lowest union density – the United States.

Nor need Canada necessarily follow the Australians' lead in pursuing a more centralized "corporatist" Scandinavian model of industrial relations, since once again it appears that neither the highly centralized nor the highly decentralized industrial relations systems have a monopoly on economic performance.

Parenthetically, Riddell notes, however, that the best performances appear to cluster at the extremes, so that the classic Canadian tendency to seek the happy medium may not be desirable in this case!

All this is not to say that union density and the form of industrial relations system are irrelevant. On the contrary, there seems to be general agreement that there *must* be transformation and adaptation of labour market institutions and practices. For Freeman, Canadian labour has a little breathing space that derives from two factors. First, the legislative framework is less hostile to the certification process than is the case in the United States, and less tolerant of the virulent anti-union activities that are common south of the border. Second, our nationally funded social benefits (health care in particular) help give some Canadian firms a competitive edge vis-à-vis American rivals. For Riddell, the hope for Canadian unions to resist the forces of de-unionization lies in their willingness to take a more innovative approach to workplace organization and the use of human resources as well as technology to improve competitiveness and maintain a high-wage economy. The unions' ability and willingness to play a major role in that process of change will determine, in large part, their future relevance and effectiveness.

What about the inherent ability of the Canadian labour market to adjust? Change is incessant, and it is known that millions of Canadian workers make successful work-life adjustments every year. But can the Canadian economy handle the rapidity and the enormity of global change exemplified by the advanced countries' shift out of goods production? To the Jeremiahs, Freeman says: look to Massachusetts for an example of how an economy can successfully adjust to the loss of substantial traditional manufacturing employment. In the 1960s and 1970s, textiles, garments, shoes, and other traditional manufacturing industries fled to the low-age, low-tax, and mainly non-union South and Southwest. By the 1980s, Massachusetts boasted the lowest unemployment rate among the 11 major U.S. industrial states, and wages that had increased from below to above the national average.\*

This optimism rests, however, on the proposition that Canada has some latitude for choice, and that she can gain benefits from the changing world scene and minimize the transitional and other costs of adjustment but that this will "require flexible and far-sighted policies . . . by private as well as by public decision makers." But it is to Kochan that one must turn for clues as to what, in practice, the responses of managers, unionists, and governments are likely to be, and to Abella for their prospects of success.

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\*We observe, parenthetically, that events have overtaken the "Massachusetts Miracle" since the time of writing. The miracle is mixed.

*Innovation in the Workplace*

First, it seems clear that pressures for labour-cost moderation will continue. Although stories of concession bargaining frequently cited American firms in the past, the fact is that marked moderation in Canadian wage settlements has been observed since 1982. Memories of the recession have not yet receded, and job security has apparently been a higher priority than wage gains. However, another strategy for reducing labour-cost pressures – contingent payment systems like bonuses and profit-sharing – has so far had only modest penetration in the labour market. The prospects for their wider diffusion in the future are questionable. Canadian unions are less well-disposed towards such schemes than their U.S. counterparts. For one thing, effective participation in such plans requires a greater sharing of information on financial performance and future business plans than is currently the case in Canadian firms. And in the face of perceived reluctance to share information and encourage greater participation in the decision-making bodies and processes that administer contingent payment schemes, workers and union leaders are unlikely to accede to them. Moreover, such plans throw the equity of an organization's whole reward system into sharp relief, as when annual profit shares for UAW members were accompanied by handsome bonuses for GM executives. Kochan concludes that while pressures for wage moderation will continue in Canada, there are clear signs that countervailing equity and real income pressures are building.

Second, Kochan places considerable emphasis on organizational change and human-resource development as essential ingredients of "strategic restructuring" (the quest for comparative advantage through product differentiation or market segmentation by producing goods and/or services that can command a price premium) and technological change. He cites the example of Ford responding to dire economic straits in the early 1980s by a combination of initiatives that involved, *inter alia*, a commitment to promote employee involvement, introduction of profit-sharing in exchange for new employment security provisions, communications forums, and expanded training and education programs. Reviewing Japanese, European, and North American literature, Kochan concludes that "the full potential of new technology can only be reached by adopting new organizational forms that effectively integrate technology and human-resource strategies and practices." A key design feature of successful Japanese manufacturing processes (which *can*, incidentally, be transferred to Canadian soil, as recent examples attest!) is the concept of "humanware," in which "technology" is broadly defined to encompass innovation in human-resource development.

Despite evidence of growing awareness of the need for technological innovation and innovations in human-resource practices to go hand in hand, and despite highly visible examples of the benefits that flow from this principle in this and other

countries, Canadian firms have not rushed to embrace it. Evidence from case studies and survey research at the Economic Council of Canada show that though there are many examples of specific aspects of such innovative practices, and applications of a particular facet of the overall approach, there are relatively few cases of an all-embracing framework that weds, to mutual advantage, the technological and human sides of the enterprise. Till now, most Canadian managers have invested far less energy and emphasis on human capital development than on physical capital and financial resources. Where efforts have been made to introduce innovative practices, they have often been met with skepticism by workers and unions particularly since, in some cases, they have been an ill-disguised attempt to keep a company or plant union-free. Prospects for success will therefore depend critically on the determined efforts to build channels of communication that promote mutual trust. Perhaps nowhere, at the moment, is this more critical than in the introduction of new technologies. Kochan's review of U.S. evidence, corroborated by the Economic Council findings for Canada, demonstrates convincingly that a *sine qua non* for successful adoption of new technologies is the significant involvement of worker (user) representatives at the early stage of the technological choice process and throughout the implementation phase.

#### *Antagonistic or Cooperative Attitudes?*

Are there any signs of changing attitudes? An Ontario study documents employers' skepticism towards innovative work practices and employee involvement in decision making – about technological change.\* Yet, although labour leaders espouse an adversarial union culture, they are not opposed to cooperation with employers on areas of mutual concern. Indeed, one must not forget the encouraging signs of cooperation in the sectoral adjustment efforts of the steel, forestry, and electrical industries, the work of the Canadian Labour Market and Productivity Centre, or the concerted efforts of labour, management, and government officials under the federally funded Industrial Adjustment Service – to name only a few. All of these efforts reflect a deep understanding of the labour market challenges of global change and adjustment and a willingness to seek mutually acceptable outcomes. And, despite their slow diffusion, there are already a number of highly successful Canadian cases of innovative approaches to human-resource practices and workplace relations that may, taken together, constitute a sizeable demonstration effect.

Where does this leave Canadian management, labour, and governments? Canadian employers have not pushed new workplace principles as aggressively as their

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\*Report of the Ontario Task Force on Employment and New Technology (Toronto: Government of Ontario, 1985).

American colleagues, nor have they provoked the same hostility in industrial relations. Thus a more gradualist, evolutionary approach towards more collaborative behaviour might be possible. An alternative, in Kochan's view, would be for management to invest in a 20-year campaign to reduce the influence of unions to insignificant proportions. Since, given the size and political strengths of Canadian unions, that seems like a costly if not impossible strategy, Kochan sees increasing efforts by management to promote change and adaptation with union leaders, either through conventional channels of negotiation and contract administration or by the development of new institutions for consultation at the workplace, enterprise, industry, and national levels. Such progress will come hard, however, requiring nothing less than fundamental changes in the managerial power distributions and organizational boundaries. A highly charged political debate is likely to accompany this process, which will result in success only if organizational culture – and, as Kochan insightfully points out, *management reward systems*\* – are reinforcing. (\*Emphasis added)

For their part, Canadian union leaders, given much higher membership rates, have considerably more room to manoeuvre than their American brothers and sisters. This suggests that far from being involved merely in fierce rear-guard actions to stem further loss of membership and influence, or grudging accession to new practices, Canadian unions have greater choice to adopt a less reactive, more pro-active role by developing a strategy that *leads* the debate on how to adapt to change in ways that are consistent with the interests of their members. Such an effort would need to be guided by a vision of not only the role labour wishes to play at the national and provincial levels of policymaking, but also the long-run role unions want to play at the workplace and in strategic managerial decision making.

As far as governments are concerned, the fundamental challenge for policymakers is how to institutionalize and diffuse the necessary changes. But the record of North American governments in facilitating such changes is not encouraging, as the fates of the U.S. National Commission on Productivity and Quality of Work, and Canada's (federal) Quality of Work Life unit and (provincial) Ontario Quality of Working Life Centre suggest. In Kochan's view, the only hope for significant government influence in this field is that national policymakers will come to recognize industrial relations innovations as an integral part of Canada's long-term economic strategy. Readers must judge for themselves whether the incorporation of labour market adjustment and human-resource development principles into the strategic policy framework developed by the Prime Minister's National Advisory Board on Science and Technology and the Council of Science and Technology Ministers constitutes such recognition or not.

Canadian commentator Rosalie Abella appears much less sanguine than the other speakers about the coming process of labour market adjustment in this country.

She sees a future infused with nervousness and fear as labour and management struggle for control over the levers of power and engage in a "titanic conflict – for what they see to be their very survival." And it is the essence of liberal democratic policy determination, she contends, that this tension will spawn a turbulent political process in which the warring sides repeatedly seek influence and ascendancy. The process will be intensified, in Abella's view, because it will be played out under the shadow of the free-trade agreement which (to mix a metaphor!) will surely bring controversial adjustment issues into much sharper focus.

The spectre of confrontation arises because Canadian firms and industries, faced with global market pressures, will identify three alternatives: seek to change any perceived impediments to success, seek to relocate if they cannot, or close down. And if their attempts to change are met with opposition, they will threaten one or other of the other two courses of action. Thus unions and governments are confronted with fearful dilemmas. For the unions, "failure to cooperate as handmaidens of economic success carries the risk of circumvention or redundancy." Cooperation, on the other hand, carries for government the risk of a radically redefined social contract, and for unions the risk of collusive obsolescence. The corollary of this vision is that, in the coming struggle, the protagonists' preoccupation with the minimization of short-term risks may take them well beyond the year 2000 before they have experienced and recovered enough to consider appropriate long-term alternatives for public policy.

### *The Quality of Education*

What, then, of the education and training underpinnings of the enormous adjustment task the Canadian labour market is called upon to perform? According to Jeannine David-McNeil, the outlook, at present, is bleak: budget difficulties have forced university and school board officials to cut spending to levels insufficient to ensure an adequate quality of education. Deterioration of laboratory equipment, diminution of library collections, too few computers, low participation rates at learned society meetings, zero or negative growth in academic salary payments are all manifestations of this malaise. In the face of such problems and in the context of the growing demands placed upon the education system, David-McNeil asks: how can we maintain, let alone improve, our global economic position?

This commentator places special emphasis on the *quality* of the Canadian education system. She refers to OECD studies that point out that a little understood, but extremely important, role of education resides not just in the transmission of theoretical and practical knowledge but in forming the attitudes, ethics, "mentality," and "outlook" of young people. These indirect and intangible effects of education

affect, in turn, such factors as entrepreneurial spirit, work habits, attitudes towards innovation, work satisfaction, diligence, flexibility, and sensitivity – in short, all the factors necessary for successful adaptation of the challenges of rapid global change. It is for this reason that we should take David-McNeil's warnings about quality erosion and the funding crisis in Canadian education to heart.

Technological change, more than ever before, puts a premium on basic communications skills. Therefore it is chilling to learn that in Canada today, close to one quarter of the over-18 population are unable to read, write, or handle figures at elementary school level. This places an added burden on the labour market adjustment mechanism, since the vocational training for new entrants, as well as for workers moving to new jobs and skills, may require prior, remedial education. Moreover, the content and quality of Canadian educational curricula are, in any case, too often found wanting: too much emphasis on preparation for declining professions, for example, or even for obsolete qualifications.

Fortunately, David-McNeil has some suggestions to offer to policymakers, particularly on the acute problem of financing. Following Psacharopoulos' suggestions about the trend in public/private financing responsibilities, she recommends, at postsecondary and especially university levels, the forging of much closer links with private enterprise. Since many private organizations already contribute assistance to the education system in cash or in kind, she advocates a closer, more coordinated and continuous framework of linkages. Next, she feels that individuals could contribute more on the revenue side, citing the province of Quebec, where real tuition costs have not risen in over 30 years. Such an increase would also, in her view, help eliminate the student dilettantes and reduce the inherent regressivity of a system in which the less well-off subsidize the education of the rich. And in a provocative conclusion, Professor David-McNeil argues for a stronger federal role in education, on the grounds that education policy is an instrument of economic policy, not just a social cost.

The trends and prospects for the labour market we have summarized here promise fascinating changes for the future. Will they be efficient and orderly or, as Abella portends, characterized by "polarization, politization and paroxysms of trepidation. . ."? The answer to this question will be largely determined by the quality and relevancy of the public policies that will define the environmental framework for these changes.

## **IV Environmental and Institutional Framework for Economic Policy**

All sectors of the Canadian economy, in fact, will feel the effects of fundamental change, and the process of change will have to be sustained, in fact shaped, by appropriate economic and social policies. These changes will be necessary to maintain the competitiveness of Canadian goods and services on international and domestic markets so as to protect the living standards of the Canadian population as a whole. Our decision-making institutions will have to develop economic policies designed to support the restructuring of Canadian industry and to enhance its level of technology and other important aspects of its competitive capacity. As pointed out by most contributors, however, the question of social equity must not be overlooked by government policymakers; they must analyse the redistributive impact of these changes and devise appropriate labour market adjustment policies in response.

Beyond these domestic considerations, the growing pressures exerted by population growth, the state of the environment, and the new context of planet-wide economic interdependence present another challenge to governments. The search for solutions and the implementation of appropriate policies should be undertaken in a spirit of closer cooperation, coordination, and, in some cases, harmonization at the international level.

Is Canada's institutional framework compatible with the development and implementation of the type of economic policies that will be needed? Is rapid and efficient decision making possible in the Canadian context? Are Canada's institutions and decision-making authorities up to the task? These are the types of questions that were raised during the last block of the conference. Speakers were invited to single out the most important aspects of the decision making and economic policy development process. Three major points emerged from these discussions.

First, one thing that is clearly lacking is a social contract or consensus between social partners, as well as between those who govern and those who are governed. This prevents the authorities from taking concrete action and making the necessary changes without constantly encountering systematic opposition (even hostility) from the various interest groups and other segments of the population directly affected by these changes.

A second element more specifically related to the Canadian context is the nature of the federal regime and the distribution of its power. In a context of adjustment, where national strategies must be chosen and implemented quickly, the fact that authority is shared by 11 different governments has a significant impact on federal-provincial relations.

Last, the whole subject of decision making cannot be properly addressed without considering the roots of the process, i.e., expertise, the role of advisers, and the relevance of the knowledge that is conveyed to decision makers. Since we are most concerned with economic policy, it makes sense to examine the role of economic advisers in the decision-making and policy-development process, a topic that certainly has special interest for the Economic Council.

### *Consensus and Economic Policy*

For Ian Stewart, the establishment of social, economic, and political consensus is a prerequisite to economic performance and has a critical role to play in guiding Canada's strategic response to global forces and international trends. Richard Simeon argues that social consensus is crucial because social and interest groups have the ability, in the modern world, to block change. The participation and approval of those groups actually affected by change have become absolutely essential to the process. The debate over the free-trade agreement, the abortive attempt to de-index old-age pensions, and the debate over the GST are all striking examples of this truth.

At the present time, however, there appears to be a process of polarization and fragmentation at work within Canadian society that is hindering efforts to reform economic, social, and industrial policies and to map out national strategies. If this lack of consensus is allowed to persist, the quality of our economic policies and economic performance could well be jeopardized.

### *Erosion of Keynesian Consensus*

The current situation stands in sharp contrast to the postwar era of consensus in economic policy development that lasted until the early 1970s. The foundation of this consensus was a philosophy or social contract associated with "Keynesianism." Keynesianism in that sense, which went far beyond Keynes' contribution to macroeconomic theory, gave capitalist democracy its ideological and political foundations by allowing the state to reconcile private ownership of the means of production with democratic management of an economy centred on full employment and equitable distribution of income. In the industrialized nations, this strong

Keynesian consensus, coupled with a period of buoyant economic growth, enabled the welfare state to flourish without triggering grave concerns about international competitiveness (as is the case today).

During the 1970s and 1980s, however, both in Canada and abroad, the Keynesian consensus eroded before a new philosophy espousing market efficiency and denouncing government interventionism. What sparked this sudden change? Several factors could be cited: the oil price shocks and their destabilizing effects on western economies; governments' inability to master inflation despite high unemployment; the increasing debt taken on by governments; and so on. But ideological factors also played a role, particularly a crisis in economic thought that ended the consensus of advice given to decision makers.

Alan Blinder's views on this question are unequivocal. He holds that the symbiotic relationship that once existed between theoreticians and policymakers has now completely dissipated. Policymakers find contemporary research far removed from the world they know and hence of little use. Academics, on the other hand, feel that policymakers are motivated by political concerns and more interested in looking good than doing good. Blinder believes that the main cause of this falling out between advisers and decision makers lies in the disputes that split academia into several different camps, so that Keynesianism was replaced at the cutting edge of economic research by "new classical" economic theory. He attributes this development to the sociological values of university-based economic research (where technical virtuosity and novelty are regarded more highly than more useful, more concrete approaches), to economists' well-known admiration and predilection for abstract theory, and to a general shift towards right-leaning ideas all over the world. Because Keynesian has always been more down-to-earth and more policy-oriented than the new classicism, its fall from grace has caused the connection between theorists and policymakers to suffer.

During the floor discussion, it was argued that, contrary to Blinder's views, there are academic economists belonging to a third school of thought (the supply-siders) whose advice is still listened to and respected by the present political authorities.

In any event, it seems clear that the advice delivered to decision makers is not as homogenous as it was when the Keynesian paradigm clearly dominated economic thought. As well, the rise of neo-conservative ideology in the industrialized countries coincided with the emergence of new classical theories in academic circles, a development that served to lend some legitimacy to the political prescriptions based on this new ideology. These two currents helped to install what Stewart terms "the new orthodoxy." Based on economic and political liberalism, the new orthodoxy advocates individualism, privatization, deregulation, and market

efficiency, argues that the welfare state is an impediment to efficiency and motivation, and calls for a decreased role for government in general.

But does this new orthodoxy offer a basis for a new social consensus? Stewart claims that it does not. One of the cornerstones of Keynesianism was the adoption of policies to ensure the equitable distribution of the fruits of economic progress. The new orthodoxy makes little attempt to rectify this major shortcoming of market economies, i.e., their inability to solve distribution problems without outside intervention.

### *The Strategic Role of Collective Goods*

How then can social consensus, which is so important to economic performance, be re-established? Considering the current state of public finances, there can be no return to the Keynesian policies of yesteryear. There is virtually no leeway left for new services or programs or for an expansionist approach to fiscal policy.

According to Stewart, the search for a new social consensus can only be based on "collective decisions" about what should and what should not be considered as public or "collective" goods and about the way these goods will be provided and financed. Such collective decisions will form the consensual base for a properly functioning market economy and strong economic performance.

In the short run, implementing such an approach would involve adopting effective policies designed to solve income distribution and redistribution problems. Only radical reform of the tax and transfer system – reform that reveals clearly how the programs are financed and administered and that seeks broad community consensus on the equitability of the proposed results – has any chance of success. In addition, like David-McNeil and Courchene, Stewart proposes a wide-ranging examination of the quality of our educational system. He also recommends that more public money be spent on housing and on infrastructure development, particularly in the areas of communications and incentives to innovation. He suggests that special attention be accorded to the question of immigration, so that this issue does not turn into a troublesome source of internal discord and economic disruption.

Finally, Stewart seems to consider the environmental challenge as an ideal opportunity to develop a collective-goods mentality. While he notes the enormous challenge that environmental constraints may impose on efforts to implement

consensus-based economic policies in the approach to the year 2000, he nevertheless stresses that humankind has no choice but to develop new principles and new standards of behaviour that will encourage the reconciliation of private activities with the public interest.

This outline of a "new collective philosophy" finds much in common with the concept of the welfare state and the social contract expounded by Lars Osberg. The importance Osberg attaches to the concept of the community, a common collective culture based on fundamental practices of social organization, echoes Stewart's call for collective decisions on the nature and other characteristics of public goods. The two authors also agree on the critical importance of economic equity as an inherent value of most public goods such as education, the environment, and health. They are also equally convinced of the urgent need to achieve true community-based consensus on the reforms to be made to the individual tax and transfer system and on the equitability of the desired results.

#### *Lack of Coordination Mechanisms*

While it is perhaps possible to identify the basic elements for a new social consensus, it remains to be seen whether Canada's current institutional framework can accommodate the development of this type of consensus. Both Johnson and Simeon question whether our institutions and decision-making structures have the capacity and the efficiency needed to build consensus. They note the lack of mechanisms to allow the public, private, and non-government sectors to reach agreement on the direction of economic and social adjustment.

Unlike Europe, Canada has never developed tripartite or neo-corporate mechanisms to ensure cooperation among the social partners. The current government does, in some respects, espouse a consultative model in its approach to business and the provinces, but, says Simeon, it is a process aimed at an elite. The lesson of the free-trade and Meech Lake debates is that the consultative process must be broadened to include a wider range of groups and to involve them at an earlier stage.

Leaving aside the question of the mechanisms themselves, Johnson also notes that the record of cooperation between the public and private sectors in Canada is far from encouraging. There is a tendency in Canada to assign the private and public sectors quite distinct and separate roles. The private sector is given responsibility for economic growth and job creation, while the public sector is assigned the job of "humanizing" the economy. This traditional division of roles and responsibilities has created an enormous gulf between the two sectors.

## *Canadian Political Institutions*

### *Vices and Virtues of Federalism*

Johnson, however, echoes other commentators on the national scene in suggesting that the major obstacle to the emergence of consensus and the development of national strategies is the inherent nature of Canadian federalism, in that it is focused on regional interests and the division of powers.

Because of tensions between Canada's various cultures and regions and because of its sparse population, political dialogue in this country tends to be primarily inward-looking. Canada's politicians have been preoccupied with reconciling the differences between Quebec and the rest of the country and with defining the identity of the Canadian nation. This national obsession with soul-searching has limited our vision of the outside world and our ability to respond to the changes taking place around us.

Johnson observes that the evolution of Canada's public institutions has generally tended to reinforce the regional character of policy debates. He notes that Conferences of Federal-Provincial First Ministers seem to be replacing Parliament as the forum where provincial interests are represented and reconciled in one way or another with national interests. At these conferences, the interests and priorities of regions and provinces have usually prevailed over national interests and priorities, essentially because the primary concern of the provincial first ministers is their respective provinces and electorates.

Meanwhile, the powers available to the Canadian government to encourage adaptation to global pressures are limited by the Constitution. In several strategic areas, it is the provincial governments that decide what action ought to be taken – education, labour relations, and the regulation of activities like investment dealing and insurance are all good examples. In other areas, such as environmental legislation and immigration, the power to act is split between the two levels of government. For Johnson, the current system of shared authority represents a serious obstacle to adjustment. And the situation will only become worse if the constitutional mechanisms that allow overriding national priorities to take precedence over provincial concerns are weakened by the Meech Lake Accord. He points, in particular, to the provisions of the agreement on the federal government's spending powers and on the formula for amending the Constitution.

Johnson is not alone in pointing out the disadvantages of a system where power is divided between 11 governments. Recently, a working group composed of six business and labour leaders named by the Board of Directors of the Canadian Labour Market and Productivity Centre examined the question of adjustment. In

its final report, the group concluded that one of the major obstacles to the development of efficient adjustment policy is the fragmented authority and competing objectives of the provinces.

It is tempting to conclude, then, that what is needed to meet the challenges posed by global competition is greater centralization of power. Simeon takes issue with this point of view, however, suggesting that Canadian federalism possesses some hidden virtues. Provinces are much more homogeneous and manageable entities. They are much more apt to develop coherent, integrated adjustment policies than a federal government trying to balance a variety of regional interests. (It is no secret that, in the interests of good federal-provincial relations, issues such as education and reform of the social security system have become taboo.)

Like Tom Courchene, Simeon sees an important virtue in decentralized federalism – the possibility for experimentation, for trying out a wide range of economic and social policies simultaneously. The provinces are also in a better position than the federal government to promote consultative cooperation among the social partners. It may be at the provincial level that European-style tripartism will be best able to develop. Moreover, to the extent that the provinces are able to develop effective adjustment policies suited to local needs, the burden of decision making and consensus building that falls upon the federal government becomes much more manageable.

### *Political Leadership*

Another key factor in Canada's capacity for adjustment and consensus is the quality of leadership provided by politicians and decision makers and their skill in exercising this leadership. More than ever, governments and decision makers find themselves in an extremely difficult situation, beset by two strong, yet diametrically opposed currents of change. One consists of the external pressures stemming from globalization, which demand greater attention to such questions as competitiveness and economic efficiency. On the other hand are domestic economic and social pressures that reflect the increasing need for security and identity in an unstable world and that invoke such principles as social justice and equity.

If there is a degree of bias on the part of our political leaders against meeting global challenges in favour of dealing with domestic problems, it is probably because the general public remains woefully ignorant of the forces of internationalization. In a democracy, argues Ian Macdonald, the main problem is to convince the electorate that management problems at the global level have an effect on their personal lives and the lives of their communities. Only once this is accomplished can the political authorities make real progress on these issues. What

is needed, then, is both a reason for politicians to act and some guarantee that the public will understand what must be done.

### *Promising Directions*

What, then, does the future hold for Canada's political institutions? Judging from the present context, according to Simeon, global trends will work towards a diminished role for the federal government in the long run. Its powers will tend to ebb away in two directions – upward towards supranational institutions, which will become increasingly important as the distinctions between national economies and international policy break down, and downward towards smaller government units at the provincial and municipal levels, which are more flexibly attuned to the adjustment needs of smaller communities.

Indeed, certain signs of this trend are already evident. With the proliferation of bilateral and multilateral agreements on international trade, dispute settlement and decision-making powers are increasingly devolving upon supranational bodies. The same is true of exchange rate policy and macroeconomic policy in general. More and more decisions on the direction and coordination of these policies are made at Group of Seven (G-7) summits. Mergers and acquisitions among international corporations at the global level are undermining national competition legislation. There are a number of environmental problems that cannot be solved at the national level and so must be addressed by international authorities and forums. At the same time, there is a growing concern in several areas of the world with reclaiming local destiny by gaining control of the political and economic levers needed to reach local objectives.

For his part, Johnson opts for a new direction that calls for an expanded and more important role for the central government. He recommends that the constitutional powers of the federal government be strengthened, particularly its power to make treaties and to regulate national and international trade. He also suggests that some current constitutional proposals deserve a sober second look, particularly the provisions of the Meech Lake Accord regarding the government's spending powers and the constitutional amendment process.

In order to place issues of international importance on the political agenda, therefore, Johnson echoes one of the main ideas offered by Macdonald: the primary goal must be to educate the general public about the issues. Only then will politicians feel compelled to act. To keep national leaders and the public informed about the challenges associated with globalization, the two speakers recommend, notably, that federal-provincial conferences could play a more effective role if some of their sessions were specifically devoted to global issues.

Finally, Johnson advocates a concerted effort to respond to the grievances of the various regions of Canada in order to ease federal-provincial tensions and to make room for international issues on the public agenda. He contends that the provinces now possess adequate constitutional powers to safeguard their language, culture, and heritage. He also judges that their complaints on the economic front are unwarranted when measured against the progress that has been accomplished. The next question is: What exactly do the provinces want? In the case of Quebec, Johnson identifies the primary aspiration as the need to be recognized as a distinct society and cultural entity. The question of the concrete form that such recognition should take is at the centre of the debate over the Meech Lake Accord. He suggests that the Quebec government's constitutional powers can best be clarified through an interpretation of the Accord's distinct society clause. He believes that the basic aspirations of the West and of the Atlantic provinces are a desire for adequate representation in Parliament. For this reason, he concludes, the calls for Senate reform must be satisfied.

### *The Role of Economic Science*

Does economics have anything to offer governments in the search for solutions to the great problems and challenges that lie ahead?

As we have already seen, Blinder feels that the symbiosis that once characterized the relationship between theoreticians and policymakers has disappeared. There is a strong feeling that economic science has little to offer economic policy development. Can the happy marriage that once existed between economic theory and practice be re-established? The author offers a guardedly optimistic prognosis for the future. Certain conditions will have to be satisfied. In particular, consensus must be restored within the community of economic researchers. Blinder believes that Keynesianism is currently staging a comeback in universities, now that the new classical wave is receding. He points to a number of nascent developments in economic theory that will shore up the underpinnings of Keynesian doctrine. There is reason to believe that once this task has been accomplished, Keynesians will return to the rich empirical tradition of earlier decades. If universities do indeed rediscover empirical research, Blinder predicts that the healthy working relationship between economic scholars and economic policymakers can be restored, provided that politicians are responsible and forward-looking enough to make better use of economic science than they have in the recent past.

While he agrees with much of Blinder's analysis, Dobell does not share his optimism on the future role of economics in public policy development and decision making. He casts doubt on the ability of economics to solve the dilemmas posed by the major issues currently on the agenda – the evolution of the ecosphere,

international economic cooperation, the problems associated with human-resource development and industrial relations, the value of the social contract, and the need for new decision-making processes and institutions. Both the Brundtland Commission report and the report of the Council of Resource and Environment Ministers in Canada expressed strong doubts as to the ability of economic analysis in its present form to solve the problems of sustainable development.

Dobell stresses that, because markets are myopic, so too are economic theories that rely on market-based solutions. He points out that the analytical tools used for evaluating projects do not take into account their environmental impact and accord little importance to the welfare of future generations. In short, the analytical framework of economic science is not well-suited to a long-term perspective.

To the question "Is economics up to the task?", then, Dobell replies with a firm "no." And he goes further, suggesting that the human sciences in general are not up to the task. What will be needed to deal with the major problems of the third millennium is a truly interdisciplinary effort that will include the natural sciences. Economists will also have to become more modest, and better ways will have to be found to measure and account for human resources, ecological resources, knowledge, and access to information.

In short, there is no doubt that Canada's ability to adapt to change will be sorely tested in the years to come by several major issues. The decision-making process will inevitably grow more complex as global forces – foreign competition, environmental constraints, and demographic pressures – continue to intensify. In the absence of renewed social consensus, the country's adjustment capacity will be severely hampered and our economic performance may deteriorate. Yet our political system itself works against the development of such consensus. Even worse, efforts to reduce the national debt over the next decade may be expected to produce even greater friction between the federal and provincial governments. Still, while disagreement persists on the extent to which our system should aim at centralization or decentralization, there seems to be general agreement that constitutional issues and the various regional grievances must be resolved before we can focus our attention on global problems. In short, the outlook is for increasing pressure on our decision-making institutions and increasing complexity in the decision-making process. Only a multidisciplinary approach that takes into account the intersystemic linkages will be equal to the challenges posed by the next quarter century.

## Conclusion

A number of broad conclusions can be drawn from the foregoing sections. First, and most obviously, any attempt to anticipate future public policy issues, and the research agenda required to inform the associated debate, must take account of a complex array of interrelated forces. Indeed, a major theme of the *Perspective 2000* exercise, and surely one of its major conclusions, must be the need by governments at various levels to adopt a framework of analysis, monitoring and policymaking that is explicitly intersystemic and intertemporal.

Such linkages among systems seem particularly pertinent to Canada whose open economy places a premium on the maintenance of competitive edge in the global economy but where, also, there is a powerful and growing awareness of the need for development that is environmentally sustainable. "Balance" may best describe the need to reconcile competing objectives in the "linked-systems" framework. Decision makers must be aware of the relationships among global physical, economic, and political developments. Even when one concentrates upon the domestic economy, it is clear that the notions of linkages and balance are paramount. Blocks II and III, for instance, suggest not only the need for a fine mix of policies – monetary, fiscal, international, and micro, for example – but point clearly to the need for a strategic approach to productivity enhancement that weds technological innovation with human-resource development. Furthermore, our vision of material progress and prosperity must explicitly address broader questions of social welfare with their attendant equity (and, therefore, ideological) considerations.

Equally important, institutional adaptation will be an integral feature of the unfolding future for all levels of government and also for employers and labour. Language and constitutional issues, and the future of fiscal federalism, will no doubt continue to challenge existing national institutions. But new and pressing issues will also call for governments' response. The environment is an obvious case in point, since institution-building will be transnational, but, at the same time, require the concertation of various levels of government within and among nations. Given the magnitude and complexity of global demographic developments foreseen in the coming decades, one might surmise that international migration will be another public policy issue requiring similar institutional responses. Industry and labour, for their part, will need to forge new organizational relationships that facilitate the transfer and application of new technologies and promote

the development of human resources that will be essential to success in the information age.

One final conclusion concerns the critical role of discontinuities. At the time of the Perspective 2000 Conference, some observers were speculating as to the possible influence on east-bloc political economies of the personality of Mikhail Gorbachev. No one, however, could begin to guess just how rapid and momentous would be the events of the last year in Eastern Europe. Here is one of the most exciting developments of the century with classic features of a highly complex and perilously fragile interrelationship between political and economic factors.

War is perhaps the most obviously devastating of global discontinuities, but, clearly, natural disasters such as the Armenian earthquake and technological disasters such as Chernobyl, Bhopal, and the Exxon Valdez show that innovative modelling or "gaming" of potential future discontinuities in the evolution of global systems must be a major priority of policymakers. Moreover, the suggestion that such discontinuities are likely to become a more prominent feature of systems evolution lends even greater urgency to this conclusion.

A two-day conference cannot hope to survey all the major public policy issues that could arise in the future. There will inevitably be significant omissions in any exercise of this kind, in terms of both the subjects discussed and the treatment and development of some of the ideas put forward. Changing moral and spiritual values, the rise of terrorism, the changing structure of the family, health-care issues such as financing, the advent of deadly diseases such as AIDS – all these and many other phenomena with potentially enormous repercussions for the future had to be left unaddressed. One of the main goals of the conference was to help foster greater awareness among national leaders and decision makers of global pressures and their impact on the everyday lives of Canadians, so that the strategies and policies that will be needed to cope with these pressures have a better chance of speedy adoption. It is to be hoped that the Perspective 2000 Conference and its associated outputs (regional roundtables and published proceedings), along with other initiatives of this kind, will prove to have made an important contribution to this process.

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